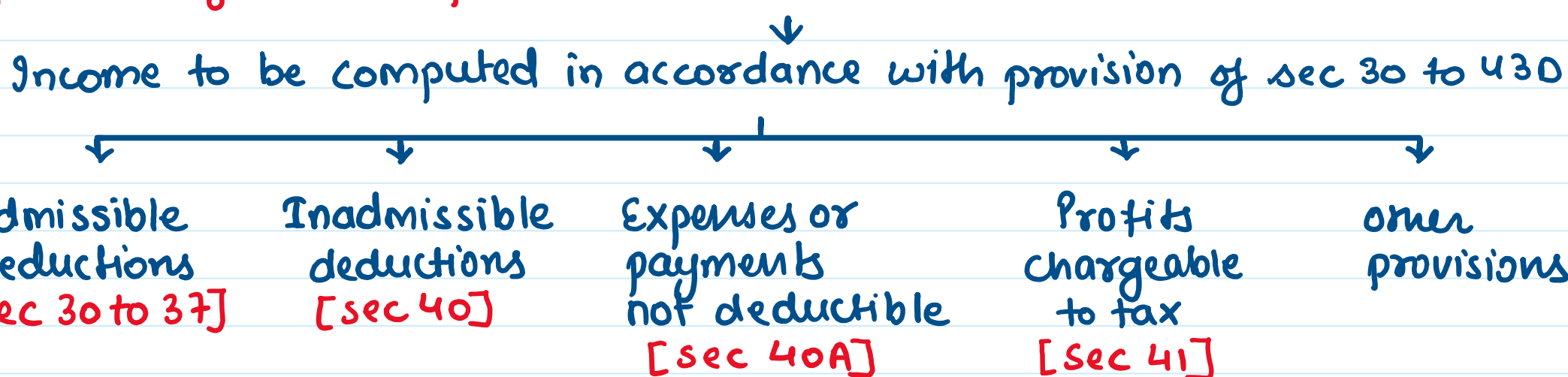


Chapter 7 - Profits and Gains of Business or Profession (PGBP)
[sec 28 to 44DB]

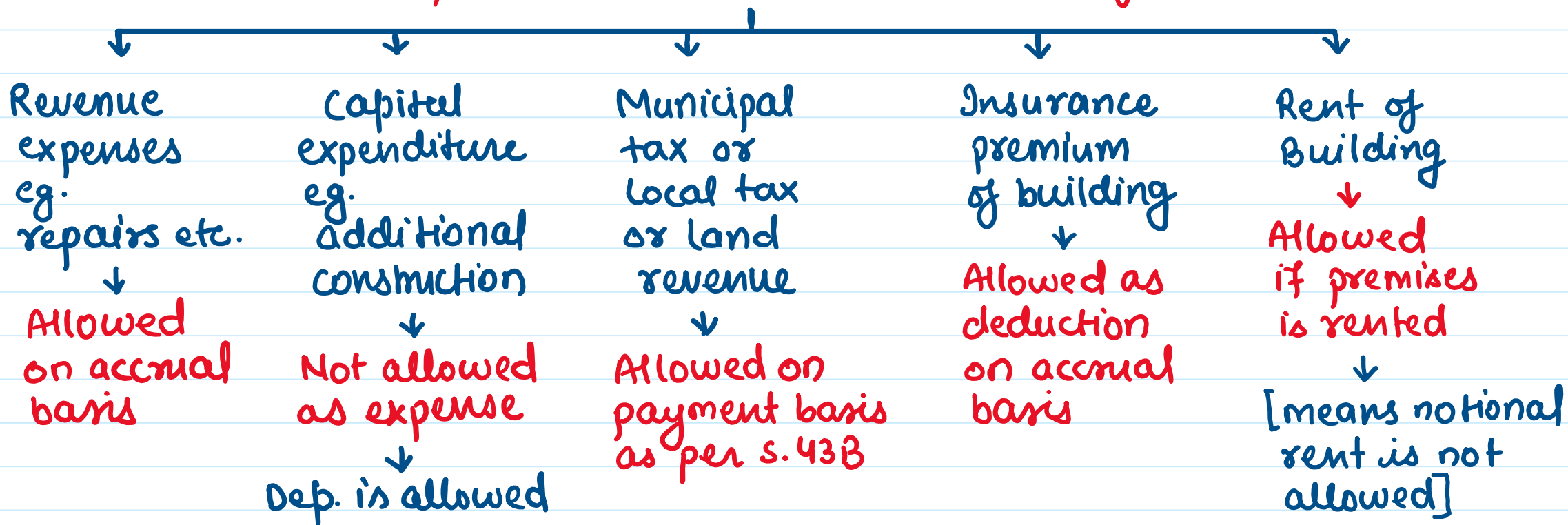
TP:1 Income chargeable to tax under head PGBP [sec 28]

- (i) Income from speculation business
- (ii) Benefits & perquisites including gifts in connection with business / profession.
- (iii) Non-compete fees
- (iv) Payment received under keyman insurance policy.
- (v) Export incentives i.e. profits on sale of import entitlements, duty drawbacks etc.
- (vi) Sum received by partners of firm.
- (vii) FMV of inventory on conversion into capital Asset
- (viii) etc.

TP:2 Computation of Income from PGBP [sec 29]



TP:3 Rent, rates, taxes, repairs and insurance for buildings [sec 30]

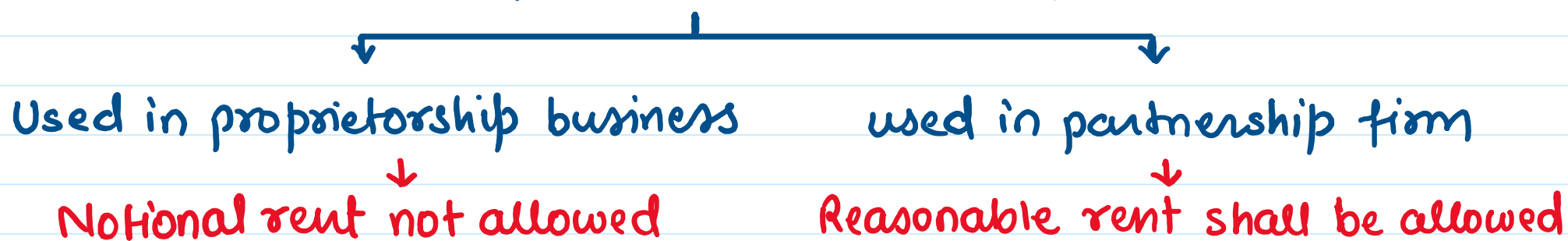


Note: ① If premises is partly used for business / profession & partly for other / personal purpose?

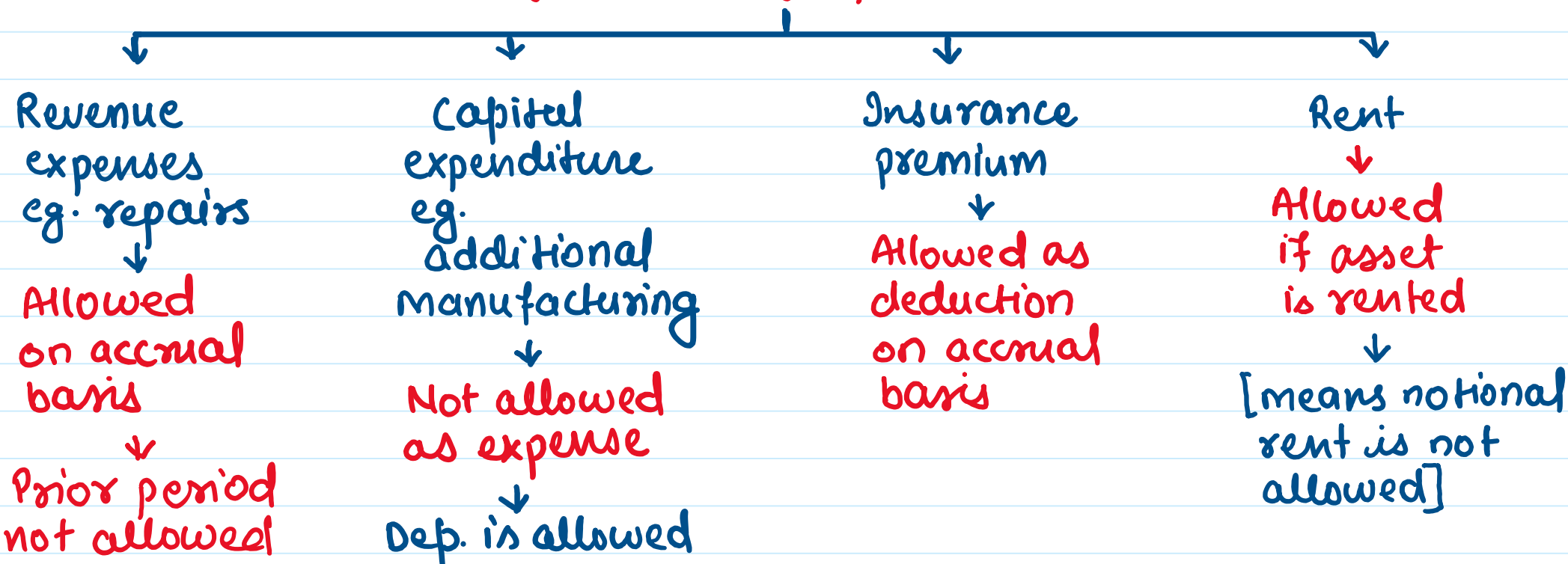
↳ Proportionate expenses (relating to business) shall be allowed [sec 38(1)]

Eg. Rent for premise = 100,000 p.a.
 Building used in business = 60%.
 Allowable deduction = 60,000

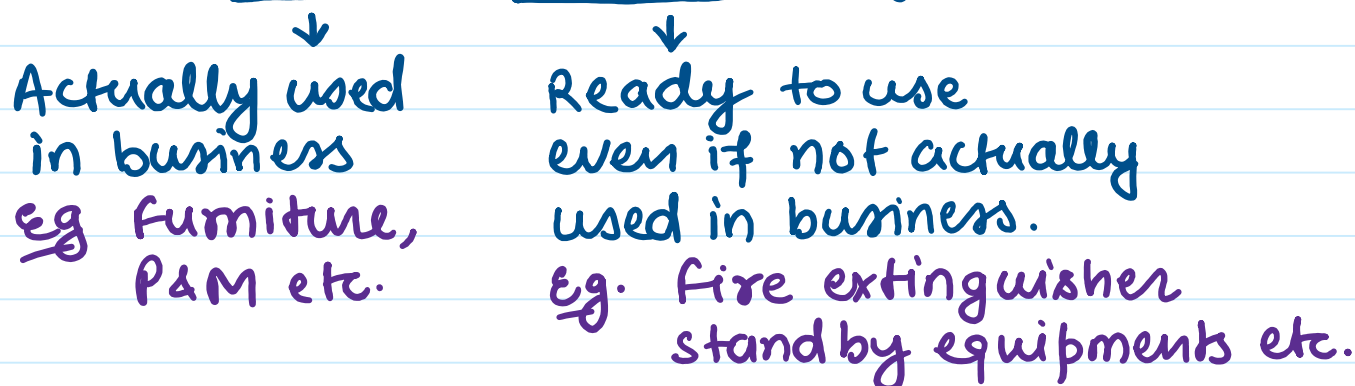
② If owner uses own premises for business / profession



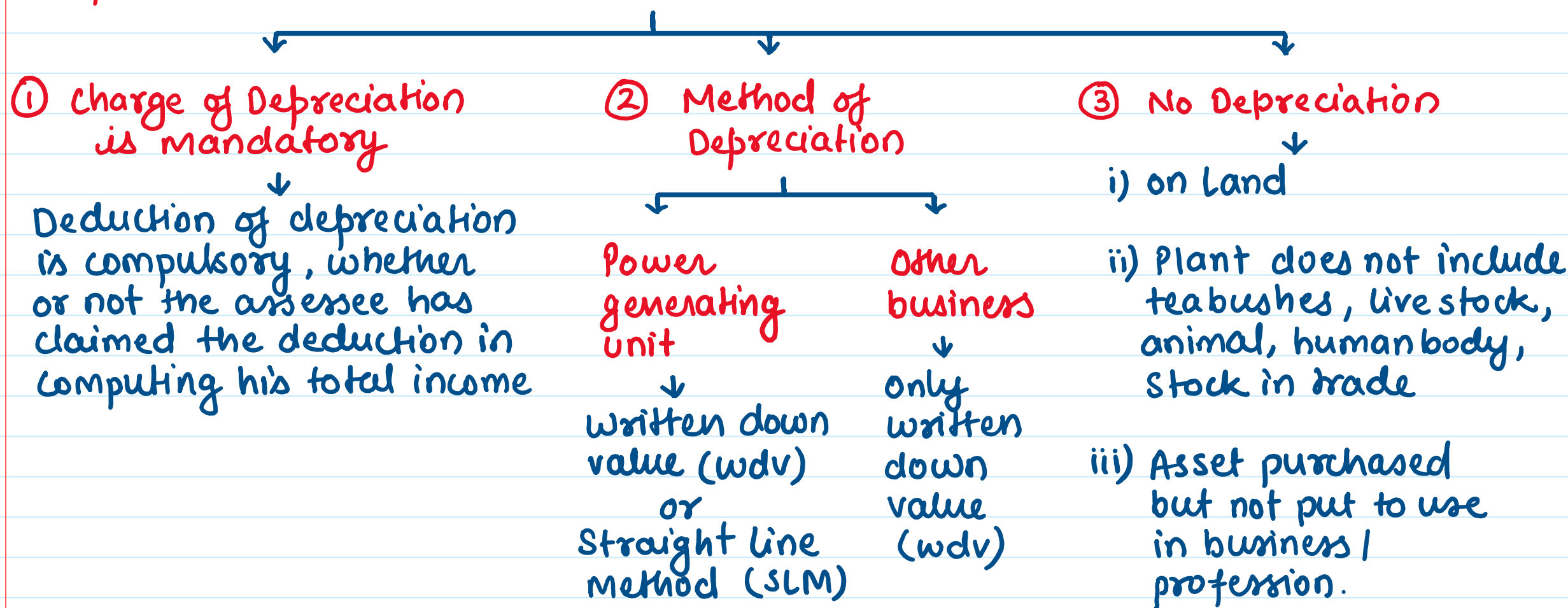
TP:4 Repairs and insurance of machinery, plant and furniture [sec 31]



Note: Usage include both Active & passive usage



TP:5 Depreciation allowance [sec 32]



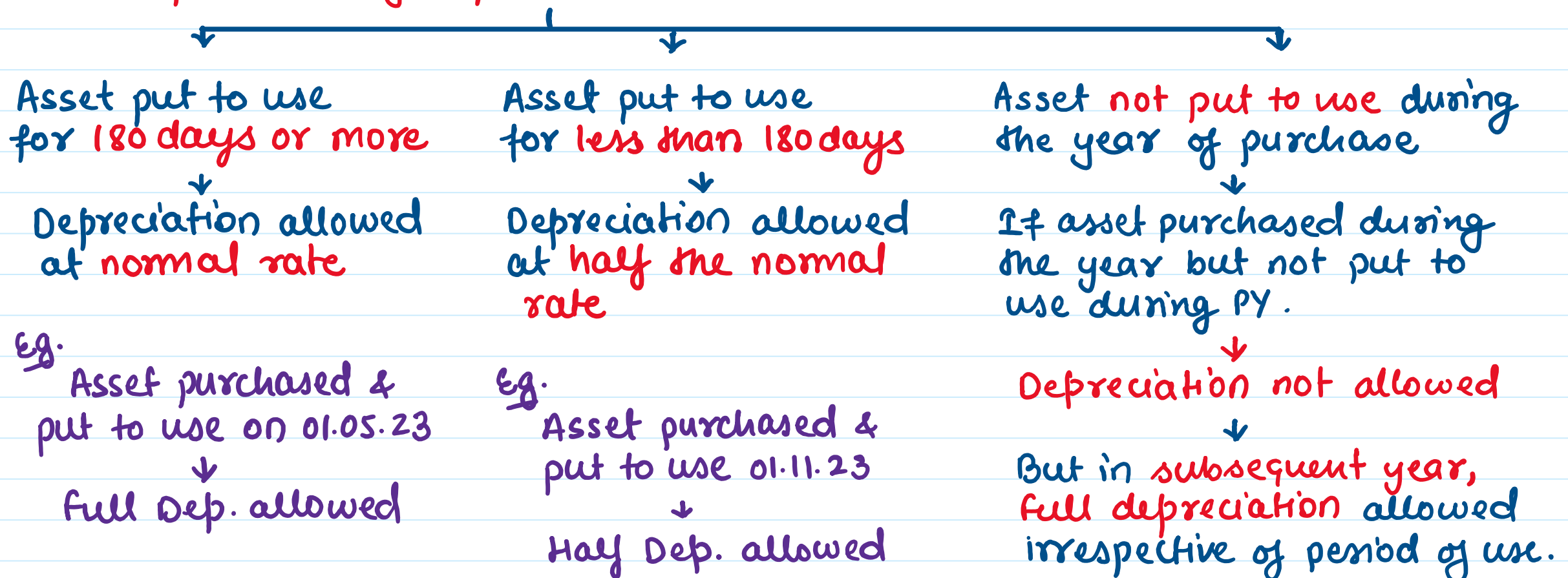
4) Rate of Depreciation

PART A TANGIBLE ASSETS		
I	Buildings	
Block 1.	Buildings which are used mainly for residential purposes except hotels and boarding houses	5%
Block 2.	Buildings which are not used mainly for residential purposes and not covered by Block (1) above and (3) below	10%
Block 3.	Buildings acquired on or after 1st September, 2002 for installing machinery and plant forming part of water supply project or water treatment system and which is put to use for the purpose of business of providing infrastructure facilities	40%
Block 4.	Purely temporary erections such as wooden structures	40%

