Income from B or P.

Business u/s 2(13) include
↓
Trade, commerce or manufacture.
or any concern or adventure in the nature of T.C & M.

Profession → Occupation requiring
some degree of learning
+ vocation [ex: S.]

Eg: Painter.
Sculptor
Author
Auditor
Lawyer.
Doctor.
Architect
Astrologers.

Profit:
i) In cash or in kind.
↓
Cash equivalent of the receipt on the date of receipt.

ii) Capital receipts ≠ Income.
iii) Voluntary receipts:
↓
Received in the course of B/P.
↓
Taxable under this head.

iv) Application of the gains of trade is immaterial.
v) Income from distinct business → Separate calc.
vi) Profit = Income - Exp.
vii) Legal & illegal income => taxable

Method of Accounting [Sec. 145(1)]

- PGBP, OS → Cash or mercantile system of accounting regularly employed by the assessee.
- Salary, HP, CG → As per separate prov of each head.

Sec. 145B.

- Int on compensation or enhanced compensation → Year of receipts [OS].
- Subsidy, grant, cash incentive, duty drawback, waiver, concession by CG/SG/Authority → Receipt basis.

Income chargeability under this head [Sec. 28]

i) Income from B/P:

* If assessee is engaged in the business of letting out of residential houses → HP.

ii) Any compensation or other payment due to or received by

a) any person who managing the whole of

- affairs of Indian Co.
- or
- Affairs in India of any other Co.

↓

at or in connection with termination or modification in T&C.

b) by any person, holding an agency in India for business of any other person

↓

at or in connection with the

↓ termination of agency or ↓ Modification of T&C.

c) Any person, ~~for~~ or in connection with the vesting in the govt or corporation { owned or controlled } govt of management { any property or business.

d) Any person → Business Contract.

↓ Termination or ↓ Modification.

iii) Income from specific services performed for its members by a trade, professional or business.

Trade
Profession
Similar associations
——— Specific Service → Members

iv) Incentive received/receivable by assessee carrying on export business.

↓

a) Profit on sale of import entitlement.
b) Cash assistance against exports.
c) Customs duty/excise drawback.
d) Profit on sale of duty entitlement Passbook.

v. Value of any benefit or Perquisite.

vi. Sum due to, or receivable by, a partner of a firm.

Partnership Firm → Rem. Int. Salary Bonus Comm → Partner

- Allowed as exp
- Not allowed as exp

→ Treated as Income.
Not taxable as income

Sec. 10(2A).

Partnership firm → Share of Profit → Partner → Exempt.

vii) Any sum received or receivable

→ agreement

- Not carrying on any activity in relation to any BIP → "Exceptions"

(or)

- Not sharing any
  - know how
  - Patent
  - Copyright.
  - Trade mark
  - license
  - franchise
  - B or C rights.
  - Info or Technique
    - Mfr
    - Processing

→ g/s.

i) Any sum received or receivable
↓
Tfr of right to manufacture, produce or process → A/T
or
Right to carry on any B/P
↓
Taxable under cg.

ii) Sum received as compensation under UNEP.

viii) Keyman Insurance Policy
↓ ↓ ↓
Employee → Salary.
Employer → B/P
Others → OS.

ix) Stock ——————→ Capital Asset.
Income = FMV as on date of conversion.

x. Capital Asset
↓
Ded u/s 35AD.
↓
Sum received / receivable on
↓ ↓ ↓ ↓
Sale, Discard, Demolished, Destroyed.

Calculation of PGBP [Sec. 29].

↓

1. Admissible expenses [Sec. 30-37]
2. Inadmissible " [Sec. 40].
3. Expn Payment not deductible in certain circumstances [Sec. 40(A)].
4. Profits chargeable to tax [Sec. 41].
5. Others.

Rent, Rates, Taxes, Repairs & Insurance for buildings [Sec. 30].

↓

1. Building
   ↓
   Used by assessee for B/P.

2. Rent
   Rates & Taxes
   Revenue Repairs
   Insurance.

3. Building
   ↓ ↓
   B/P | Personal
   ↑ ↑
   Exp
   allowed. | Not allowed.

Repairs & Insurance of P&M, F [Sec. 31].

- Assets must have been used for assessee's own B/P.
  - Active Use or Passive Use
- Repairs ≠ Replacement / Reconstruction.
- Current repairs only. ✓
- Current repairs of capital nature ✗.

Stand by P&M
Fire Extinguishers.

Depreciation [Sec. 32]

1) Charge of depreciation mandatory.

2) conditions to be satisfied for allowance of depreciation.

↓

a) Assets must belong to either of the following categories:

- Building
  - P&M
  - Furniture.
- Know-how,
  - Patents,
  - Copyrights,
  - Trade mark,
  - Licences,
  - Franchise;
- Any other B or C rights of similar nature,

→ No depreciation on land.

→ GW ≠ Asset.

Plant

- Includes
  - Ships
  - Boats
  - Vehicles.
  - Scientific Apparatus
  - Surgical equipments.
- Excludes
  - Tea Bushes.
  - Livestock
  - Human
  - Stock in trade.

Building = Roads, Bridges, Culverts, wells, Tubewells.

b) Assets should be used for B/P

↓

- Asset must be put to use any time during the PY.

- Asset acquired during the PY & put to use < 180 days.
  ↓
  Depn = Allowable Depn × 50%.

- If asset is used < Personal / B/P.
  Depn allowable proportionately

- Depn is allowed to the owner of the assets.

c. Assessee must own the assets → Fully or Partly.

3. Calculation of depreciation:

i) Power generation undertakings. [g or g&D].
↓
Assets.
↓
① Depn on SLM basis of Actual cost.
Depn rate → Appendix 1A
or.
② Depn on WDV method
Depn rates → Appendix I.
↓
Such option must be exercised before due date of furnishing returns u/s 139(1) for AY in which it begins to generate power.
↓
Once exercised shall be final.

ii) Block of Asset =

↓

Group of assets falling withing a class of assets.
- Tangible Assets
- Intangible Assets.

in respect of which same % of depn is prescribed.

iii) Additional depn on P&M acquired : [Sec. 32(1)(iia)]

↓

→ OTR.

→ New P&M (≠ ship & Aircrafts)

→ acquired & installed

→ Busines,

↓ ..

manufacture or Production of → Articles or Things.

or

generation Transmission Distribution → Power.

↓

→ Additional depn @ 20% on actual cost.

If asset is put to use < 180 days.

↓

Additional depn @ 10% during the PY in which such asset is acquired.

&

Balance 10% allowed in the succeeding PY

↓

if assessee = OTR in the immediately succeeding PY.

P&M not qualifying for additional depn:

i) Any P&M used within or outside India by any other person,

ii) P&M installed in → office
→ Residential accommodation
→ Guest house.

iii) office appliances or
Road transport vehicles.

iv) P&M → 100% Ded under any other section.

Circular No. 15/2016

↓

Business of Printing or Printing & Publishing = manufacturing or Production of A or T.

↓

Eligible for additional depn.

iv) Terminal Depn:

↓

Power undertaking [clause (i) above].

↓

if any asset is { S / 3D. } in the PY.

↓

WDV	x
− Money's payable	(x)
− Scrap value	(x)
Depn.	x (w/off in books).

Money's payable =

Asset is

↓ Destroyed.

↓ Sold

Insurance
Salvage
Compensation

Selling Price.

4) Rate of depreciation:

Block I: Building.

- Residential Buildings → 5%.
- Non-Residential Buildings
  + Hotels
  + Boarding Houses → 10%.
- Buildings → P&M
  - Water Supply
  - water treatment
  - Business of providing infrastructure facility → 40%.
- Temporary erections → 40%.

Block II: F&F

+ Electrical Fittings [wiring, switches, fans etc] → 10%.

Block III: P&M.

i) Motor cars

- Not running them on hire
  - Acq blw 23.8.2019 to 31.3.2020 & Put to use on or before 31.3.2020 → 30%.
  - Acq or put to use on or after 01.04.~~2020~~ 1990. → 15%.
- Motor Bus, Lorries, taxies Running on hire.
  - Acq blw 23.8.2019 to 31.3.2020 & put to use on or before 31.3.2020 → 45%.
  - others → 30%.

2) Rubber & Plastic goods factories - Moulds	30%
3) Aeroplanes & Aeroengines	40%
4) Pollution control equipments.	40%
5) P&M used in Semi-conductor industry (ICs)	30%
6. Life saving medical equipment	40%
7. P&M → water supply project- water treatment system	40%
8. Energy Saving Devices.	40%
9. Computers + Software	40%
10. Professionals - Books.	40%
11. Library - Books.	40%
12. General P&M.	15%
IV. Ships:	20%
Intangible Assets.	25%

Q.1

5) Actual cost u/s 43(1) :=

Cost of asset	x
(-) Cost met by any other person	(x)
	x

Any expenditure for acquisition of asset > ₹10,000

↓

Total payment to a person in a day, otherwise than by way of A/c payee cheque (APC), or A/c draft, or ECS, or Prescribed E mode

↓

such exp shall not ~~from~~ part of actual cost.

Prescribed Electronic modes.

↓

Credit card.	RTGS
Debit card.	NEFT
Net banking	BHIM.
IMPS.	Aadhar Pay
UPI	

Actual cost in certain special situations.

↓

i) Asset used for scientific research → used for business:

↓

Actual cost	x
(-) Ded u/s 35	(x)
	x

ii) Inventory → Capital Asset used for B/P.

↓

Actual cost = FMV as on date of its conversion.

iii) Asset is acquired by way of gift or inheritance:

↓

Actual cost to the previous owner
(-) Depn allowable to the assessee.