II	FURNITURE AND FITTINGS	
Block 1.	Furniture and fittings including electrical fittings ["Electrical fittings" include electrical wiring, switches, sockets, other fittings and fans, etc.]	10%
III	PLANT AND MACHINERY	
Block 1.	Motor cars other than those used in a business of running them on hire, acquired during the period from 23.08.2019 to 31.03.2020 and put to use on or before 31.03.2020	30%
Block 2.	Motor cars other than those used in a business of running them on hire, acquired or put to use on or after 01.04.1990 [Other than motor cars mentioned in (1) above]	15%
Block 3.	Motors buses, motor lorries, motor taxis used in a business of running them on hire, acquired during the period from 23.08.2019 to 31.03.2020 and put to use on or before 31.03.2020	45%
Block 4.	Motors buses, motor lorries, motor taxis used in the business of running them on hire [Other than mentioned in (3) above]	30%
Block 5.	Moulds used in rubber and plastic goods factories	30%
Block 6.	Aeroplanes, Aeroengines	40%
Block 7.	Specified air pollution control equipments, water pollution control equipments, solid waste control equipment and solid waste recycling and resource recovery systems	40%
Block 8.	Plant & Machinery used in semi-conductor industry covering all Integrated Circuits (ICs)	30%
Block 9.	Life saving medical equipment	40%
Block 10.	Machinery and plant, acquired and installed on or after the 1 st September, 2002 in a water supply project or a water treatment system and which is put to use for the purpose of business of providing infrastructure facility	40%
Block 11.	Containers made of glass or plastic used as re-fills	40%
Block 12.	Energy saving devices (as specified)	40%
Block 13.	Renewable Energy Saving Devices (as specified)	40%
	(i) Electrically operated vehicles including battery powered or fuel-cell powered vehicles	40%
	(ii) Windmills and any specially designed devices which run on windmills installed on or after 01.04.2014	40%
	(ii) Any special devices including electric generators and pumps running on wind energy installed on or after 01.04.2014	40%
Block 14.	Windmills and any specially designed devices running on windmills installed on or before 31.03.2014 and any special devices including electric generators and pumps running on wind energy installed on or before 31.03.2014	15%
Block 15.	Computers including computer software	40%
Block 16.	Books (annual publications or other than annual publications) owned by assessees carrying on a profession	40
Block 17.	Books owned by assesses carrying on business in running lending libraries	40%
Block 18.	Plant & machinery (General rate)	15%

IV	SHIPS	
Block 1.	Ocean-going ships	20%
Block 2.	Vessels ordinarily operating on inland waters not covered by Block (3) below	20%
Block 3.	Speed boats operating on inland water	20%
	PART B INTANGIBLE ASSETS	
	Know-how, patents, copyrights, trademarks, licenses, franchises or any other business or commercial rights of similar nature, not being goodwill of a business or profession	25%

⑤ Computation of Depreciation:



Note: 'Put to use' do not mean putting the asset to actual use rather it means making an asset ready to use.

⑥ Block of Asset:

Depreciation is not computed on the basis of individual asset rather it is computed on basis of group of assets called **Block of Assets**

↓
means group of similar types of assets having same rate of depreciation.

Depreciation shall be computed in following manner:

Step 1: Opening Value as on first day of previous year (PY) i.e. 01.04.2023

Step 2: Add:

- a) Asset purchased & put to use for less than 180 days
- b) Asset purchased & put to use for 180 days or more

Step 3: Less:

Sale value of asset sold during the year (both 'less than 180 days' or '180 days or more')

Step 4: WDV before depreciation (Step 1 + Step 2 - Step 3)

Step 5: Calculation of Depreciation allowance on amount calculated in step 4

- a) Asset purchased and put to use for less than 180 days at half the applicable rate.
- b) Asset purchased and put to use for 180 days or more at the applicable rate.

Note: If amount calculated in step 4 is less than the amount of 'Asset purchased & put to use for less than 180 days' then, depreciation shall be calculated at half the rate.

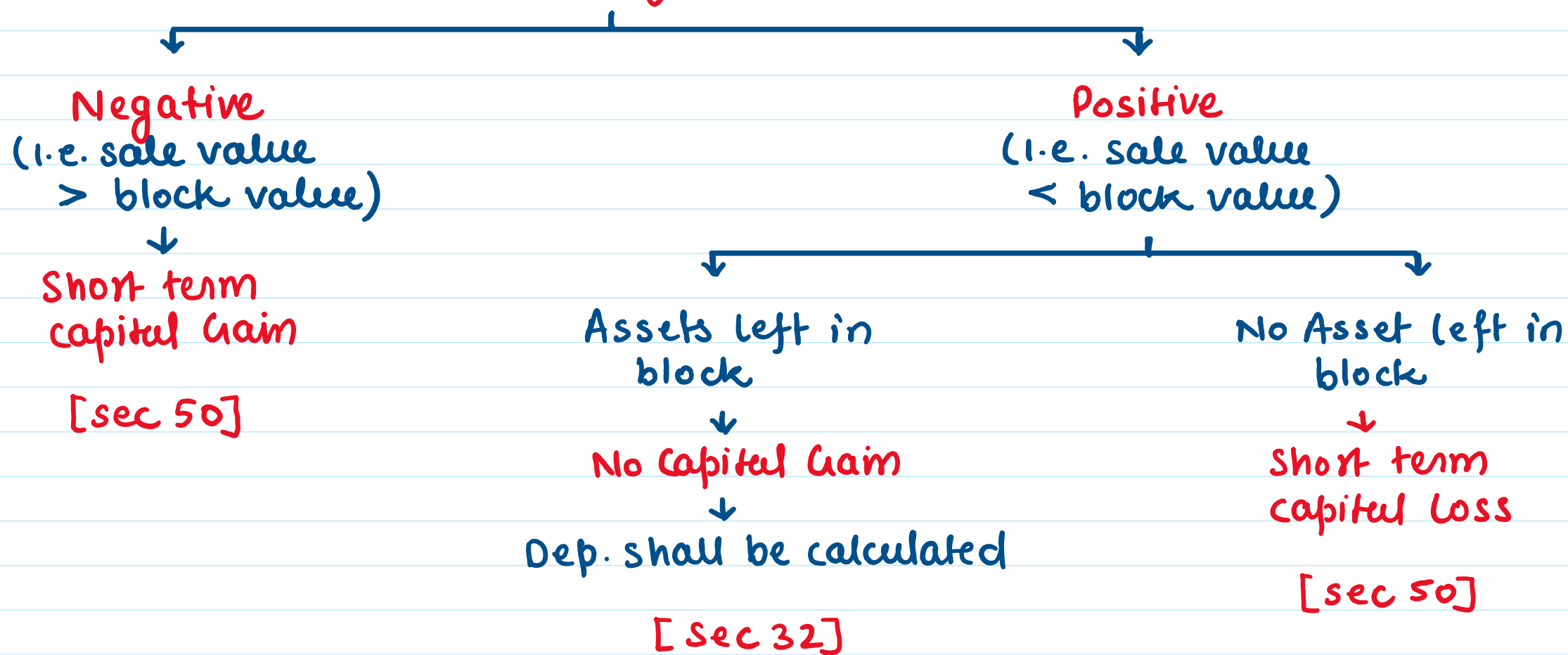
Eg. Op. wdv as on 01.04.23 (Building A)	3,00,000
Purchased & put to use on 01.06.23 (Building B)	4,00,000
Purchased & put to use on 01.11.23 (Building C)	5,00,000
Sold during the year (Building B)	8,00,000
Rate of Depreciation	10%

Computation of Depreciation for AY 24-25

Opening wdv as on 01.04.23	3,00,000
(+) Purchased & put to use for less than 180 days	5,00,000
(+) Purchased & put to use for 180 days or more	4,00,000
	<u>12,00,000</u>
(-) Sold during the year	(8,00,000)
	<u>4,00,000</u>

Depreciation allowance	
→ Asset purchased & put to use for less than 180 days [400000 x 10% x 1/2]	20,000
→ Asset purchased & put to use for 180 days or more	0
	<u>20,000</u>

Note: Balance in block of asset



Eg. Op. wdv as on 01.04.23 (Building A)	3,00,000
Purchased & put to use on 01.06.23 (Building B)	4,00,000
Purchased & put to use on 01.11.23 (Building C)	5,00,000
Sold during the year (Building B)	14,00,000
Rate of Depreciation	10%

Computation of Depreciation for AY 24-25

Opening wdv as on 01.04.23	3,00,000
(+) Purchased & put to use for less than 180 days	5,00,000
(+) Purchased & put to use for 180 days or more	<u>4,00,000</u>
	12,00,000
(-) Sold during the year	<u>(14,00,000)</u>
	(2,00,000)

Do not write above in exam. Exam presentation is as below:

Full value of Consideration (FVC)	14,00,000
Less: Cost of acquisition (COA)	<u>(12,00,000)</u>
Short term capital gain (STCG)	2,00,000

Eg. Op. wdv as on 01.04.23 (Building A)	3,00,000
Purchased & put to use on 01.06.23 (Building B)	4,00,000
Purchased & put to use on 01.11.23 (Building C)	5,00,000
Sold during the year (Building A, B & C)	10,00,000
Rate of Depreciation	10%

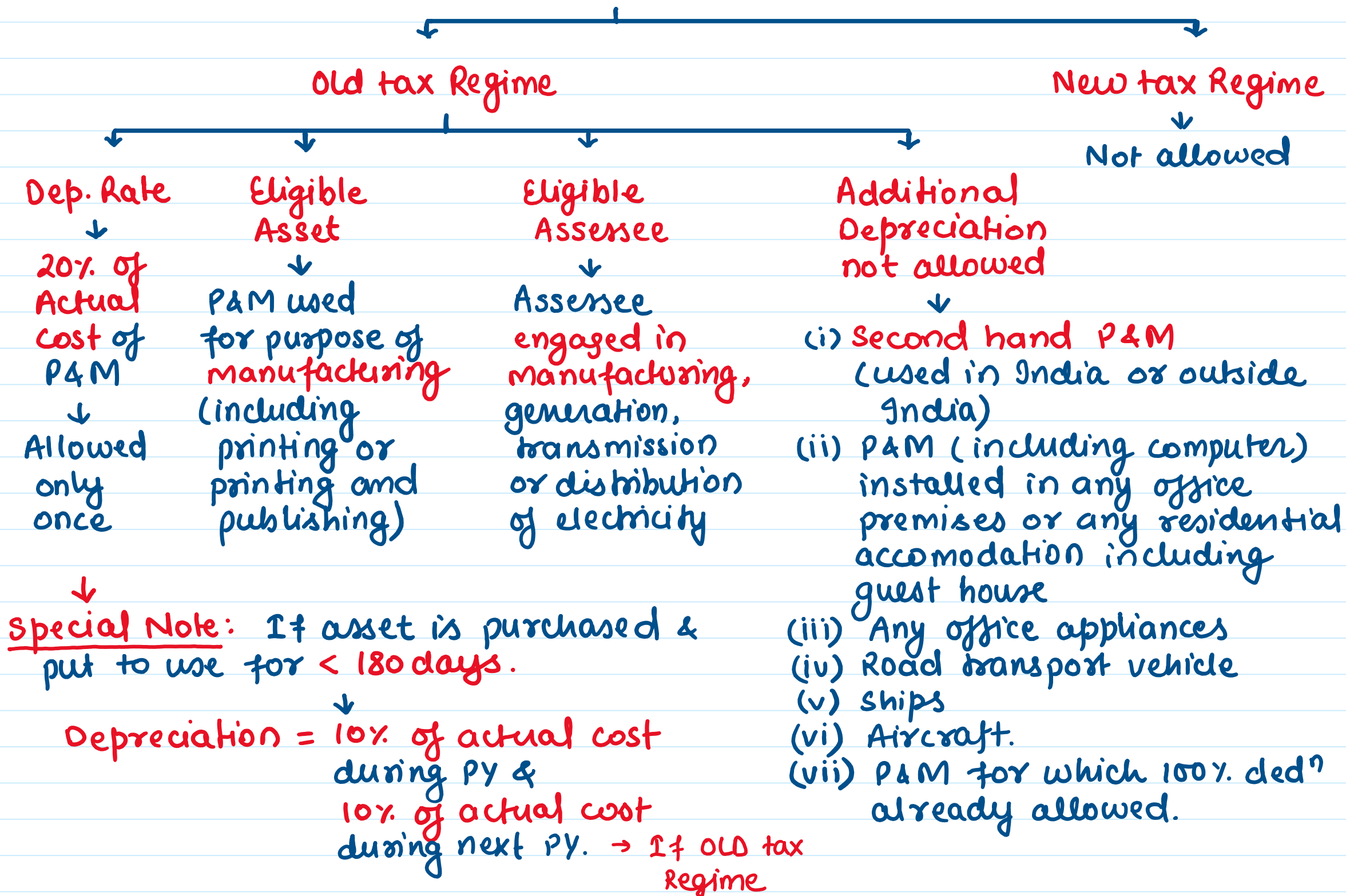
Computation of Depreciation for AY 24-25

Opening wdv as on 01.04.23	3,00,000
(+) Purchased & put to use for less than 180 days	5,00,000
(+) Purchased & put to use for 180 days or more	<u>4,00,000</u>
	12,00,000
(-) Sold during the year	<u>(10,00,000)</u>
	2,00,000

Do not write above in exam. Exam presentation is as below:

Full value of Consideration (FVC)	10,00,000
Less: Cost of acquisition (COA)	<u>(12,00,000)</u>
Short term capital loss (STCL)	(2,00,000)

TP:6 Additional Depreciation on NEW plant & machinery [sec 32(1)(iia)]



Eg. Op. wdv as on 01.04.23 (P&M 'A')	30,00,000
Second hand purchased & put to use on 01.06.23 (B)	10,00,000
New Purchased & put to use on 01.11.23 (C)	15,00,000
Rate of Depreciation	15%

Computation of Depreciation for AY 24-25

Opening wdv as on 01.04.23	30,00,000
(+) Purchased & put to use for less than 180 days	15,00,000
(+) Purchased & put to use for 180 days or more	<u>10,00,000</u>
	55,00,000
(-) Sold during the year	<u>0</u>
	55,00,000
Depreciation allowance	
→ Asset purchased & put to use for less than 180 days [15,00,000 x 15% x 1/2]	1,12,500
→ Asset purchased & put to use for 180 days or more [40,00,000 x 15%]	<u>6,00,000</u>
	<u>7,12,500</u>
Additional depreciation allowance	
→ Asset purchased & put to use for less than 180 days [15,00,000 x 20% x 1/2]	1,50,000
→ Asset purchased & put to use for 180 days or more	<u>0</u>
	<u>1,50,000</u>

TP: 7 Depreciation allowance for power generating undertaking

↓
Option to claim depreciation either on SLM or WDV method. Any option taken cannot be changed subsequently.

Straight line Method

↓
Dep. computed on basis of Individual asset.

↓
Dep. at half rate if put to use for less than 180 days

Written
down
value
Method

↓
Already
discussed

Terminal Depreciation

↓
means loss on sale of asset

↓
Debited in Profit & Loss A/c

Eg. op. value as on	
01.04.2023	5,00,000
Sale value	<u>3,00,000</u>
loss on sale	<u>2,00,000</u>
= Terminal dep.	

Balancing charge [sec 41(2)]

↓
means profit on sale of asset
only to the extent of depreciation
claimed in P&L A/c.

↓
Credited in Profit & Loss A/c

Excess over it shall be taxable
as capital gain u/s 50A.

Eg. Original cost of asset =	10,00,000
op. value on 01.04.23 =	8,00,000
sale value	= 11,00,000

Balancing charge	= 2,00,000
Capital gain	= 1,00,000

TP: 8 Depreciation in case of succession or business reorganisation or amalgamation or demerger of companies

↓
Where asset is partly used in old company and partly in new company.