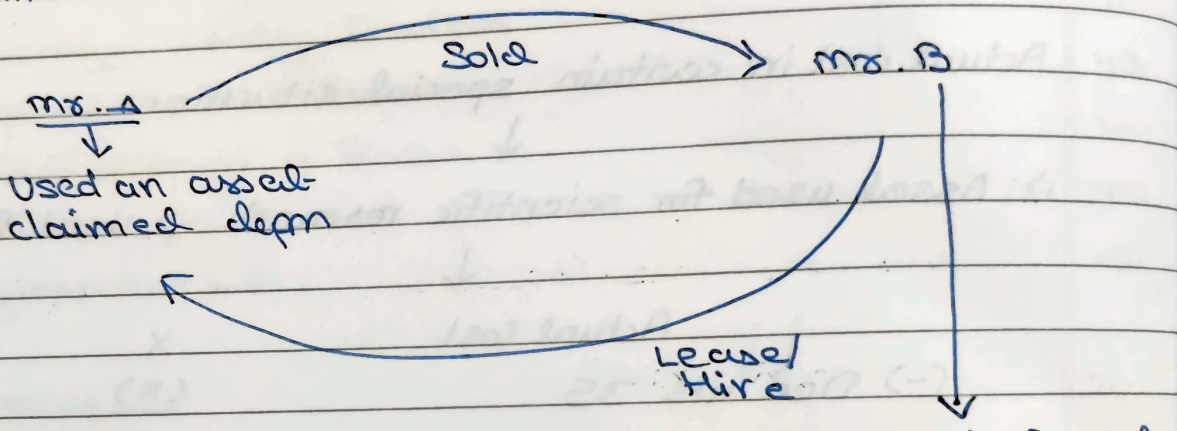
iv) Second hand asset: → Actual cost or Assessing Officer (JCIT)

v. Re-acquisition of asset:

WDV of that asset (or) Actual price of re-acquisition.

w.e is less.

vi. Acquisition of asset previously owned by any person to whom such asset is given on lease, hire or otherwise.



vii. Building previously the property of the assessee:

↓

Building which was previously not used for BLP is now used for BLP.

↓

Actual cost = cost − Notional depn.

Q.2.

viii) Capitalisation of interest in connection with acquisition of asset.

↓

Interest related to period after asset is first put to use shall not be included.

ix) Amount of duty of excise etc leviable shall be reduced if credit is claimed.

x. Subsidy
Grant
Reimbursement
} by → cg, sg, Authority established under any law, or any other person.
↓
Reduce from cost.

xi. Asset acquired outside India by an assessee [NR] & such asset is brought by him to India
↓
Used for his BIP
↓
Cost of Asset = Cost
− Notional dep from DOA.

xii. Asset → Ded uls 35AD.
Cost = Nil. if
↓
1) Assessee himself has claimed ded uls 35AD
or
2) Previous owner has claimed ded uls 35AD & asset is acquired by way of
↓
a) gift, will or irrevocable trust.
b) distribution on liquidation of a company.
c. HUF ——(Partial/Complete partition of HUF.)——→ member.

d. H Co → 100% S Co (Indian Co).

e. S Co → 100% H Co. (Indian Co).

f. Amalgamating Co → Amalgamated Co (Indian Co).

g. Demerged Co → Resulting Co (Indian Co).

h. From — Succession → Company.

AOP / BOI → (Corporatisation of RSE.) → Company

i) Sole proprietor → (Succession.) → Company

j) Private Co / Unlisted Public Co → (Conversion.) → LLP.

IF Ded u/s 3SAD → Deemed income

⇓

Cost of Asset = Cost
(-) Notional depn from DOA.

6) Written Down value.

i) Assets acquired during the PY:
WDV = Cost of asset.

ii) Assets acquired before the PY:

WDV = Cost of Asset	x
(-) Total depn allowed	(x)
WDV.	x

iii) Block of Assets.

↓

WDV =

i) WDV of block in immediately PPY	X
(-) Depn actually allowed in said PPY	(X)
OB as on 01/04 of RPY	X
+ Actual cost of assets acquired during RPY	X
	X
(-) money receivable → S/SD during RPY	X
WDV at the end of RPY [+ve]	X
Depn for RPY	X

v. Composite Income.

Eg: Business of Tea - grown & mfr [Rule 8].

↓

Income

↓ Agriculture 60%. | ↓ Business. 40%.

For calc of WDV of asset acquired before the PY, total amount of depreciation is computed as if the entire composite income is taxable as 'B/P'.

vi) WDV = Nil if

↓

Opening WDV	X	All the assets in the
+ Actual cost of assets acquired during PY	X	(or) relevant block are transferred during the RPY.
	X	

≤

Money Receivable = S/SD.

7) Carry forward & set off of depreciation.

↓

Total depn for RPY — X

(-) Profits/gains of B/P — (X)

Unabsorbed depn. — X

↓

clf for unlimited years.

P&M used for less than 180 days

↓

Additional depn in RPY @ 10%.

↓

OTR.

Bal 10% depn in next PY

↓

DTR.

↓

Not allowed & added back to the

Additional depn.

↓

clf for AY 2024-25

Assessee

↓

DTR.

↓

Additional depn clf from an earlier AY which has not been given full effect to prior to AY 2024-25 & which is not allowed to be set off in AY 2024-25.

↓

Increase the WDV.

Order of set-off:

↓

1) CY depn.

2) Brought forward business loss.

3) Unabsorbed depn.

Q. 3, 4

8) Building, machinery, P & furniture not exclusively used for business purpose

↓

Current repairs
Insurance
Depn

↓ ↓

Busines. → Allowed

Personal → Not allowed.

9. Balancing charge:

↓

Money payable on S/3D.	x
(-) Opening WDV	(x)
(-) Cost of asset acquired during the PY	(x)
Balancing charge	x

↓

Income under PGBP.

[Taxable in the PY in which money payable becomes due].

Balancing charge ≤ [Actual cost - WDV].

Expenditure on Scientific Research [Sec. 35]

Scientific Research (SR) = Activities for extension of knowledge in the fields of natural or applied science, animal husbandry, agri or fisheries.

Sec. 35.

↓ ↓

Exp on SR in relation to the business of the assessee (or) Contribution for
- SR
- Social science
- Statistical research.

I. Incurred by Assessee: [OTR & DTR]

i) Revenue exp: [Sec. 35(1)(i)]

↓

SR related to his business.

Deduction

↓

Year in which it was incurred.

Exp incurred within 3 years immediately commencement of the business.

↓

Year in which the business is commenced.

ii) Capital expenditure: [Sec. 35(1)(iv)]

incurred after commencement of business

↓

allowed fully in the PY in which it is incurred.

incurred prior to commencement of business

↓

Total exp incurred within 3 years immediately preceding the commencement of the business

↓

Allowed in the PY in which the business is commenced.

* Exp on land => Not allowed.
* Carry forward of unabsorbed capital exp.

↓

Unlimited years & Against any head of income other than salary

* No depn on the capital exp allowed as deduction u/s 35.

* Sale of asset representing exp of capital nature on scientific research [Sec. 41]

↓

Asset is sold without having been used for other purposes.

↓

SP
+ Deduction u/s. 35
− Amt of capital exp
Excess

or

Amt of deduction w.e is less.

↓

Business income of the PY in which sale took place.

II. Amount contributed or paid to: [OTR only]

i) Notified approved research association, university, college or other institution

↓ Research Association → Scientific Research.

↓ U. C or OI → for SR. Approved & Notified by Cg.

Sec. 35(1)(ii).

ii) Approved Indian company for SR: [Sec. 35(1)(iia)]

↓

Conditions:
- Co registered in India
- objective: SR.

iii) Approved notified research association, university, college or other institution

↓

Research in ⟨ Social Science / or / statistical research

↓

Approved & Notified by CG
[Sec. 35(1)(iii).

* Subsequent to payment of such sum by the assessee, the approval granted to any of the aforesaid entities is withdrawn

↓

Deduction allowed.

iv) Sum paid to National Laboratory etc.
[Sec. 35(2AA)].

↓,

for approved programmes of scientific research approved.

Q.5.

Sec. 35AD: "Investment-linked tax incentives" for specified businesses. [OTR only]

1) List of Specified Businesses:

- Setting up & operating (S&O) - cold chain facilities.
- S&O - warehouse for agri produce.
- Laying & operating cross country natural gas or crude or petroleum oil pipeline network.
- Building & operating: Hotel 2 star & above anywhere in India.
- B&O - Hospital in India - min 100 beds.

- Developing & building - [cg/sg]
  Housing Project [slum redevelopment/rehabilitation]
- Developing & building - [cg/sg]
  Housing Project [Affordable housing]
- Production of fertilizers in India.
- S&O - Inland container depot or
  Container Freight station.
- Bee-keeping & production of Honey & Beeswax.
- S&O - WH for sugar.
- L&O - pipeline for transport of iron ore.
- S&O - Semi conductor wafer fabrication mfr unit.
- Developing or
  Maintaining & operating or
  O, M & O
  } New infrastructure facility

2) Deduction for capital expenditure

↓

100% Deduction for cap exp incurred during the PY, w/e for above businesses.

↓

→ Exp on Land
  GW
  Financial instruments
  } not eligible

→ Any expenditure in respect of which total payment made to a person in a day > ₹10,000 otherwise than by - APC
  APD.
  ECS
  E-mode.

↓

not eligible for deduction.

3) Expenditure prior to commencement of operation:

↓

Allowed as deduction during the PY in which assessee commences operations.

Such exp should be capitalised in the books of accounts of the assessee on the date of commencement.

4) Conditions:

i) It should not be set up by < Splitting up / or / Reconstruction.

ii) It should not be set up by tfr to the specified business of P&M previously used.

↓

2nd hand P/M ≤ 20% of total P&M.

P&M not regarded as previously used if:

a) used outside India by any person other than the assessee.

b) such P&M was not used in India.

c) P&M was imported into Ind from foreign &

d) No deduction on a/c of depreciation in respect of such P&M has been allowed.

5. No deduction u/s 10AA or chapter VIA under the heading "C - Deductions in respect of certain incomes."

6. No deduction allowable under the act in respect of exp for which deduction allowed u/s 35AD.

↓

CY or Any other year.

9) Set off or carry forward & set off of loss from Specified business:

↓

Set off against the profit of another specified business u/s 73A, irrespective of whether the latter is eligible for deduction u/s 35AD

Q.6.

Q.7.

10) Other conditions:

1) Accounts for the PY have been audited by a CA & audit report in prescribed form.