Eg. Amalgamating Co.
Demerged Co.

Eg. Amalgamated Co.
Resulting Co.

Step 1: Depreciation shall be calculated as if no succession or business recognition or amalgamation or demerger has taken place.

Step 2: Amount of Depreciation shall be apportioned between entities in ratio of the number of days for which the asset was used by them.

Eg. Mr. X proprietor business —————→ X Pvt. Ltd.
Converted into
from 01.07.2023

wdv of P&M (rate 15%) on 01.04.2023	12,00,000
wdv of building (rate 10%) on 01.04.2023	25,00,000

X Pvt. Ltd. acquired P&M in December 2023 for ₹10,00,000.

Computation of Depreciation allowable u/s 32 as if there is no succession

	Block I (15%)	Block II (10%)
opening w.d.v. as on 01.04.2023	12,00,000	25,00,000
Add: Purchased & put to use for < 180 days - Machinery acquired during Dec 2023	10,00,000	0
Wdv as on 31.03.24	22,00,000	25,00,000

Depreciation allowance:

- Asset purchased & put to use for < 180 days	75,000	0
- Asset purchased & put to use for 180 days or more	1,80,000	2,50,000

Total Depreciation allowance

	2,55,000	2,50,000
--	----------	----------

No. of days when assets are used by

- Sole proprietors	91 days
- Company	275 days

Depreciation available to Mr. X

→ 91/366 of [180,000 + 2,50,000] 1,06,913

Depreciation available to X Pvt. Ltd.

→ 275/366 of [180,000 + 2,50,000] 3,23,087

→ Depreciation on Plant (Dec 24) 75,000 3,98,087

↳ Allowed to Co. only.

TP:9 Actual cost [sec 43(1)]

↓
means cost incurred by the assessee to purchase the asset.
Does not include any portion of cost which is met directly by some other person

(-) Any subsidy received from the government or other similar agency.

Eg. Cost of P & M	20,00,000
(-) Subsidy	(2,00,000)
Actual cost	18,00,000

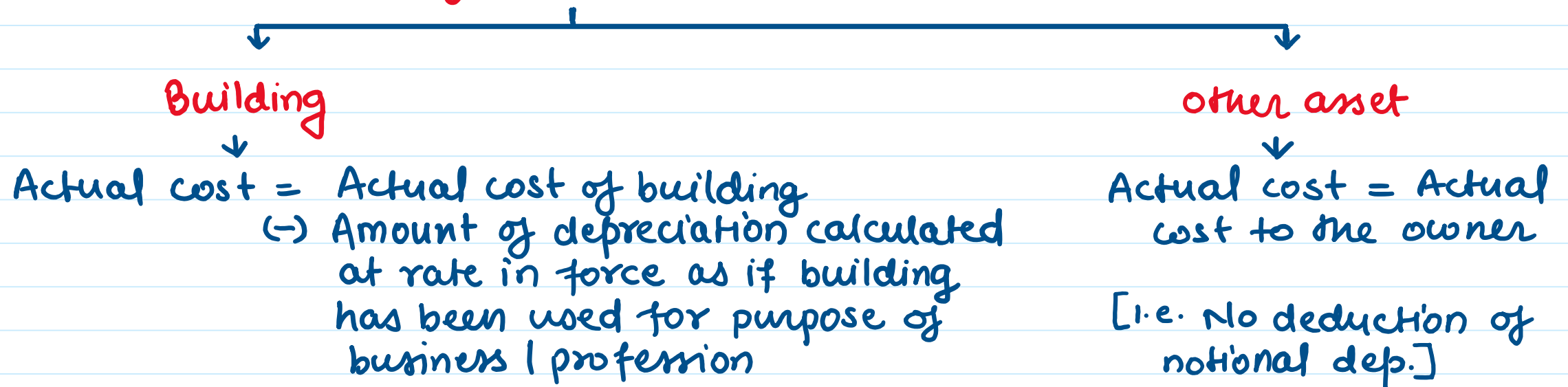
Important Note: If any payment is made otherwise than by A/c payee cheque, A/c payee bank draft or use of electronic clearing system, credit card, debit card, net banking, IMPS, NEFT, UPI, RTGS, BHIM, Aadhar pay, in excess of ₹10,000, then such expenditure shall not form part of actual cost of such asset. [Second proviso to sec 43(1)]

Eg. Mr. X purchased one machinery for ₹10,00,000 & made payment of ₹20,000 in cash, ₹70,000 through cross cheque & balance amount through NEFT.

↳ Actual cost = ₹9,10,000

Actual cost in certain special situations [explanations to sec 43(1)]

① Personal asset brought into business use



Eg. Mr. X purchased a building on 01.12.2020 for ₹12,00,000 & put to use for personal purpose on same date.
 On 01.04.2023, building was brought into professional use.

Actual cost =

Cost of building on 01.12.2020	12,00,000	
Less: Dep. for PY 2020-21 (5% x 12,00,000)	(60,000)	
w.d.v. as on 01.04.2021	11,40,000	
Less: Dep. for PY 2021-22 (10% x 11,40,000)	(1,14,000)	
w.d.v. as on 01.04.2022	10,26,000	
Less: Dep. for PY 2022-23 (10% x 10,26,000)	(1,02,600)	
Actual cost on 01.04.2023	9,23,400	

Eg. Mr. A purchased car on 10.08.2019 for ₹5,25,000 for personal use.
 On 01.07.23, car brought into business use.
 FMV as on 01.07.23 = ₹2,50,000.

Actual cost = ₹5,25,000

↓
 No depreciation to be deducted.

② Stock in trade converted into capital Asset in business

Actual cost of capital Asset = Fair Market Value of stock

Eg. Mr. X, owner of car showroom, converted one car into capital asset.
 FMV as on date of conversion = ₹15,00,000

↳ Actual cost = 15,00,000

③ Asset acquired by way of Gift or inheritance

Actual cost = Actual cost of the previous owner

(-) Depreciation allowable as if the asset was only asset in the relevant.

(+) Any expenditure incurred by the assessee on freight, installation etc.

④ Second hand asset purchased

If asset purchased has been previously used by any other person for BIP and then assessee acquired such asset and AO is satisfied that main purpose of this purchase is to claim higher depreciation, then Actual cost = cost taken by AO with prior approval of JCIT.

⑤ Re-acquisition of asset

Where the asset which had belonged to the Assessee is re-acquired by him,

then Actual cost =

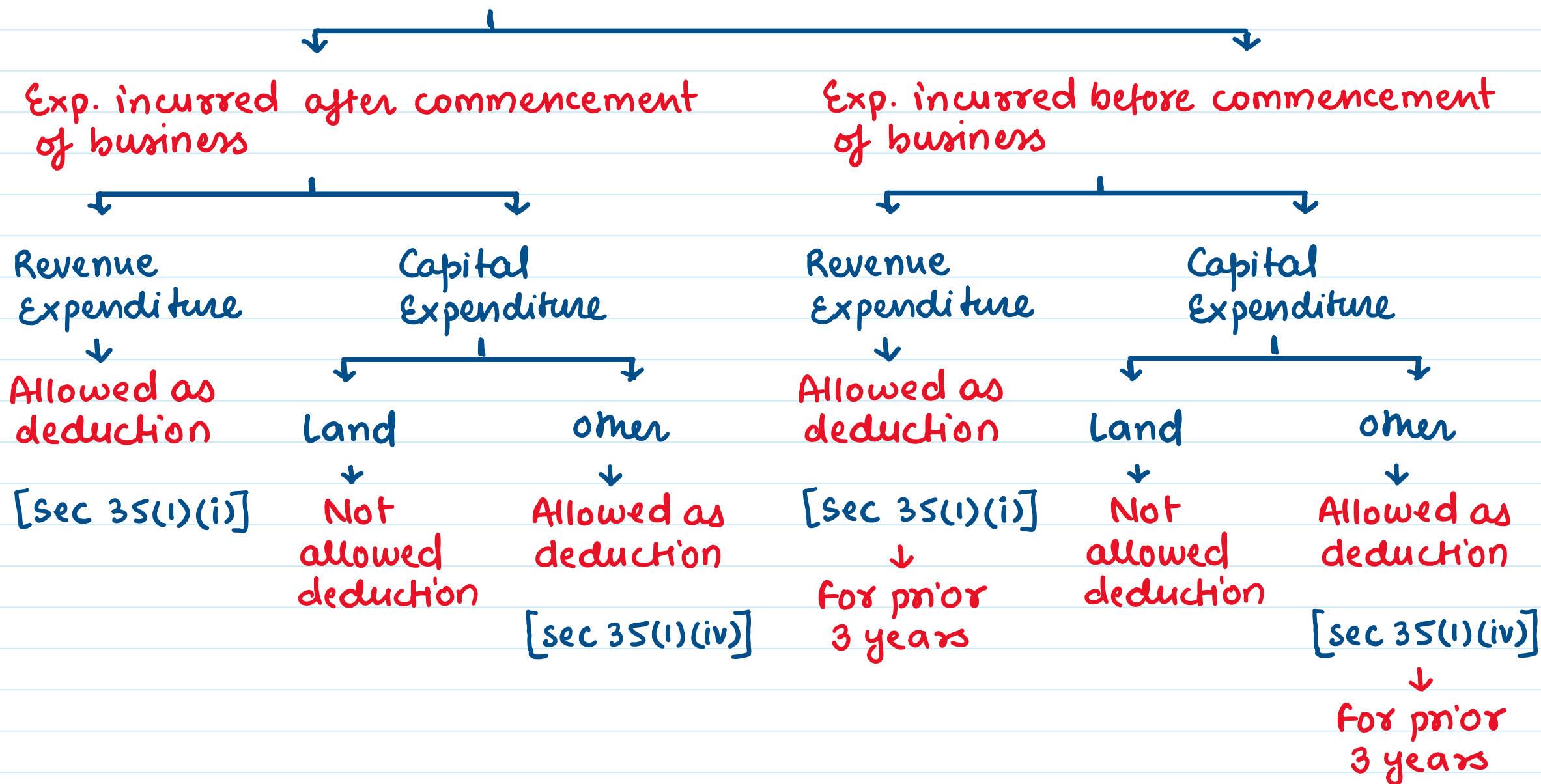
a) Actual cost when he first acquired the asset minus depreciation

b) Actual price at which the asset is re-acquired

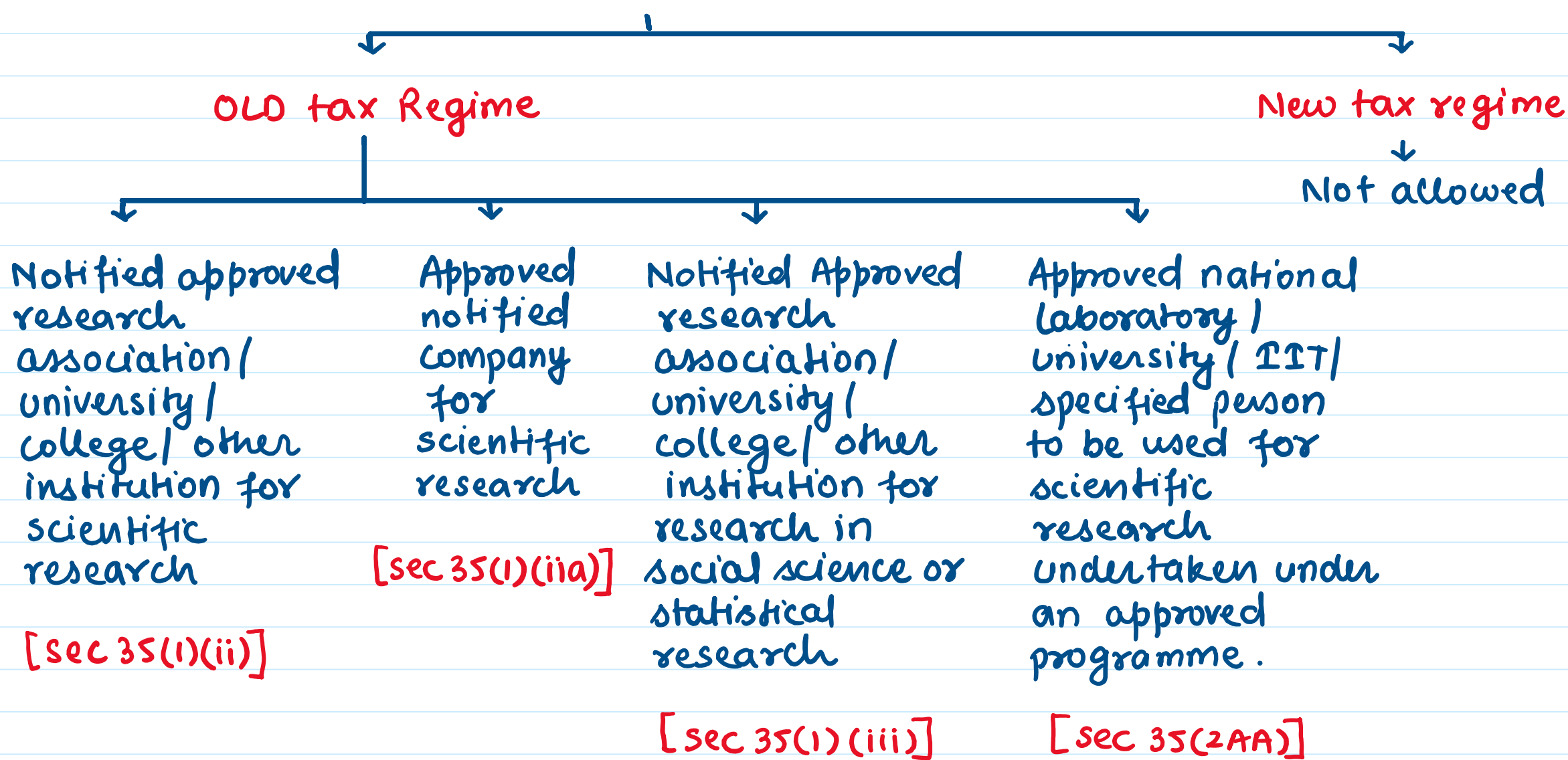
whichever is less.

TP:10 Expenditure on scientific research [sec 35(1)(i)/(iv)]

① In house scientific research



② Contribution / Donation to outsiders



③ Sale of assets used for scientific research [sec 41(3)]

Amount of sale shall be considered as income u/h PGBP upto the amount of expense debited in P&L account and excess over it shall be capital gain.

Eg. ABC Ltd. purchased one P&M for ₹20,00,000 on 01.10.21 for scientific research & entire amount was debited to P&L Ac. Subsequently, the asset was sold for ₹23,00,000 in PY23-24.

↳ Income u/h PGBP u/s 41(3) = 20,00,000
Income u/h Capital Gain = 3,00,000.

④ Transfer of Asset to the normal business

Asset used in scientific business \longrightarrow Asset transferred to normal business

Income in scientific business = NIL
WOV in normal business = NIL

⑤ Carry forward of unadjusted capital expenditure of scientific research

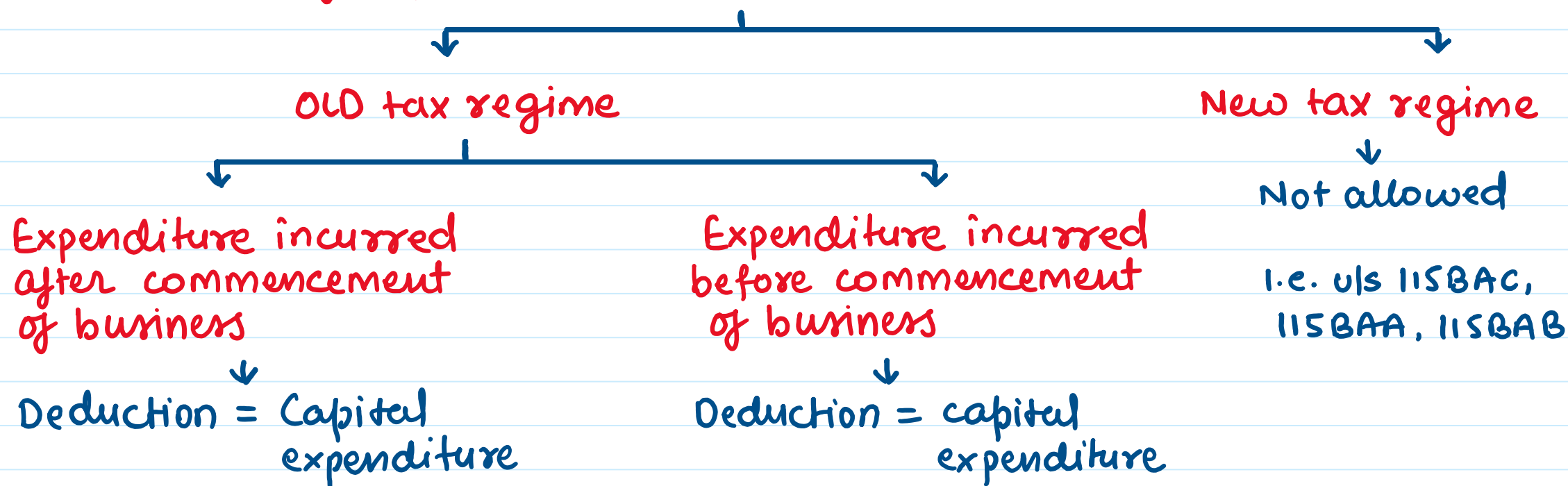
Allowed to C/F for unlimited period & can be adjusted against any income except casual income.