2) Asset to be used for Specified business → 8 years beginning with the PY in which it is A/c.

3) i) Asset → S/ 3D.

Sum received / receivable = Business Income.

ii) Asset → used for any non-specified business during 8 years.

↓

Deduction u/s 35AD.	X
(-) Depn u/s 32	(X)
Business Income	X

↓

Actual cost:

Cost	X
- Notional depn u/s 32 from DOA.	(X)
	X

Q. 8.

Amortisation of Preliminary expenses [Sec. 35D]

1) Nature of exp:

↓

Preliminary exp incurred by Indian Co & other Resident non-corporate taxpayers

↓

Establishment of business — or — Expansion of the business

2) Applicable

↓

Indian Co or Resident non-corporate

↓

Exp incurred before commencement ↓ New business.

↓

Extension ↓ Exp incurred till the extension is completed.

3) Amount eligible for deduction:

↓

1/5 of such exp allowed as deduction for each of 5 successive PY beginning with PY in which business commences or extension is completed.

4) Eligible expenses:

↓

Exp

i) Feasibility report
ii) Project report.
iii) Market survey
iv) Engineering services.

↓

Statement of above required to be

↓

legal charges: Drafting ↓ agreement.

↓

Company

a) legal charges of drafting: MOA & AOA.
b) Printing
c) Registration fees.
d) Issue of S&D.

↓

Exp as may be prescribed by board.

furnished 1m prior to the due date of ROI.

5) overall limit:

Maximum total amount of Qualifying expense.

- Indian Co.
  - At the option of Co
    - 5% of Capital emp
      - or
    - 5% of Cost of Project.
      - w.e is higher.
      - or
      - Actual exp w.e is lower.
- others
  - 5% of Cost of Project.
    - or
    - Actual exp w.e is lower.

6) meanings:

Cost of Project.

- Commencement
  - Cost of Fixed Assets as per books as on last day of the PY in which the business commences.
- Extension
  - Cost of FA shown in the books as on last day of PY in which extension is complement.

Capital Employed

- New company.
- Extension

Issued S.C
+ Debentures
+ LTB.
↓
As on last day of PY in which business commences.

Issued SC
+ D.
+ LTB.
↓
As on last day of PY in which extension is completed.

7) Audit of Accounts:
↓
Deduction would be allowable only if accounts are audited by CA one month prior to the due date of furnishing the ROI. u/s 139(1).

8) No other deduction under any provisions of the Act.

Amortisation of exp incurred under voluntary retirement scheme [Sec. 35DDA]:

1) Nature of exp: Assesee who has incurred exp in any PY in the form of payment to any employee in connection with his voluntary retirement.

2) Deduction = 1/5 of the amount paid for the PY & balance in 4 equal installments in 4 immediately succeeding PY.

Other Deduction [Sec. 36]:

1) Insurance Premia paid:
Insurance policy → Risk / Damage / Destruction } of stock / Stores
↓
B/P.

2) Premia paid by employer for health insurance of employees.

↓

Mode of Payment: other than cash.

3) Bonus & Commission.

4) Interest on borrowed capital.

↓

capital borrowed for, B/P

↓ For acquisition of new asset

↓ Date on which capital was borrowed & till the date on which such asset was first put to use

↓ Not allowed.

↓ Int from date the asset is first put to use

↓ Allowed.

↓ For daily exp → Allowed.

5) Discount on Zero Coupon Bonds [ZCB].

↓

Discount = Maturity value − Issue Price.

Life of ZCB = Date of issue to date of maturity.

↓

Disallowed as deduction on pro rata basis.

6) Contribution to PF & other funds.

7) Employer's contribution to the account of the employee under a pension scheme u/s 80CCD.

↓

Max 14% of salary.

Salary = Basic
+ DA [Terms of emp]

8) Amount received by an assessee - employer as contribution from his employees towards their welfare fund

↓ First, treated as income.

↓ Deduction is allowed only if such amount is credited on or before the due date under the relevant Act.

Eg: EPF → 15th of next month.

9) Bad debts:

↓

Conditions

a) debt or loan should be in respect of a business.

b) Debt should have been taken into account in computing the income in the PY or PPY

or

Debt should represent money lent by the assessee in the ordinary course of his business.

Recovery of bad debts subsequently:

↓

Business income of PY in which it is recovered.

10) Expenses on family planning by a company.

↓

① Revenue expenses incurred by a company

for promoting family planning amongst its employees.

③ capital Exp
↓
Ded = 1/5 of such exp in 5 PYs.

c/f & set off the unabsorbed exp = Unabsorbed depn.

11) Deduction of Securities Transaction tax [STT]
↓
for taxable security transactions entered into in the course of business. [PGBP]
↑
12) Deduction for Commodities Transaction Tax (CTT).

Residuary Expenses [Sec. 37].

1) Revenue exp incurred for carrying on B/P/V.
Exp ✓
2) Losses X.
Reserves X.

2) Conditions:
a) Not covered u/s 30 to 36.
b) Incurred by the assessee during the PY.
c) Exp in respect of B/P.
d) Incurred after the business was set up.
e) Personal exp X.
f) w/E for the purpose of B/P.
g) capital exp X.
h) Purpose → offence or Prohibited by law. X.

3) Expenditure incurred on IPR := Business exp

4) Exp for any purpose < offence or prohibited by law = =

i) Offence under any law for the time being < in India or outside India

or

Prohibited by any law for the time being → ..

ii) Provide any benefit or perquisite (B/P) to a person & acceptance of such b or p by such person is in violation of law/rule/regulation.

iii) to compound an offence under any law.

iv) to settle proceeding initiated → Contravention of law
Eg: Freebies to medical practioner by Pharmaceutical

6. Disallowance of CSR expenditure:
CSR Exp = Application of income.

7. Advertisements in souvenirs of political parties:
↓
Disallowed.

Ineligible Deductions [Sec. 40]

1) Sec. 40(a)(i).

Interest, Royalty, FTS or other exp payable

↓ outside India (or) ↓ in India to a NR

↓ Non-Corporate or ↓ Foreign Company

on which TDS is applicable & such tax

↓ not deducted (or) ↓ after deduction, has not been paid on or before the due date of filing ROI u/s 139(1).

If

↓ Tax deducted in any subsequent year. or ↓ tax deducted in PY but paid after due date of filing ROI

↓ allowed as deduction in the PY in which such tax has been paid.

Assessee fails to deduct the tax but is not deemed to be assessee in default if payee:

i) Furnished ROI u/s 139(1).

ii) has taken such income in calculating his TI.

iii) has paid the tax due on income declared. & payee furnishes a certificate to this effect From an accountant.

↓

= Assessee has deducted tax & paid on the date on which ROI has been furnished by the payee.

↓ Such expenditure is disallowed in the RPY & ↓ allowed as deduction in the subsequent PY.

2) Sec. 40(a)(ia):

Any expense payable during the RPY to a resident on which TDS is applicable, if such tax

- not deducted or
- after deduction, not been paid on or before the due date of filing ROI u/s 139(1).

↓

30% of such exp is disallowed.

Q.9 Solve it after TDS chapter.

Q.10 "

3) Sec. 40(a)(ii):

↓

Rate or tax levied on profits on the basis of or in proportion to the PGBP.
Tax includes Surcharge & cess.

4) Sec. 40(a)(iii):

Salary

↓ ↓

payable outside India or to a NR

&

Tax has not been paid or deducted.

5) Sec. 40(a)(iv):

↓

Contribution to a PF or fund established by employer.

↓ ↓

Arrangement for TDS made → Allowed.

Arrangement for TDS not made → Not allowed.

6) Sec. 40(a)(v):

Tax paid on perquisites on behalf of employee is not deductible. [Non-monetary perquisites].

In case of Partnership firm or LLP, amount not deductible

↓

Sec. 40(b)

1) Remuneration to non-working partners.

Salary
Bonus
Commission
Remuneration.

} Non-working partner.

2) Remuneration to a working partner not authorised by deed.

3) Remuneration to a working partner or interest to a partner authorised by deed but relates to an earlier period.

4) Interest to any partner > 12% p.a.

↓

Int payment authorised by Deed.
Falling after the date of such deed.

5) Remuneration to working partners > Prescribed limit

↓

Authorised by P. deed.
to working partners
falling after date of such deed.

↓

Book Profit
First GL or Loss.

Max rem.
₹ 300000
or
90% of BP

} ↑

Balance BP — 60% of BP

Book Profit =

Profit as per P&L	x
+ Remuneration to Partners Debited in P&L	x
+ Interest paid to " "	x
− Interest allowable u/s 40(b)	(x)
	x

Q. 11.

1) Explanation to Sec. 40(b):

i) where an individual is partner in a firm in a representative capacity

↓

Interest paid by firm to such individual.

↓

Otherwise than as partner in a representative capacity

↓

Not considered for Sec. 40(b).

Int paid by the firm to the person so represented.

↓

As partner in representative capacity

↓

Sec. 40(b) Applicable.

2) where an individual is a partner in a firm otherwise than in representative capacity,

↓

Int received by such individual on behalf of or for the benefit of any other person

↓

Sec. 40(b) not applicable.

Q.12. Page 3.271.

Expenses or payment not deductible in certain circumstances. [Sec. 40A]

i) Payments to Relatives & Associates [Sec. 40A(2)].

↓

Assessee incurs any expenditure in respect of which a payment has been or is to be made to a Specified Person,

↓

so much of such exp as is considered to be excessive or unreasonable shall be disallowed by the A.O.

Factors to be considered

↓ FMV of g/s

↓ Legitimate needs of B/P

↓ Benefit derived or accruing.

Specified Person.

↓

Individual → 1) Relative of I.

2) Any person → B or P, if

- Individual has substantial interest in the B/P or
- Relative of I has substantial interest in the B/P.

Company. → ① Director of a Co.
Firm, HUF or AOP. Partner of the firm.
Member of the HUF or AOP
or any relative of such D, P or M.

② company assessee
↓
any individual who has substantial interest in the B/P of the company or any relative of such individual.