TP: II Deduction in respect of expenditure on Scientific Business [sec 35AD]

① Specified business notified as follows:

#	Particulars	Date of commencement
1.	Cold chain facility for storing agricultural produce, meat and meat products, poultry and dairy products etc.	01.04.2009 onwards
2.	Warehousing facility for storage of agricultural produce.	01.04.2009 onwards
3.	Hospitals with at least one hundred beds for patients.	01.04.2010 onwards
4.	Housing project under a scheme for affordable housing.	01.04.2011 onwards
5.	Production of fertilizer including increase in installed capacity of an existing plant.	01.04.2011 onwards
6.	Pipeline network for cross country distribution of natural gas or petroleum products.	01.04.2007 onwards
7.	Pipeline network for the transportation of iron ore.	01.04.2014 onwards
8.	Hotel of two star or above category.	01.04.2010 onwards
9.	Housing project for slum development.	01.04.2010 onwards
10.	Inland container depot or a container freight station.	01.04.2012 onwards
11.	Bee-keeping and production of honey.	01.04.2012 onwards
12.	Warehousing facility for storage of sugar.	01.04.2012 onwards
13.	Semi-conductor wafer fabrication manufacturing unit.	01.04.2014 onwards
14.	Developing or maintaining or operating a new infrastructure facility.	01.04.2017 onwards

② Deduction of capital Expenditure



Note: ① Following capital expenditure shall **not** be allowed

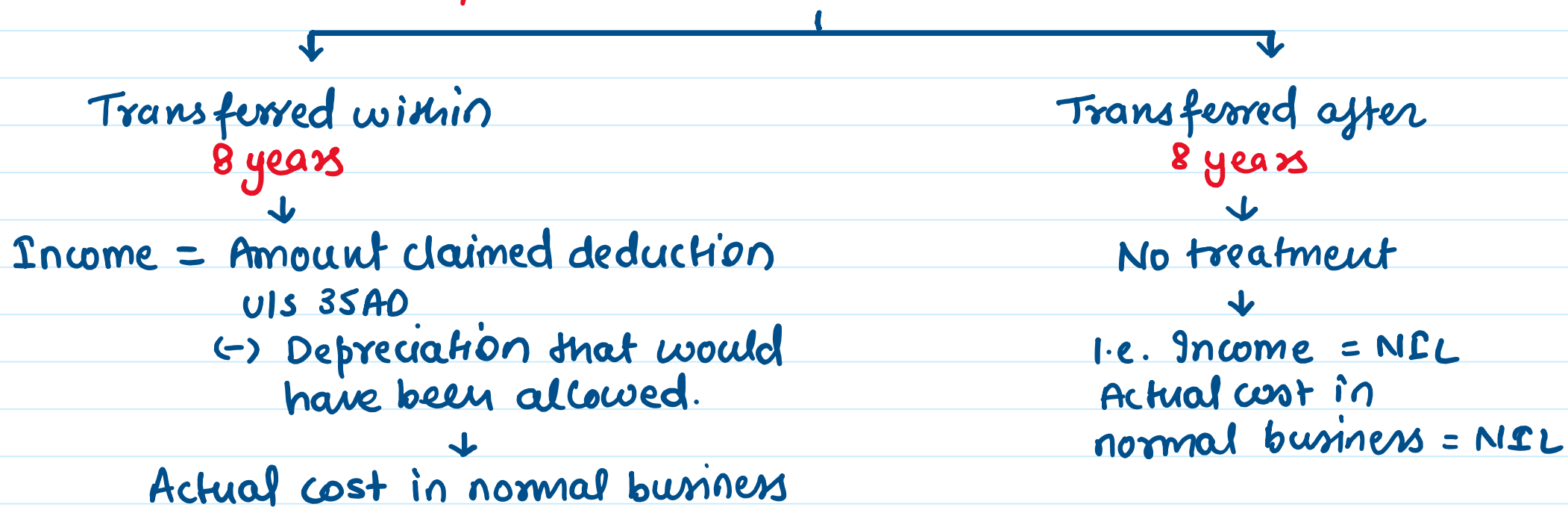
- (i) Land
- (ii) Goodwill
- (iii) Financial instrument

② If any payment is made otherwise than by A/c payee cheque, A/c payee bank draft or use of electronic clearing system, credit card, debit card, net banking, IMPS, NEFT, UPI, RTGS, BHIM, Aadhar pay, in **excess of ₹10,000**, then such **expenditure shall not** form part of capital Expenditure.

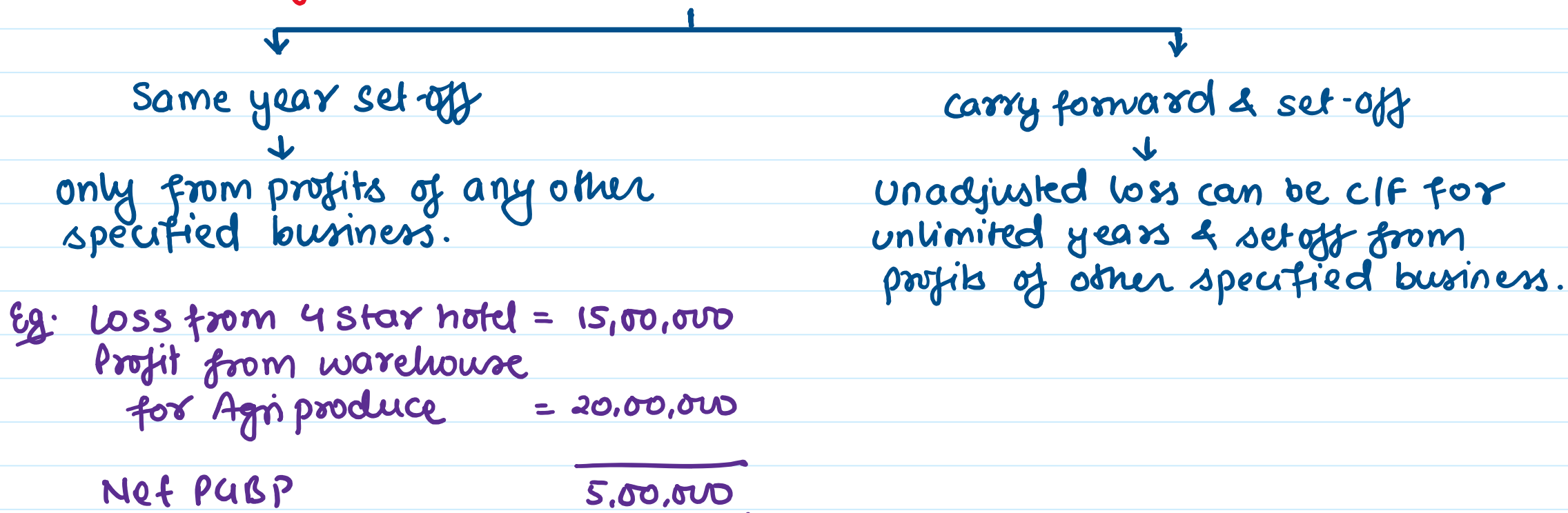
③ Transfer / sale of asset used in specified business [sec 28(vii)]

↳ Amount received shall be income u/h PGBP.

④ Transfer on such capital asset to other normal business [sec 35AD (7B)]



⑤ Treatment of loss from specified business [sec 73A]



⑥ Other conditions

(i) Business should not be set-up by splitting up, or reconstruction, of business already in existence.

Eg. XYZ Ltd., 5 star hotel, incorporated during PY2009-10. During PY23-24, XYZ Ltd. splitted into 2 companies & new hotel ABC Ltd. was incorporated. Capital expenditure = ₹50,00,000
↳ No Deduction u/s 35AD.

(ii) P&M should be new. However, 20% of value of P&M can be transferred from other business.

Eg. Warehousing business of sugar incorporated during PY23-24
New P&M = ₹20,00,000
OLD P&M = ₹4,00,000
↳ Deduction u/s 35AD = ₹24,00,000

TP:12 Amortisation of certain preliminary Expenses [sec 35D]

means expenses incurred prior to commencement of business.

Expenses allowed in **5 annual equal** installments after commencement of business.

Allowed to Resident & Indian Company i.e. not to NR & foreign Co.

Only notified expenditure are allowed [see note 2]

General ↓
Maximum exp. allowed upto 5% of the project cost
In case of an Indian Co.

↓
5% of project cost or 5% of Capital Employed whichever is higher

Note 1: Meaning of 'Project cost' & 'Capital Employed'

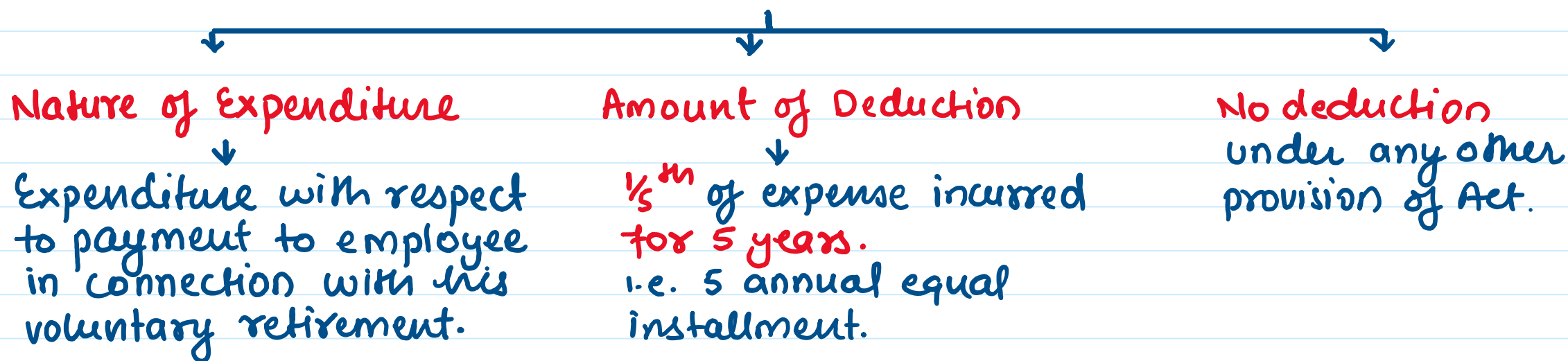
↓
Actual cost of fixed assets, being land, buildings, plants, machinery, furniture, fittings, etc.

↓
Aggregate of issued share capital, debentures, & long term borrowings

Note 2: Notified expenditure incurred before commencement of business are:

- ① Expenditure in connection with -
 - (i) preparation of feasibility report.
 - (ii) preparation of project report.
 - (iii) conducting market survey or other survey necessary for business
 - (iv) engineering services.
- ② legal charges for drafting any agreement between Assessee & other person.
- ③ If Assessee is a company -
 - (i) legal charges for drafting MOA, AOA
 - (ii) printing of MOA, AOA
 - (iii) registration fees of company.
 - (iv) underwriting commission, brokerage on issue of shares & debenture & charges for drafting, typing, printing and advertisement of prospectus.

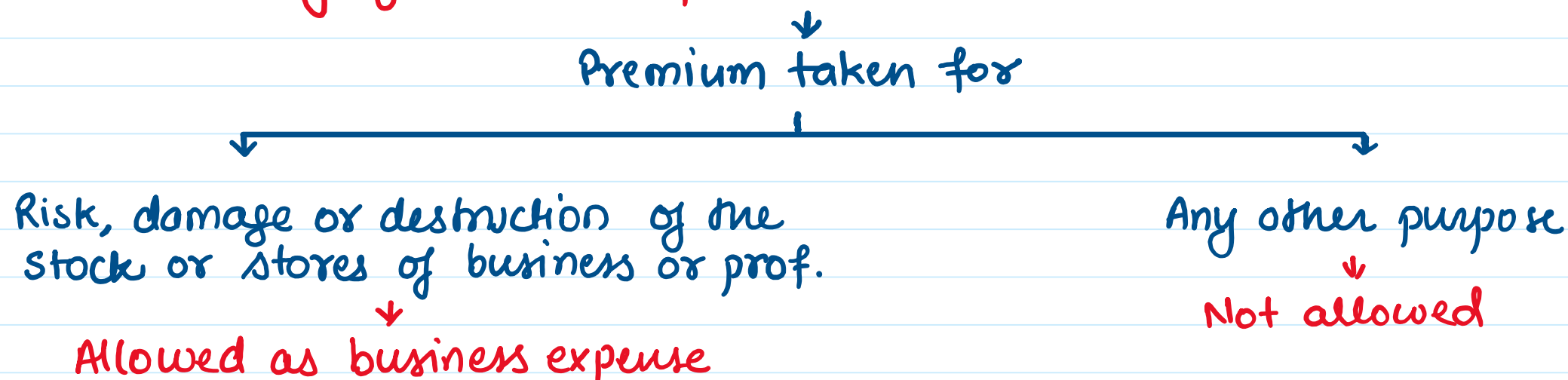
TP:13 Amortisation of expenditure incurred under voluntary retirement scheme [sec 35DDA]



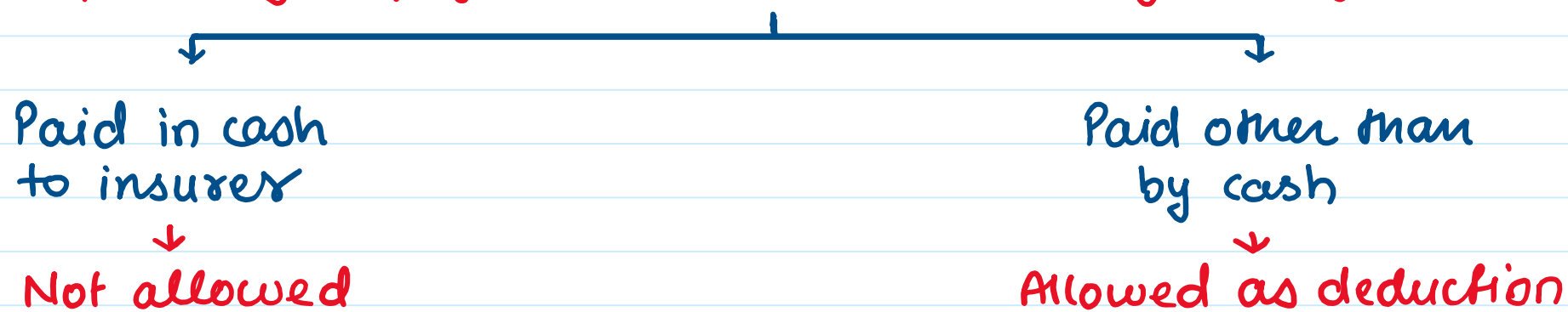
Eg. Aman Co. Ltd. $\xrightarrow{\text{Paid ₹ 120 Lakhs under VRS to}}$ Employees
 ↓
 Deduction u/s 35DDA = ₹ 24 lakhs

TP:14 Other deductions [sec 36]

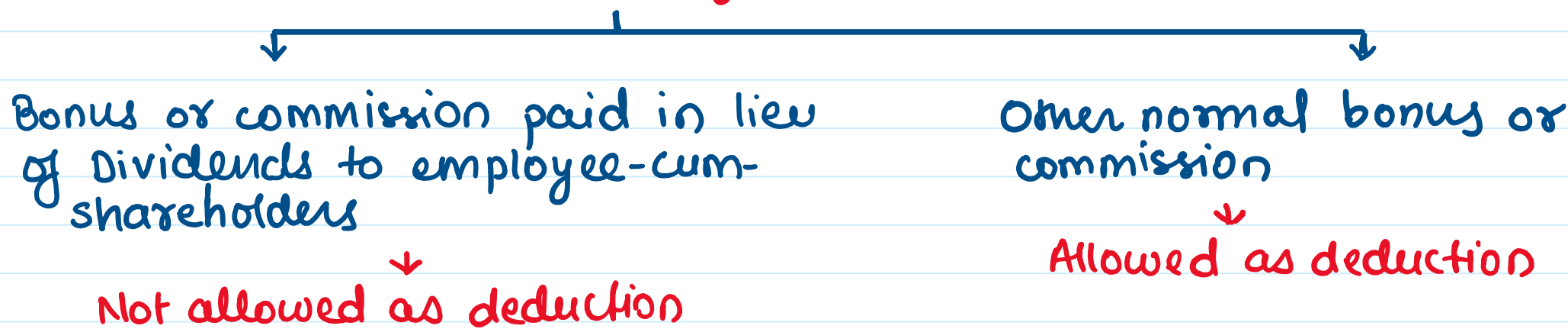
① Deductibility of insurance premium taken on stock [sec 36(i)(i)]