③ Any person who carries on a B/P
↓
in which the Co/ Firm/ HUF/ AOP/ D/P/M/ any relative of such D/P/M
↓
has substantial interest.

All Assessees. → ① A person who has substantial interest in the assessee's B/P.
↓

Co	Director
AOP	Member
Firm	Partner
HUF	

② other related persons of such persons, who has a substantial int in the assessee's business.
↓

① D. P. M + Relative.
② Co1 —Substantial int.→ Co2.
③ Co / Firm / AOP/HUF } of which he is D/P/M.

4) Any other D/P/M of such co/firm/AOP/HUF
5) Relative of such D/P/M.

Relative in relation to an Individual =
① Spouse ② Brol Sis
③ Lineal Ascendant or Descendent of that Individual.

Substantial Interest =

Company carrying B/P
↓
Person at any time during the PY, the beneficial owner of ES ≥ 20% of voting power.

Any other case
↓
Person at any time during the PY, beneficially entitled ≥ 20% of Profits of such B/P.

i) Payment in excess of ₹10000 made otherwise than through prescribed modes [Sec. 40A(3)]:

↓

Assessee incurs any expenditure, in respect of which total payments made to a person in a day otherwise than → APC
APD.
ECS
E mode.

exceeds ₹10,000

↓

Such exp shall not be allowed.

* Payments in excess of ₹10,000 made otherwise than through prescribed modes

↓

Deemed income of subsequent year, if exp is already allowed as deduction in any previous year on due basis.

* Increased limit of ₹35,000 applicable, where payment is made to transport operator for plying, hiring or leasing goods carriages.

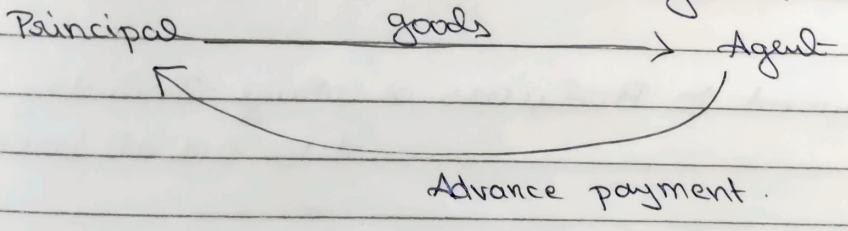
Cases where disallowance would not be attracted:

i) Loan transactions:

Advancing of loans
Repayment of Principal amt } ≠ Expense.

Int payment → Sec. 40A(3) applicable.

ii) Payment made by commission agents:



Cases & circumstances in which total payment > 10,000 may be made to a person in a day, otherwise than the prescribed modes

[Exceptions]

↓

a) Payment made to:

i) RBI or Bank.
ii) SBI.
iii) Cooperative bank.
v) LIC.
iv) Primary agri credit society (or) Primary credit society.

b) Payment to Government [Rules → legal tender]

c) Payment is made by
   i) Letter of Credit through bank.
   ii) mail or TT " "
   iii) Book adjustment " "
   iv) Bills of exchange payable to Bank.

d) Payment is made by adjusting liability to ascer

e) Payment made for purchase of -
   i) Agriculture or forest produce.
   ii) Animal husbandry
   iii) Fish or Fish Products. [Fishermen & Headmen]
   iv) Horticulture or Apiculture.
   ↳ Beekeeping.

Horticulture
↓
Growing plants
↓ ↓ ↓
Consumption Medical Show.
↓
to cultivator, grower or producer

f. Payment to Producers → Cottage Industry
   + No aid of Power.

g. Payment is made in a village or town
   on date of payment is not served by any bank

h. Employer — Retirement / ~~Retrenchment~~ / Death → Employee or heir
↓
Gratuity
Compensation or
Terminal benefits
↓

Total payments ≤ 50000.

i) Payment of salary to employee after TDS & when such employee

- Temporarily posted for continous period ≥ 15 days
  - Place other than normal place of duty
  - or on a ship
- & No a/c in any bank @ such place.

ii) Authorised Dealer Money changer ← Foreign currency or Travelers cheques ← Customer

Customer → Cash → Authorised Dealer Money changer

iii) Disallowance of Provision for gratuity [Sec. 40A(7)]

Provision for Gratuity

↓

Not allowed

Exception

↓

Provision is made

- Payment of sum by way of contribution to an approved gratuity fund during the PY
- (or) Payment of gratuity that has become payable during the PY
  - ↓
  - Retirement
  - Death or
  - Termination.

where the provision is allowed in any PY & any sum is paid out of such provision shall not be allowed as deduction in the year of payment.

iv) Contribution by employers to funds, trust etc. [Sec. 40A(9)]:

RPF, ASF, Pension scheme u/s 80CCD. → Gratuity Fund.

Q. 13.

Profits chargeable to tax [Sec. 41].

i) Remission or Cessation of trading liability [Sec. 41(1)]

↓

Allowance or deduction has been made in any AY in respect of → loss / Exp / Trading lia.

+

Subsequently assessee obtained any amount ⇒ Loss/exp or remission/cessation of trading liability

↓

Taxed as Business Income of the PY.