② Premium paid by Employer for health insurance of employees [sec 36(i)(ib)]

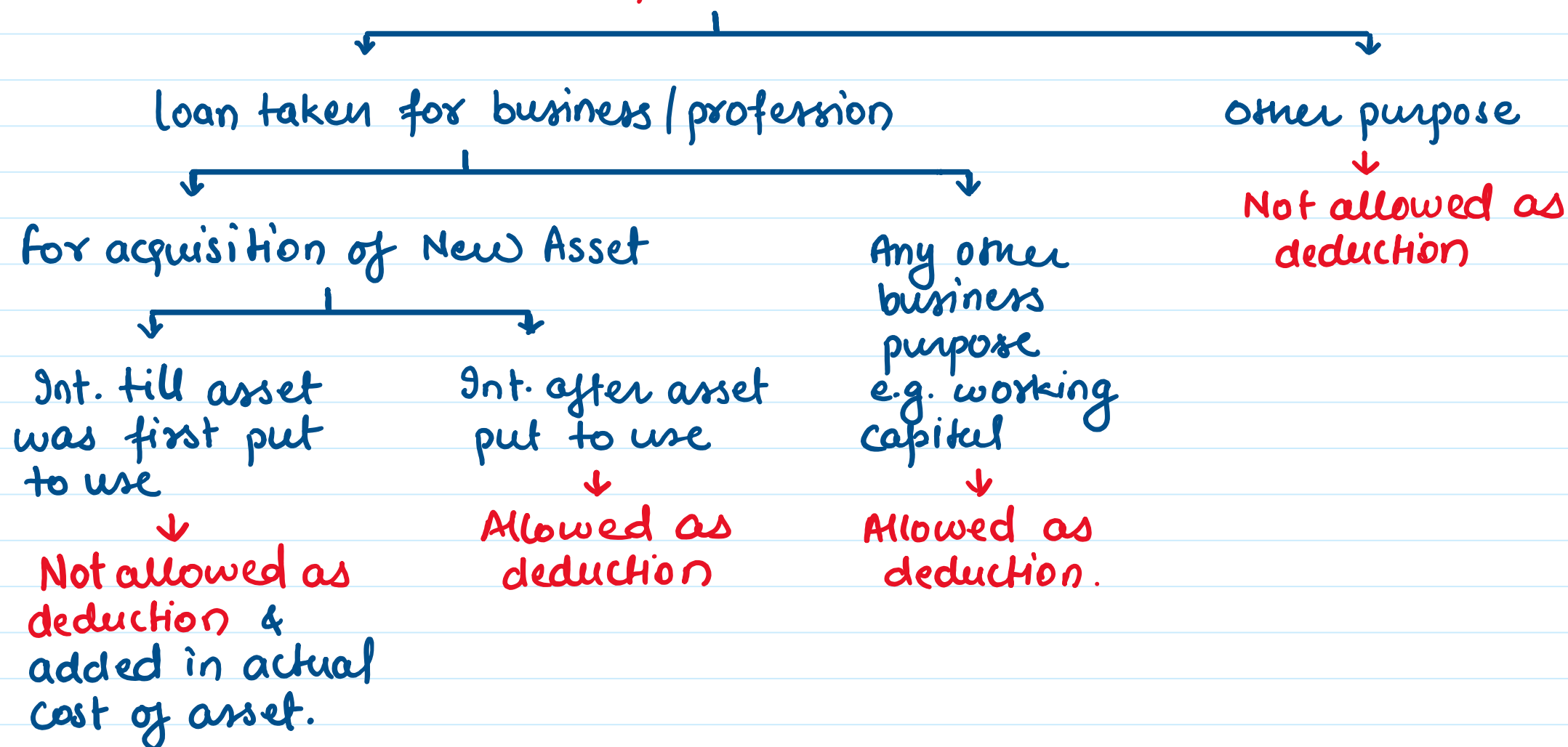


③ Bonus and commission to employees [sec 36(i)(ii)]



Eg. XYZ Pvt. Ltd. $\xrightarrow{\text{Bonus of ₹ 10,00,000}}$ Mr. X (Employee & shareholder)
 ↓
 If such bonus is in place of Dividend
 ↓
 Not allowed as deduction

④ Interest on borrowed capital [sec 36(1)(iii)]



⑤ Discount on Zero Coupon bonds (ZCBs) [sec 36(1)(iiiia)]

means
Amount payable on maturity
(-) Amount receivable on issue

Bonds which carry zero interest rate. These are issued as discount & redeemable at par or at premium.

Deduction

Discount is allowed on pro-rata basis.
i.e. between period of issue to redemption.

Eg.

XYZ Ltd.

Issues ZCB @ 600 each

Redeemable after 5 years @ 1000 each

→ Holders of ZCB

$$\text{Discount} = 1000 - 600 = 400$$

Allowed as deduction in 5 years
i.e. $\frac{400}{5} = 80$ each year.

⑥ Contribution to provident and other funds [sec 36(1)(iv) and (v)]

Contribution to Recognised PF, approved superannuation fund, approved gratuity fund

Contribution is a periodic payment & exclusively for benefit of employee

Allowed as deduction

Contribution to Unrecognised PF, unapproved other funds or adhoc payments to fund etc.

Not allowed as deduction.

⑦ Employer's contribution to New pension scheme (NPS) for Employee [sec 36(1)(iva)]
as referred u/s 80CCD

Contribution upto 10% of salary
↓
Allowed as deduction

Contribution in excess of 10% of salary
↓
Not allowed as deduction

Imp. Note: Salary = Basic Pay + Dearness Allowance (if terms of employment so provides)

⑧ Deduction of Employee's contribution, received by Employer [sec 36(1)(va)]

Deposited to relevant fund within time allowed under fund i.e. within 15^m of subsequent month
↓
Allowed as deduction

Not deposited within time allowed or deposited after time allowed i.e. after 15^m of next month
↓
Not allowed as deduction at all.

Eg.

Employer $\xrightarrow{\text{Month = Jan 2024}}$ Employee
Salary = 12,00,000
(-) Employee contribution to PF = 1,20,000
Net payment = 10,80,000

↓
Deposited in PF fund on 16^m Feb, 2024

↓
Deduction of salary = 10,80,000
Deduction towards PF = 0

TP:15 Deduction for Bad debts of a Business [sec 36(1)(vii)]

Provision for Bad debts
↓
Not allowed as deduction

Actual Bad debts
↓
Allowed as deduction

Note: Recovery of Bad debts [sec 41(4)]

Recovery of Bad debt which was allowed as deduction

Recovered by the person who claimed deduction of Bad debt

Recovered by his successor
↓
No Income

Have business in year of recovery

Do not have business in year of recovery

↓
Income u/n PGBP

eg. Mr-X, businessman, having Bad debt of ₹1,00,000 & provision for Bad debt of ₹3,00,000.

↳ Deduction allowed = ₹1,00,000

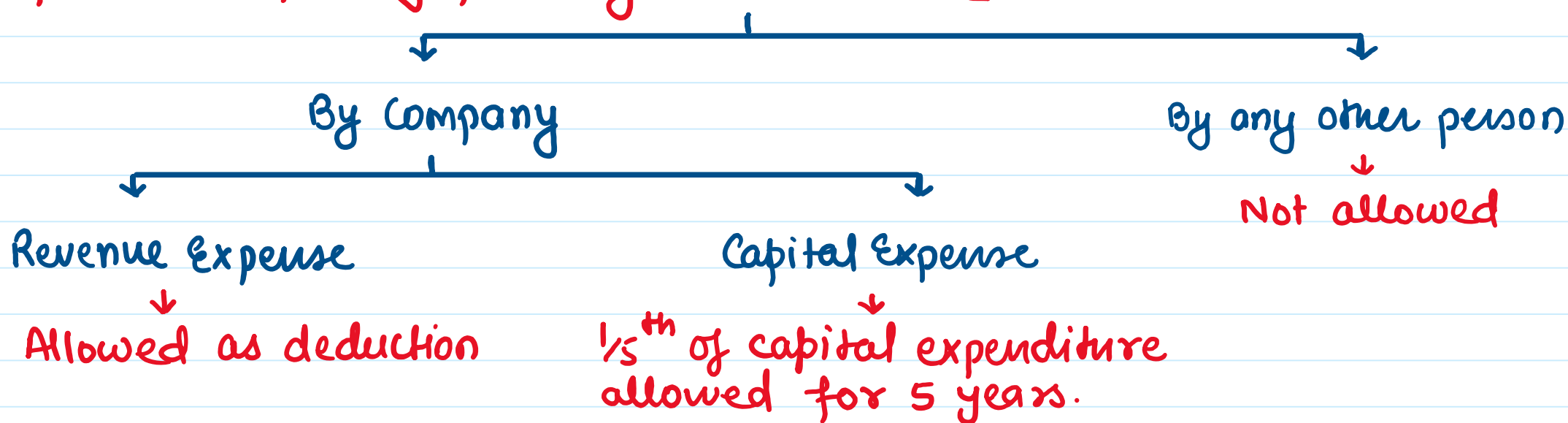
eg. Bad debt claimed during PY 2021-22 = 10,00,000
Bad debt allowed by Assessing officer = 8,00,000

Recovery of Bad debt during PY 23-24 = 5,00,000

↳ Income ulh PGBP = 5,00,000 - 2,00,000 = 3,00,000

↓
since ₹2,00,000 was not allowed by Ao during PY 21-22

TP:16 Expenses on family planning [sec 36(1)(ix)]



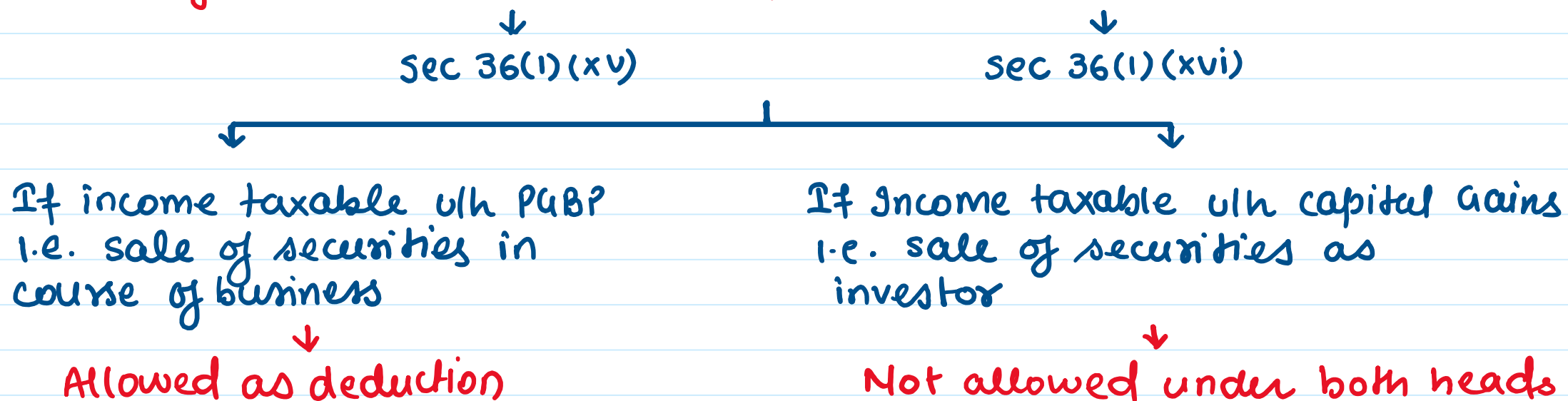
① Sale of assets used for family planning

Amount of sale shall be considered as income ulh PGBP upto the amount of expense debited in P/L account and excess over it shall be capital gain.

② Carry forward of unadjusted capital expenditure

Allowed to C/F for unlimited period & can be adjusted against any income except casual income.

TP:17 Deduction of securities transaction tax / commodities transaction tax



TP:18 Residuary Expenses [sec 37]

If any expenditure not allowed under any section, then such expenditure allowed u/s 37 if it relates to business.

Following expenditure **not allowed** :

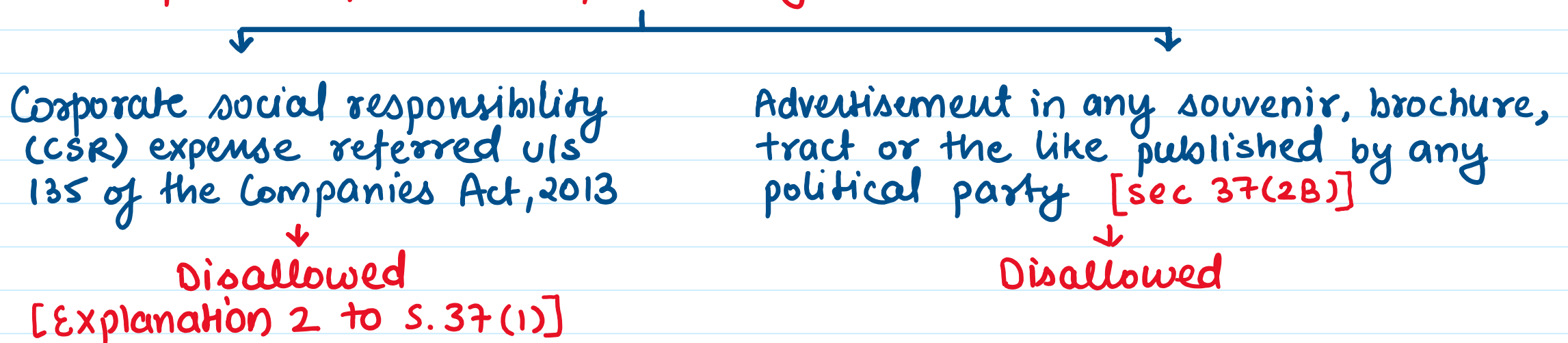
- Capital expenditure ∴ Depreciation allowed
- Personal expenditure
- Illegal expense
- Fine or penalty for an offence
- Any expenditure for purpose which is an offence or is prohibited by law.

Expenditure allowable u/s. 37 shall be incurred in the accounting year & shall be incurred after business was setup.

Important expenditures for exam questions :

- Fine, penalty in connection with income tax, GST etc. → **Not allowed**
- Income tax return fees → **Not allowed**
- Income tax audit fees → **Allowed**
- GST → **Allowed**
- GST late fees → **Not allowed**
- Income tax → **Not allowed**
- Interest under Income tax → **Not allowed**
- GST Interest → **Allowed**
- GST audit fees → **Allowed**
- GST return filing fees → **Allowed**

Certain special expenditure specifically disallowed u/s 37.



TP:19 Expenditure on assets which are partly in business use and partly in personal use [sec 38]

Expenditure is allowed only to the extent the asset is in use of business or profession.

Eg. Mr. X has one motor vehicle which is used 60% in business & 40% for personal purpose.

Petrol Expense = ₹1,00,000	<u>Allowed</u>
Repairs & maintenance = ₹2,00,000	60,000
Driver salary = ₹50,000	1,20,000
	30,000

Note: treatment of depreciation in such case :

- i) Proportionate depreciation allowed ulh PGBP.
- ii) Only such depreciation shall be reduced to calculate closing wdv.

Eg. Mr. X has one motor vehicle (dep @ 15%) of ₹10,00,000.
Business use → 60%, personal use → 40%.

↳ Depreciation allowable = ₹10,00,000 × 15% × 60% = ₹90,000
Now, closing wdv = ₹10,00,000 - ₹90,000 } Imp.
= ₹9,10,000.

TP:20 Inadmissible deductions [sec 40]

① TDS not made on payments made NR / foreign Co. / outside India [sec 40(a)(i)]

↓
Any interest, royalty, fees or any other sum payable 'outside India' or to 'NR or foreign Co. in India'

↓
Not Allowed as deduction if

- (i) TDS not deducted during the previous year **OR** (ii) TDS deducted during PY but not deposited with govt. on or before due date of ITR.

However, deduction shall be allowed in the year in which TDS deducted & deposited with government.

Q1. TDS deducted during PY 2023-24, deposited with govt. during PY 2025-26

↳ Expense disallowed during PY 2023-24 & allowed during PY 2025-26

Q2. Payment made during PY 2023-24, TDS deducted during PY 2024-25 and deposited with govt. during PY 2025-26

↳ Expense disallowed during PY 2023-24 & allowed during PY 2025-26.

Q3. TDS deducted during PY 2023-24, deposited during PY 2024-25, before due date of return filing

↳ Expense allowed during PY 2023-24.

Q4. Payment made during PY 2023-24, TDS deducted during PY 2024-25 & deposited during PY 2024-25 before due date of return filing

↳ Expense disallowed during PY 2023-24 & allowed during PY 2024-25.

Imp Q5. Payer failed to deduct TDS during PY 2023-24, however, Payee submitted his return & has taken into account such income & paid tax during PY 2024-25

↳ It will be assumed that TDS made during PY 2024-25 i.e. in the year in which with return is filed by the payee. Hence, expense allowed during PY 2024-25.

② TDS not made on payments made to Resident [sec 40(a)(ia)]

Any Interest, royalty, fees or any other sum payable to Resident

30% of sum not Allowed as deduction if

- (i) TDS not deducted during the previous year **OR** (ii) TDS deducted during PY but not deposited with govt. on or before due date of ITR.

However, deduction shall be allowed in the year in which TDS deducted & deposited with government.

Q1. TDS deducted during PY 2023-24, deposited with govt. during PY 2025-26

30% of Expense disallowed during PY 2023-24 & allowed during PY 2025-26

Q2. Payment made during PY 2023-24, TDS deducted during PY 2024-25 and deposited with govt. during PY 2025-26.

30% of Expense disallowed during PY 2023-24 & allowed during PY 2025-26.

Q3. TDS deducted during PY 2023-24, deposited during PY 2024-25 before due date of return filing

↳ Expense allowed during PY 2023-24

Q4. Payment made during PY 2023-24, TDS deducted during PY 2024-25 & deposited during PY 2024-25 before due date of return filing

30% of Expense disallowed during PY 2023-24 & allowed during PY 2024-25.

IMP Q5. Payer failed to deduct TDS during PY 2023-24, however, Payee submitted his return & has taken into account such income & paid tax during PY 2024-25

It will be assumed that TDS made during PY 2024-25 i.e. in the year in which with return is filed by the Payee. Hence, 30% of expense allowed during PY 2024-25.

③ Tax and cess levied on profits not allowed as deduction [sec 40(a)(ii)]

Income tax, surcharge & cess → not allowed as deduction

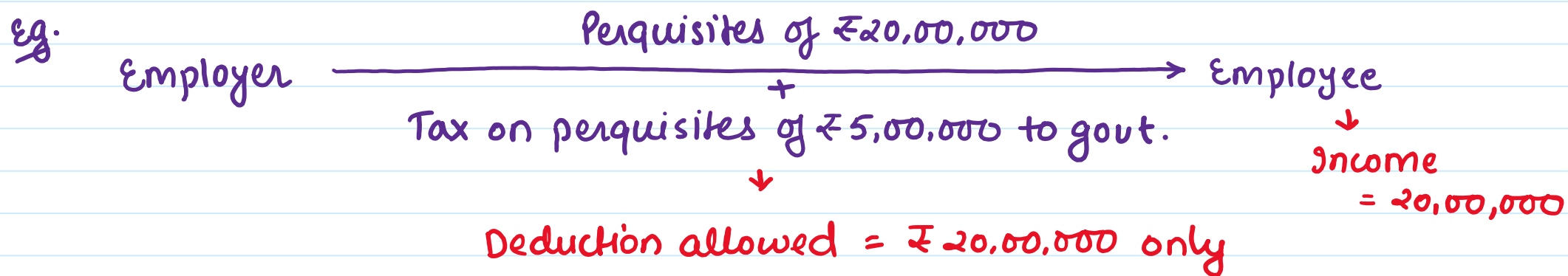
④ TDS not made on salary payment to NR / outside India [sec 40(a)(iii)]

If TDS not deducted or deposited, then no deduction allowed.

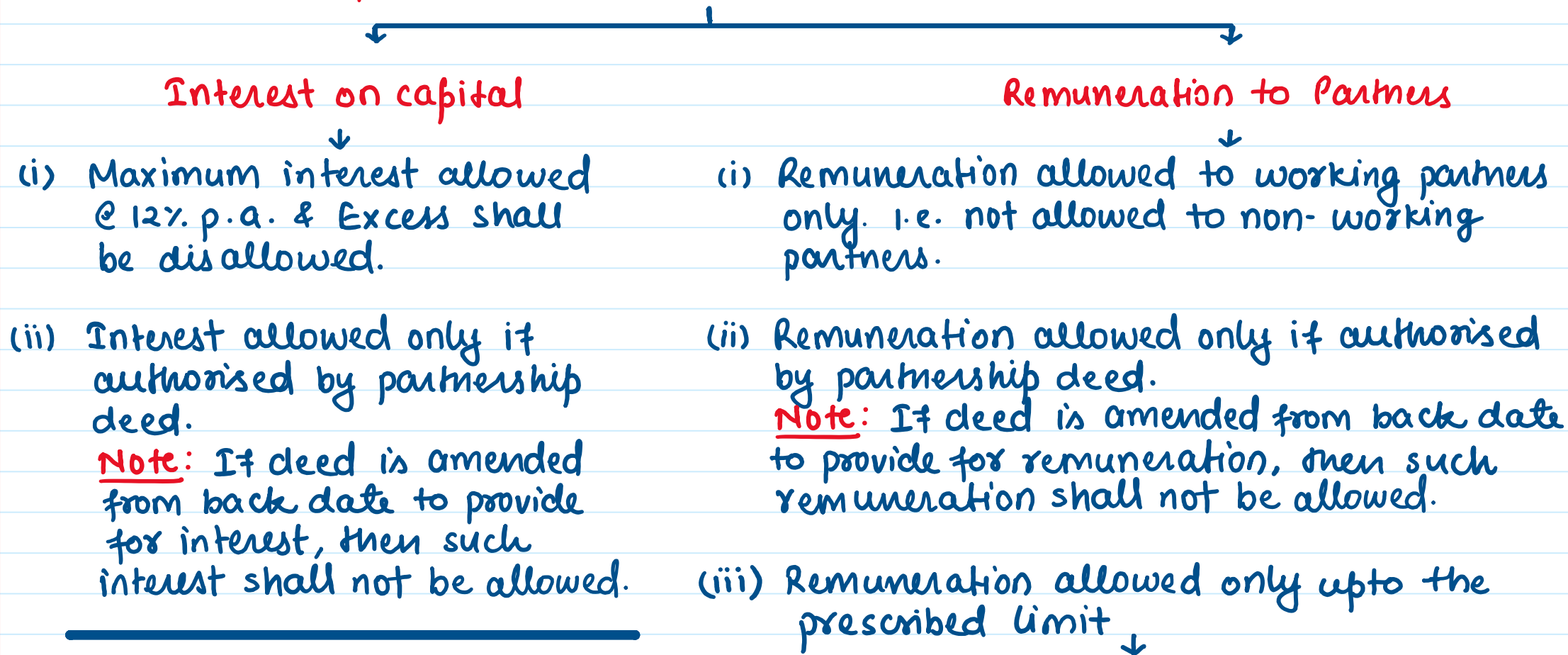
⑤ Tax paid on perquisites on behalf of employees [sec 40(a)(v)]

Tax paid by employer on perquisites to employee → not allowed as deduction.

& such tax is exempt income in hands of employee u/s 10(10cc).



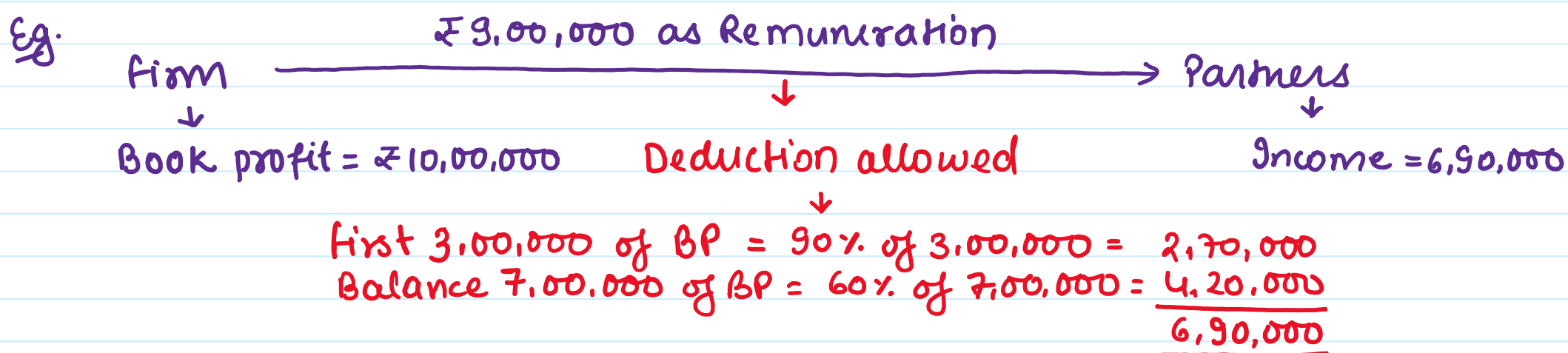
⑥ Interest on capital and Remuneration to Partners [sec 40(b)]



Book Profit (BP)	Deduction allowed
First 3,00,000 or loss	1,50,000 or 90% of BP whichever is higher.
Above 3,00,000	60% of Book profit

Note: ① **Meaning of Book Profit:** Means profit calculated as per profit & loss account as reduced / increased by any adjustments made u/s 30 to 43D but before charging remuneration.

② **Share of profit by firm to partners** → Exempt in hands of Partners [sec 10(2A)]



Eg: Net profit before following deduction = ₹ 7,00,000
 salary to two working partners = ₹ 20,000 each p.m. (authorised by deed)
 Depreciation on P&M v/s 32 = ₹ 1,50,000
 Interest on capital @ 15% p.a. on capital of ₹ 5,00,000 (authorised by deed)

Book profit = 7,00,000 (-) 1,50,000 (-) 60,000 = ₹ 4,90,000
 ↓
 ₹ 5,00,000 × 12%

Deduction of Remuneration = a) 20,000 × 12 × 2 = 4,80,000
 b) 3,00,000 × 90% + 1,90,000 × 60% = 3,84,000
 whichever is lower = 3,84,000.

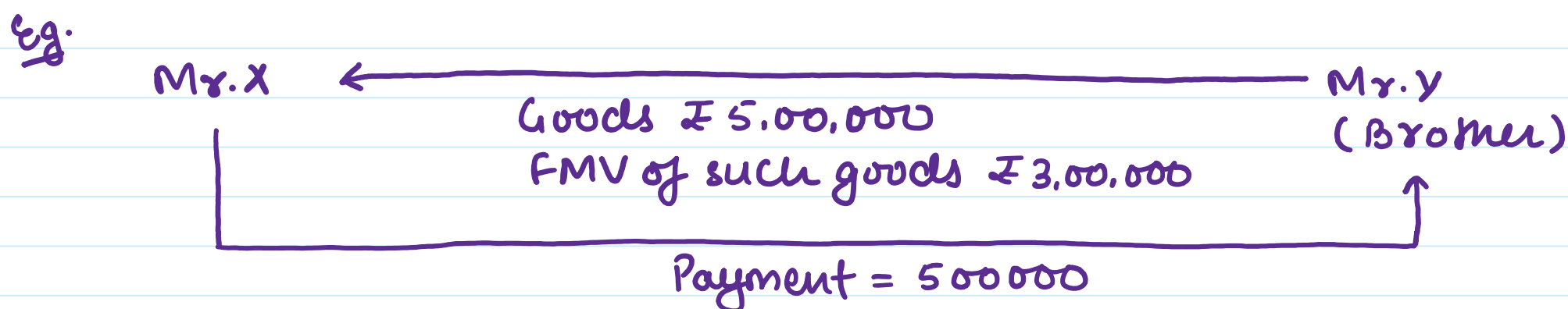
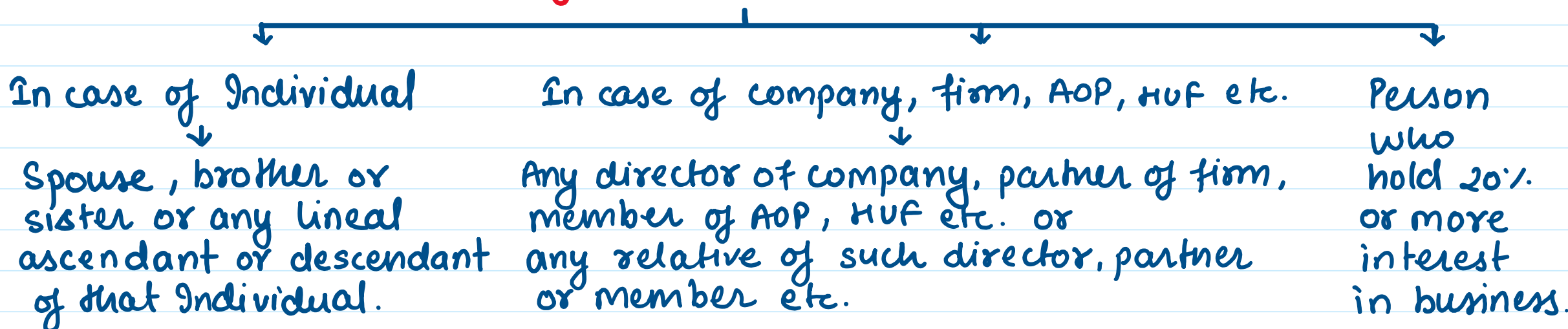
Deduction of Interest = 5,00,000 × 12% = 60,000.

TP:21 Excessive payments to Relative / Related person [sec 40A(2)]

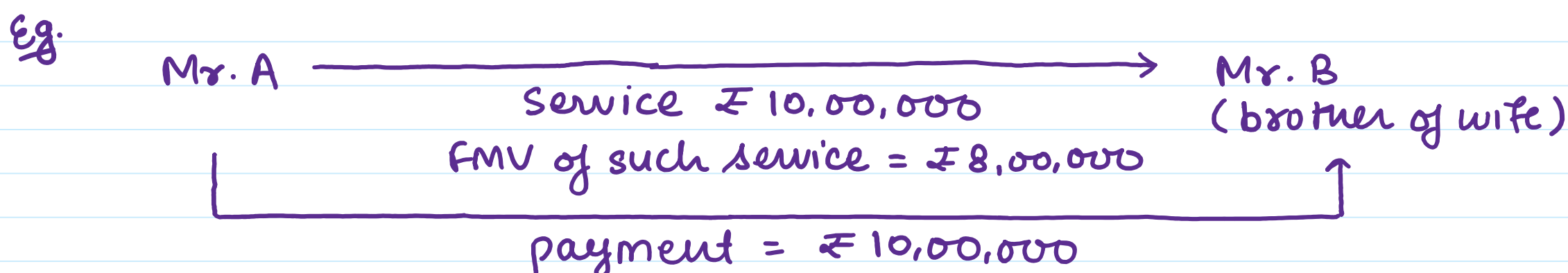
Any expenditure and payment, which is in excess of fair market value of such goods / service, to



Note: Meaning of Relative / Related Person



Disallowed exp = ₹ 2,00,000



Exp. disallowed = 0

TP: 22 Payment in excess of ₹10,000 in cash [sec 40A(3) r.w.r. 600]

Expenditure payment made to a single person in a single day exceeds ₹10,000 and payment made through

Account payee cheque or account payee bank draft or use of electronic clearing system or credit card, debit card, Net banking, IMPS, UPI, RTGS, NEFT, BHIM, Aadhar pay

↓
Whole expense allowed

Otherwise than by specified modes

↓
Entire expenditure disallowed

Note: In case payment made for plying, hiring or leasing goods carriage, limit of ₹35,000 shall be applicable.

- Eg.
- ① Paid ₹65,000 in cash → Disallowed ₹65,000
 - ② Paid ₹11,000 by a bearer cheque → Disallowed ₹11,000
 - ③ Paid ₹10,050 by a crossed cheque → Disallowed ₹10,050
 - ④ Paid ₹35,000 by account payee cheque → Disallowed ₹0
 - ⑤ Salary to employee ₹15,000 by cross cheque → Disallowed ₹15,000
 - ⑥ Paid ₹32,000 to GTA for transportation → Disallowed ₹0
 - ⑦ Mr. X purchased goods of ₹75,000 on 01.12.2023 & made payment ₹60,000 on 03.01.2024 by account payee cheque, ₹8,000 in cash on 03.01.2024 & ₹7,000 in cash on 05.01.2024 → Disallowed ₹0
 - ⑧ Mr. X purchased goods of ₹8,000 & ₹5,000 against two bills from Mr. Y. Payment made ₹13,000 in cash in a single day → Disallowed ₹0

Exception to above under Rule 600

↓
No disallowance on cash payment in following case -

- ① Payment to RBI, SBI, any other bank, LIC, UTI, CA, SA, Credit society.
- ② Payment made in a village or town, with no bank, and payment made to any person who ordinarily resides at that place or his business at that place.
- ③ Payment made to cultivators, grower, or producer for purchase of
 - (i) Agricultural or forest produce,
 - (ii) the produce of animal husbandry or dairy or poultry farming or
 - (iii) fish or fish products.
 - (iv) products of horticulture or apiculture (honey making)
- ④ Payment made to producer of products manufactured in cottage industry
- ⑤ Transfer of funds from one bank account to other account.
- ⑥ Payment of gratuity or other benefits on retirement or death of employee not exceeding ₹50,000.
- ⑦ Payment made through adjustment entry i.e. purchase payment adjusted from sale to same person.

- ⑧ Salary payment to employee when he is temporarily posted (15 days or more) at a place other than normal place of duty or on a ship and he does not have any bank account at such place or ship.
- ⑨ Payment made by principal to agent who is required to make payment in cash on behalf of principal.
- ⑩ Payment made by authorised dealer or money changer against purchase of foreign currency in normal course of his business.

Note: If expense is allowed on accrual basis in one year and payment is made in subsequent year. [S. 40A(3A)]

↓

Expenditure payment made to a single person in a single day exceeds ₹10,000 and payment made through

↓

Account payee cheque or account payee bank draft or use of electronic clearing system or credit card, debit card, Net banking, IMPS, UPI, RTGS, NEFT, BHIM, Aadhar pay

↓

Whole expense allowed

↓

Otherwise than by specified modes

↓

Entire expenditure disallowed

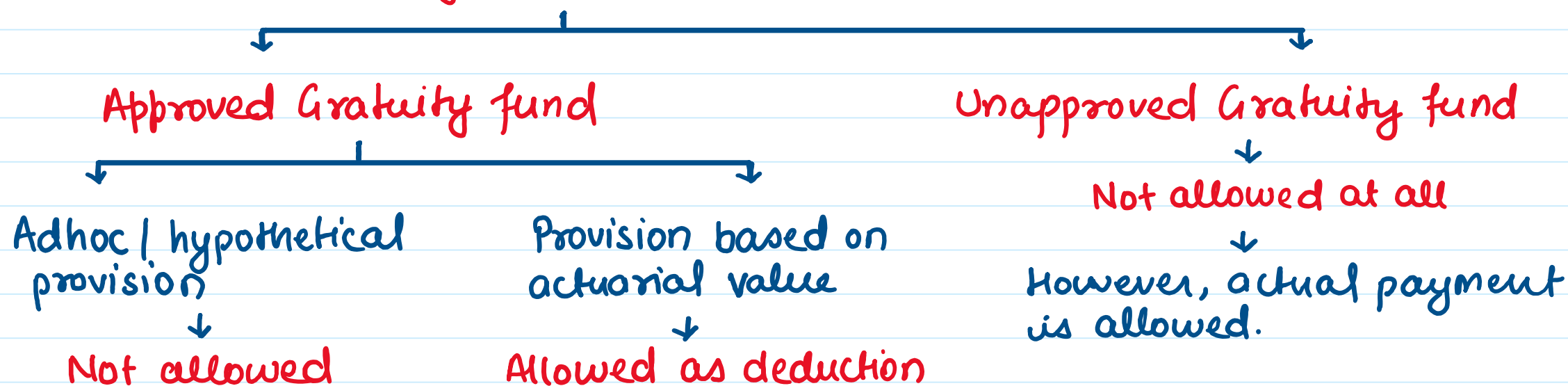
Eg. Mr. X incurred advertisement expense of ₹50,000 during PY 2022-23 to Mr. Y.

↳ Exp. allowed on accrual basis in PY 2022-23

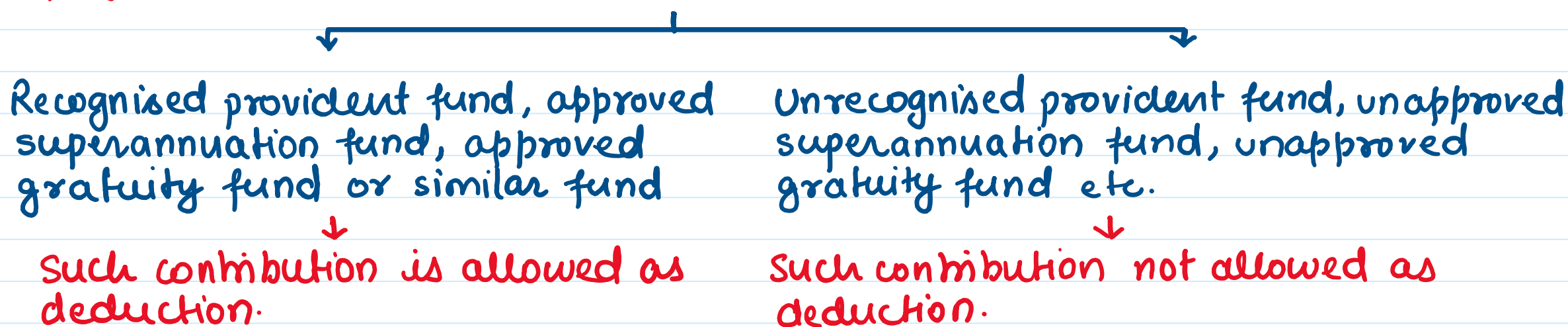
Now, during PY 2023-24, Mr. X made payment to Mr. Y of ₹11,000 in cash on 31.12.2023 & ₹39,000 through NEFT on 01.02.2024.

↳ Disallowance during PY 2023-24 = ₹11,000.

TP:23 Provision for Gratuity fund [sec 40A(7)]



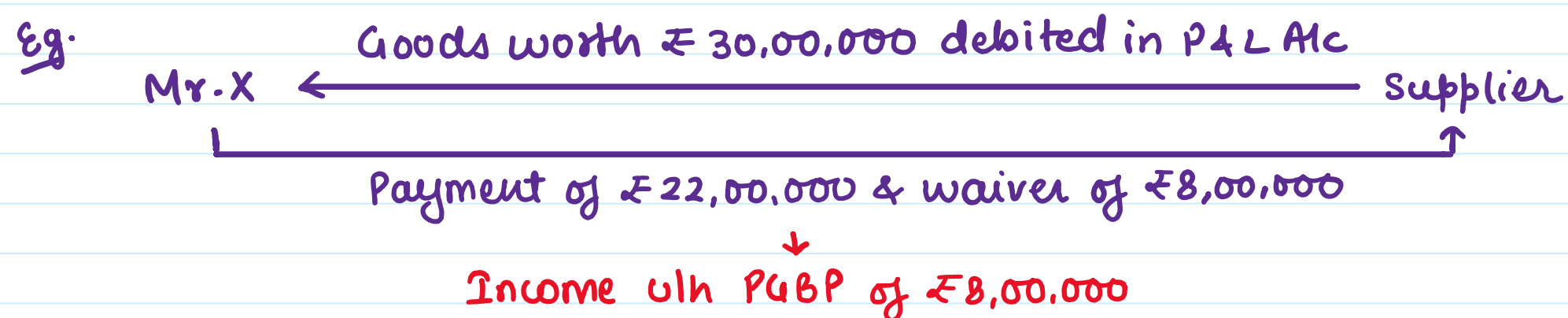
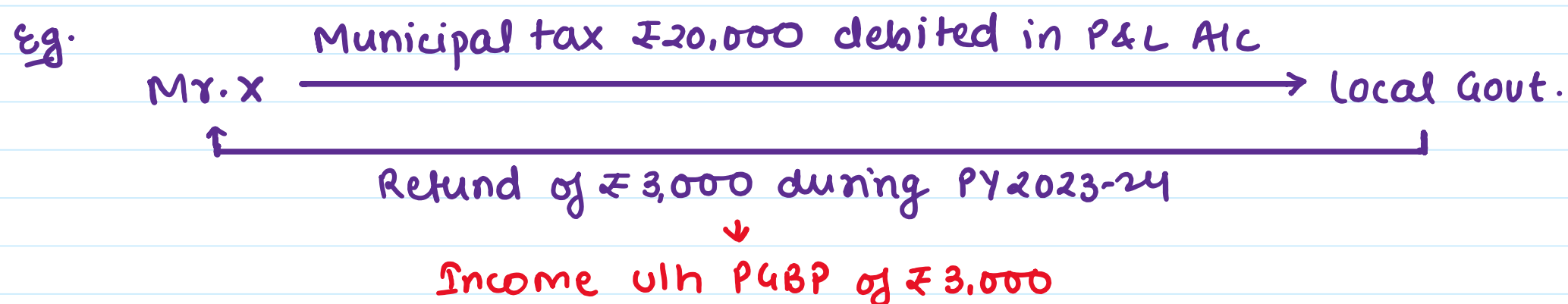
TP:24 Employer's contribution to various funds [sec 40A(9)]



TP:25 Profits chargeable to tax [sec 41]

① Remission or cessation of trading liability [sec 41(1)]

Any expenditure / allowance allowed in PY in P&L A/c and subsequently such liability cease to exist, then it shall be considered as Income u/h PGBP.



② Balancing charge [sec 41(2)]

↳ Discussed under depreciation concept

③ Assets acquired for scientific research [sec 41(3)]

↳ Discussed under sec 35.

④ Recovery of bad debt [sec 41(4)]

↳ Discussed under sec 36(1)(vii)

TP:26 Certain deductions allowed only on actual payment [sec 43B]

Even if assessee maintains books on basis of mercantile system of accounting, then also, certain expenses are allowed only if actual payment is made **on or before due date of return filing.**

These expenditure are :

- ① Tax, duty, cess, fee etc under any law like municipal tax, GST, professional tax etc.
- ② Employer's contribution to any provident fund, superannuation fund, gratuity fund, employee state insurance (ESI) or any other fund
- ③ Bonus or commission or leave salary to employee.
- ④ Interest on loan from any public financial institution or state financial corporation or a state industrial investment corporation or bank or NBFC etc.
- ⑤ Payment to Indian Railways for the use of railway assets.

Payment not made during the PY but made



Eg.

ABC Ltd. —————→ Employees
 Declared Bonus on 01.01.2024 = ₹20,00,000
 Payment made on 07.12.2024 i.e. after due date of return filing

↓
Deduction disallowed during PY 2023-24
Deduction allowed during PY 2024-25

XYZ Ltd. —————→ Govt.
 Municipal tax payable during PY 23-24
 Actual payment made on 01.06.2024

↓
Deduction allowed during PY 23-24

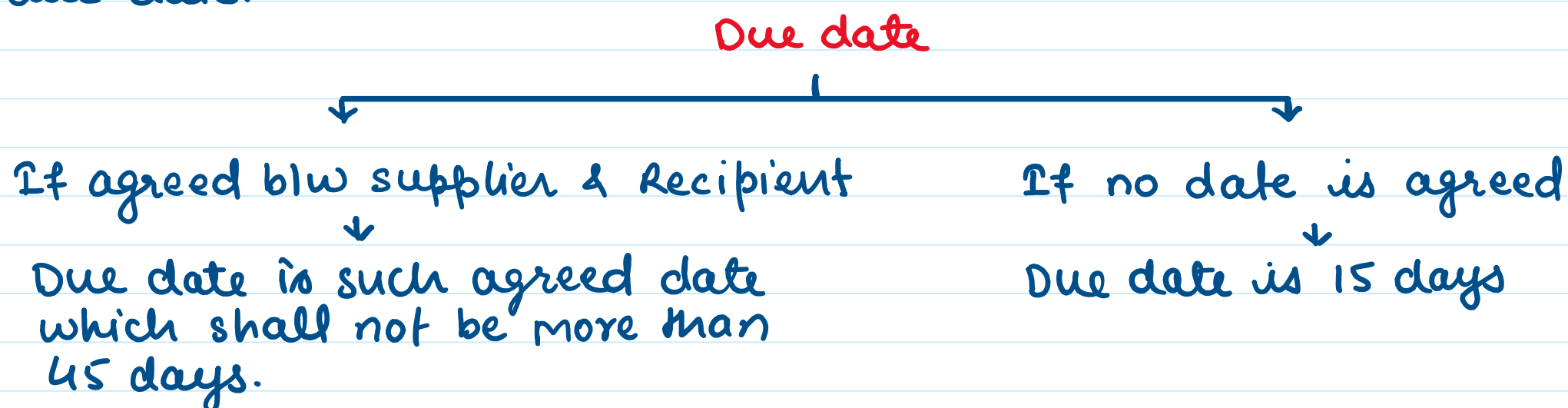
Note: ① Conversion of interest into loan / borrowings / debentures etc.

If outstanding interest on loan is converted into loan / borrowing / debenture etc, then it shall not be considered as actual payment.

Such interest shall be allowed as deduction in year in which loan is repaid proportionately.

Note: (2) Sum payable to micro or small enterprises:

As per section 15 of micro, small and medium enterprises development Act, 2006, payment of goods or services shall be made on or before due date.



Eg.

Mr. A ← Purchased goods of ₹10,000 on 01.03.24 → A & Co. (micro Ent)

As per agreement, payment has to be made by 05.04.2024.

Case i) If Mr. A paid sum on 02.04.2024 → Deduction allowed PY23-24

Case ii) If Mr. A paid sum on 20.04.24 → Deduction not allowed during PY23-24
Deduction allowed during PY24-25

TP:27 Stamp duty value to be sales value for immovable property being stock in trade [sec 43CA]

If 110% of sale value < Stamp duty value (SDV)
then, sale value = Stamp duty value

Eg. Sale value = 1,00,00,000
Stamp duty value = 1,15,00,000

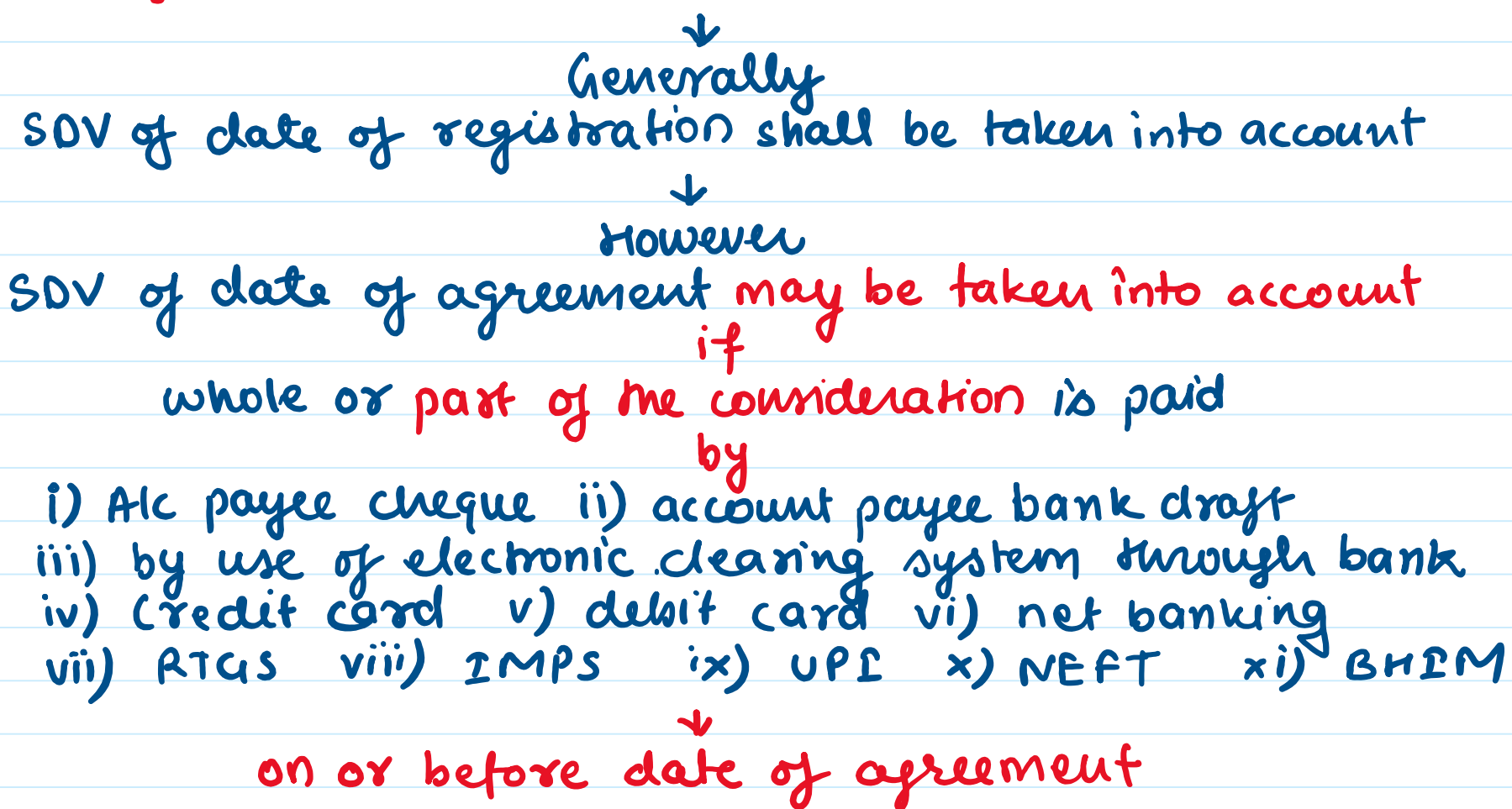
110% of sale value = 1,10,00,000 which is less than SDV
Therefore, sale value = 1,15,00,000.

Eg. Sale value = 5,00,00,000
Stamp duty value = 5,40,00,000

110% of sale value = 5,50,00,000 which is not less than SDV
Therefore, sale value = 5,00,00,000.

Meaning of stamp duty value - SDV means value on which stamp duty is charged by government at the time of registering sale deed in office of registrar.
Also called as circle rate.

How to determine SDV when date of agreement & date of registration is different?



Eg. Mr. Ajay executed agreement with DLF on 01.07.2017 for purchase of building for ₹20,00,000. SDV on 01.07.2017 = ₹27,00,000. part payment made through alc payee cheque on 30.06.2017.

Actual transfer of property on 01.07.2023. SDV on such date = 35 lakh
↳ SDV to be considered as on date of agreement i.e. 27,00,000

Now, 110% of sale value is ₹22,00,000 which is lower than SDV
Therefore, sale value = ₹27,00,000.

Note: If assessee claims that SDV is more than FMV, then assessing officer may transfer matter to valuation officer.



Eg. Actual sale value = 80,00,000
Stamp duty value = 1,00,00,000
As per assessee fair market value = 80,00,000

Matter transferred to valuation officer by Assessing officer

Case i) Value determined by VO = 1,10,00,000 → Sale value = 1,00,00,000
Case ii) Value determined by VO = 90,00,000 → Sale value = 90,00,000

TP:28 Compulsory maintenance of accounts [sec 44AA & w.r. 6F]

↳ If not maintained → Penalty 25,000.

① Person having specified profession

1. Legal profession
2. Medical profession
3. Engineering profession
4. Architectural profession
5. Accountancy profession
6. Technical consultancy
7. Interior decoration
8. Authorised Representative
9. Film artists
10. Company secretary
11. Information Technology.

Books of Accounts

Any books of accounts

Every professional has to maintain

Prescribed books of Accounts (Rule 6F)

If gross receipt $> 1,50,000$ in all 3 years immediately preceding PY.

Note: In case of new profession, limit of ₹1,50,000 to be checked for current year.

② Persons (other than Ind/HUF) carrying on business or profession (not specified above)

Maintain any books of accounts

Income from BIP $> 1,20,000$ in any one of 3 years immediately preceding PY.

Total sales or gross receipt $> 10,00,000$ in any one of 3 years immediately preceding PY.

Note: In case of new Business/profession, limit of ₹1,20,000 / ₹10,00,000 to be checked for current year.

③ Individual/HUF carrying on business or profession (not specified in ①)

Maintain any books of accounts

Income from BIP $> 2,50,000$ in any one of 3 years immediately preceding PY.

Total sales or gross receipt $> 25,00,000$ in any one of 3 years immediately preceding PY.

Note: In case of new Business/profession, limit of ₹2,50,000 / ₹25,00,000 to be checked for current year.

④ Person who opted out of sec 44AD / 44ADA / 44AE

If income to be computed u/s 44AD / 44ADA / 44AE but such person has rejected such option & his income exceeds basic exemption limit, then such person has to maintain any book of account.

Books to be kept & maintained for 6 years from end of relevant AY.

TP:29 Compulsory Tax Audit [sec 44AB]

① **Business + Turnover > 100 lakhs [sec 44AB(a)]** - Every person carrying on business whose total sales exceeds ₹100 lakhs during PY.

Eg. Mr. X, turnover from business = ₹110 lakhs

↳ Tax audit u/s 44AB(a)

Note: No tax Audit if assessee opted for presumptive taxation u/s 44AD even if turnover is above ₹100 lakhs but upto ₹200 / ₹300 lakhs

Eg. Mr. X, turnover from business = ₹150 lakhs, opted for 44AD

↳ No tax audit u/s 44AB(a)

② **Business + Turnover > 1,000 lakhs [proviso to sec 44AB(a)]** - Every person carrying on business whose total sales exceeds ₹1,000 lakhs during PY provided

a) Aggregate receipt (including sales) in cash \leq 5% of total receipts.

b) Aggregate payment (including exp.) in cash \leq 5% of total payments.

Note: cash includes cheque, bank draft which is not account payee.

Eg. XYZ Ltd., total turnover from business = ₹950 lakhs
Total receipt = 980 lakhs, cash receipts = 40 lakhs
Total payment = 1,050 lakhs, cash payment = 51 lakhs

↳ Tax audit not required

Eg. Mr. A, total turnover from business = ₹950 lakhs
Total receipt = 980 lakhs, cash receipts = 50 lakhs
Total payment = 1,050 lakhs, cash payment = 51 lakhs

↳ Tax audit required u/s 44AB(a).

③ **Profession + Gross receipts > 50 lakhs [sec 44AB(b)]** - Every person carrying on profession whose gross receipts exceeds ₹50 lakhs during PY.

Eg. Mr. X, gross receipts from profession = ₹60 lakhs

↳ Tax audit u/s 44AB(b)

Note: No tax Audit if assessee opted for presumptive taxation u/s 44ADA even if turnover is above ₹50 lakhs but upto ₹75 lakhs

④ **Business u/s 44AE + Rejected sec 44AE [sec 44AB(c)]** - If income is to be computed u/s 44AE on presumptive basis but such person rejected presumptive income & claimed profits lower than profits u/s 44AE

Eg. Mr. A, transport business, presumptive income u/s 44AE = 10,00,000
He rejects sec 44AE & claimed profit of ₹9,00,000

↳ Tax audit u/s 44AB(c)

⑤ Profession u/s 44ADA + rejected section 44ADA [sec 44AB(d)] - Income to be computed u/s 44ADA on presumptive basis but such person has rejected sec 44ADA and claimed profit lower than as u/s 44ADA and total income exceeds basic exemption limit.

Eg. Mr. X, Gross receipt from profession = ₹40,00,000.
Income u/s 44ADA = ₹20,00,000. He claimed profit to be ₹18,00,000.

↳ Tax audit u/s 44AB(d)

Eg. Mr. X, Gross receipt from profession = ₹10,00,000
Income u/s 44ADA = ₹5,00,000. He claimed profit to be = ₹2,00,000

↳ No tax audit since total income < Basic exemption limit.

⑥ Business u/s 44AD + opts out of section 44AD [sec 44AB(e)] - Income computed u/s 44AD during any prior PY & opts out of section 44AD during any of the 5 AY succeeding the AY in which he opted for 44AD and total income exceeds the basic exemption limit.

Eg. Mr. X opted for 44AD during PY17-18. He opted out of sec 44AD during PY23-24. Total income = ₹5,00,000

↳ Tax audit u/s 44AB(e) during PY23-24

Eg. Mr. Y, business turnover during PY23-24 = ₹80,00,000. Never opted for 44AD. He claimed profits to be ₹4,00,000 during PY23-24.

↳ No tax audit u/s 44AB(a) or 44AB(e).

Eg. Mr. X opted for 44AD during PY17-18. He opted out of sec 44AD during PY23-24. Total income = ₹2,00,000

↳ No Tax audit u/s 44AB(e) during PY23-24

Note: ① Due date of audit report - Audit report to be submitted by CA at least one month prior to the last date of return filing i.e. 30.09.2024.

② Penalty for failure to get accounts audited u/s 44AB [sec 271B]

Penalty = 0.5% of total turnover or gross receipt but maximum of ₹1,50,000.

TP:30 Presumptive taxation for business [sec 44AD]

- ① Eligible Assessee - Resident Individual | HUF | Firm (not LLP)
- ② Business turnover upto ₹200 lakhs + Income shall be 8%/6% of TIO -
If any assessee has turnover of his business upto ₹200 lakhs, such assessee is allowed to compute income on presumptive basis.

Presumptive Income

6% of turnover received by an account payee cheque, account payee DD, use of electronic clearing system, credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, BHIM, Aadhar pay on or before due date of ITR u/s 139(i)

8% of turnover received otherwise than by specified means.

NOTE: No deduction allowed u/s 30 to 38.

Eg. Mr. X, resident, business turnover during PY 2024-25 = 1,50,00,000
Turnover in cash = 80,00,000. Turnover in bank = 70,00,000

Minimum presumptive Income = $80L \times 8\% + 70L \times 6\% = 10,60,000$

- ③ Business Turnover upto ₹300 lakhs + cash receipts $\leq 5\%$ of total turnover + Income shall be 8%/6% of TIO
If any assessee has turnover of his business upto ₹300 lakhs and aggregate amount received in cash is 5% or less of total turnover, such assessee is allowed to compute income on presumptive basis.

Presumptive Income

6% of turnover received by an account payee cheque, account payee DD, use of electronic clearing system, credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, BHIM, Aadhar pay on or before due date of ITR u/s 139(i)

8% of turnover received otherwise than by specified means.

NOTE: No deduction allowed u/s 30 to 38.

Note: cash includes cheque, bank draft which is not account payee.

Eg. Mr. X, business turnover ₹2,50,00,000. cash turnover = 12,00,000, Bank turnover = 2,38,00,000.

Minimum presumptive Income = $2,38,00,000 \times 6\% + 12,00,000 \times 8\%$
= 15,24,000

Eg. Mr. Y, business turnover ₹2,10,00,000. cash turnover = 12,00,000

↳ He cannot opt for sec 44AD.

④ Opted for sec 44AD during any PY + opts out of sec 44AD subsequently

If assessee has opted for sec 44AD in any prior PY & he opts out of presumptive taxation in any subsequent 5 AY, then he will not be allowed to opt for presumptive income for 5 AY subsequent to AY in which he opts out of sec 44AD.

Eg. Mr. X opted for sec 44AD in PY 2022-23 and he opts out of sec 44AD during PY 2023-24.

↳ He will not be allowed to opt for sec 44AD in subsequent 5 years
i.e. PY 2024-25, PY 2025-26, PY 2026-27, PY 2027-28, PY 2028-29

Other points to remember

- | | | | |
|--|--|--|--|
| <p>① Sec 44AD not applicable on profession, commission/ brokerage biz.</p> | <p>② Advance tax to be paid in single installment on or before 15th March of relevant PY.</p> | <p>③ Brought forward business loss is allowed to be adjusted from 44AD income. Brought forward depreciation is not allowed to be adjusted.</p> | <p>④ No need to maintain books of accounts & no tax audit.</p> |
|--|--|--|--|

TP:31 Presumptive taxation for profession [sec 44ADA]

- ① Eligible Assessee - Resident Individual | Firm (not LLP)
- ② Profession Gross receipt upto ₹50 lakhs + Income shall be 50% of GIR -
If any assessee has turnover of his profession upto ₹50 lakhs, such assessee is allowed to compute income on presumptive basis.

Presumptive Income - 50% of gross receipt.

Note: No deduction allowed u/s 30 to 38.

Eg. Mr. X, resident, profession receipt during PY 2023-24 = ₹45,00,000
Turnover in cash = ₹20,00,000. Turnover in bank = ₹25,00,000

Minimum presumptive Income = ₹45,00,000 × 50% = ₹22,50,000

- ③ Profession gross receipt upto ₹75 lakhs + cash receipts ≤ 5% of total gross receipt + Income shall be 50% of GIR -
If any assessee has turnover of his profession upto ₹75 lakhs and aggregate amount received in cash is 5% or less of total turnover, such assessee is allowed to compute income on presumptive basis.

Presumptive Income - 50% of gross receipt.

Note: No deduction allowed u/s 30 to 38.

Note: cash includes cheque, bank draft which is not account payee.

Eg. Mr. A, profession receipts = ₹70,00,000. cash receipts = ₹3,00,000

↳ Minimum presumptive Income = ₹70,00,000 × 50% = ₹35,00,000.

Eg. Mr. B, profession receipts = ₹60,00,000. cash receipts = ₹3,50,000

↳ He can not opt for sec 44ADA.

Other points to remember

① Advance tax to be paid in single installment on or before 15th March of relevant PY.

② Brought forward business loss is allowed to be adjusted from 44ADA income. Brought forward depreciation is not allowed to be adjusted.

③ No need to maintain books of accounts & no tax audit.

④ Assessee can change the option on year-to-year basis.

TP:32 Presumptive taxation for Plying, Hiring or Leasing Goods Carriage [sec 44AE]

① **Eligible Assessee** - Any person engaged in the business of plying, hiring or leasing goods carriage.

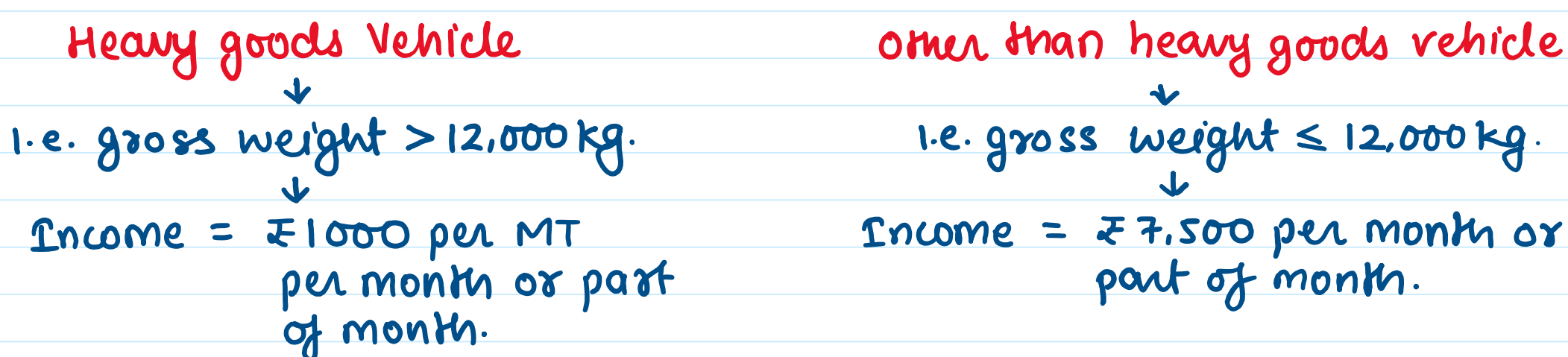
Assessee should not have more than 10 vehicles at any time during the year.

Eg. Mr. X have 5 vehicles as on 01.04.2023. He purchased 6 vehicles on 01.06.2023 & sold 2 vehicles on 02.06.2023.

↳ Not eligible for sec 44AE since he had 11 vehicles on 01.06.23.

②

Presumptive Income



Note: No further deduction allowed u/s 30 to 38 but deduction u/s 40(b) is allowed in case of firm.

Eg. Vehicle purchased on 01.05.23
Gross weight = 14 MT i.e. 14,000 kg.

Presumptive Income u/s 44AE
= ₹1,000 × 14 MT × 11 months
= 1,54,000

Eg. Vehicle purchased on 25.06.2023
Gross weight = 11 MT i.e. 11,000 kg.

Presumptive Income u/s 44AE
= ₹7500 × 10 months
= 75,000

Note: Income shall be calculated based on months the Assessee owned the vehicle even if not put to use.

Eg. Mr. X purchased vehicle during April 2023 but put to use during Aug 2023, in this case, income shall be presumed for 12 months & not 8 months.

Other points to remember

- | | | | |
|---|--|--|--|
| <p>① If actual income is more than the presumptive income, actual income shall be taken into consideration.</p> | <p>② Brought forward business loss is allowed to be adjusted from 44AE income. Brought forward depreciation is not allowed to be adjusted.</p> | <p>③ No need to maintain books of accounts & no tax audit.</p> | <p>④ Assessee can change the option on year-to-year basis.</p> |
|---|--|--|--|
- ⑤ If assessee taken goods carriage on hire, installments, he shall be deemed to be owner of such goods.

TP: 33 Speculation business [Explanation 2 to section 28]

↓
means a transaction in which a contract for the purchase or sale of any commodity, shares, stock is periodically or ultimately settled otherwise than by the actual delivery or transfer.

Eg. Mr. X entered into a contract for purchase of one plot from Mr. A for ₹50,00,000. Same plot was sold to Mr. Y at higher rate of ₹55,00,000. Mr. X directed Mr. Y to pay ₹50 Lakh to Mr. A & ₹5,00,000 to himself. He directed Mr. A to directly register plot in name of Mr. Y.

↳ This transaction is called speculative transaction.

Following transactions not deemed to be a speculative transaction

- ① Hedging contract
- ② Forward contract
- ③ Trading in derivatives.

TP: 35 Payment to associations & institutions for rural development programs [sec 35CCA]

↳ Removed in new module

100% deduction shall be allowed where payment is made to

- ① to an association or institution with object of rural development
- ② to an association or institution with object of training of persons for implementing rural development programs.
- ③ to rural development fund set up by CG.
- ④ to National Urban Poverty Eradication Fund set up by CG.