If Business is succeded by another person

↓

the remission/cessation is taxable to Successor.

Successor =

Situation	Successor.
1) Amalgamation	Amalgamated company
2) Demerger.	Resulting Co.

Remission or cessation of trading liability

↓

includes unilateral act of assessee by w/off such liability in his accounts.

Balancing charge u/s 41(2)

Asset acquired for Scientific research u/s 41(3)

Recovery of bad debts u/s 41(3).

Brought forward losses of defunct business [Sec. 41(5)]:

↓

where a receipt is deemed to be profit of a business u/s 41 relating to a business that had ceased to exist

&

there is unabsorbed depreciation/loss of the business (not speculation loss)

↓

It would be set off against income u/s 41 [(even after expiry of 8 years)

Changes in the rate of exchange of currency [Sec. 43A]:

① Assessee acquired any asset from foreign country for BIP.

② Due to Δ in the exchange rate of the two currencies.

↓

Increase or Decrease in liability (₹)

↓

at the time of making payment

↓ towards cost of asset

or

↓ Repayment of money borrowed in foreign currency

↓

Following values may be changed accordingly:

i) Cost of Asset u/s 43(1)

ii) Capital exp on Scientific research u/s 35

iii) Capital exp by a company for promoting family planning amongst its employees u/s 36.

iv) Cost of acquisition of non-depreciable assets.

2) Assessee ← Contract → Authorised Dealer

for providing him with

- Specified sum in foreign currency.
- on or after stipulated future date.
- at the rate of exchange specified in the contract

↓

for adjusted: calc w.r.t rate of exchange specified in the contract.

Certain deductions to be made only on actual payments [Sec. 43B]

↓

1) tax, duty, cess or fee

2) Employer's cont to RPF, ASF, gF or OF

3) Bonus or commission to employees.

4) Interest on loan or borrowing from

- Public Financial Institution
- State Finance Corporation
- State Industrial Investment Corporation.

5) Employer — Leave encashment → Employee

6) Amt payable to Indian Railways for use of Railway assets

For claiming deduction of the above in the PY in which the exp is incurred, the above sums have to be paid by assessee on or before the due date of ROI u/s 139(1)

+

Evidence of Payment → ROI.

7) Int on loan or borrowing from
- Scheduled bank
- Co operative bank.
other than Primary Agri Credit Society.
Primary Co op agri & rural development B

* Conversion of interest into a loan or borrowing

↓

Interest so converted ≠ Paid
Deduction will be allowed in the PY in which the converted loan is actually paid.

Q 14 Page 3.285

RPF, ASF, GF or OF for welfare of employees

↓ Employer's cont → on or before the due date of filing ROI u/s 139(1)

↓ Employee's cont → on or before the due date mentioned under the relevant Act, rules etc.

Sec. 43B(h): Any sum payable by an assessee to a micro or small enterprise beyond the time limit specified u/s 15 of MSME Development Act, 2006.

↓

allowed as deduction only in that PY in which such sum is actually paid.

Sec. 15 of MSME D Act, 2006.

↓

Mandates payment to suppliers of g/s being micro or small enterprises by the buyer on or before due date

↓

Written Agreement	No written agreement
↓	↓
can not be more than 45 days from the date of acceptance of the goods.	Before the appointed date [within 15 days].

↓

If sum payable is paid as per above time limits, the deduction can be allowed on accrual basis if mercantile system of a/c is followed.

&

If sum payable is not paid as per above time limits, the deduction will be allowed in the PY in which it is actually paid.

Micro & Small Enterprise =

↓

Manufacturing enterprise &

Enterprise rendering services.

↓

Micro.

↓

P&M ≤ 1 crore

&

T/O ≤ 5 crore.

Small

↓

P & M ≤ 10 crore

&

T/O ≤ 50 crore

SDV of L & B to be taken as the full value of consideration in respect of Transfer, even if same is held as stock in trade by the Transferor [Sec. 43CA].

↓

i) L & B held as stock in trade.

is sold

↓

~~No consideration~~

SDV ≤ 110% of Consideration.

↓

SP = Consideration.

SDV > 110% of Consideration

↓

SP = SDV.

ii) Date of Agreement

≠

Date of Registration.

↓

SDV Date = ?

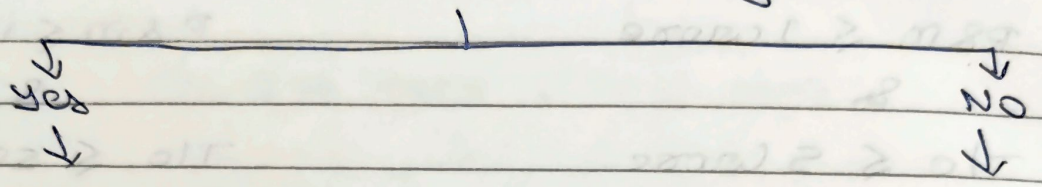
↓

↓

↓

Part of Consideration has been received by way of
- APC
- APD.
- ECS
- E mode

on or before date of agreement.



iii) AO — Valuation of Asset → VO

a) Assessee claims before the AO that
SDV > FMV
&
b) SDV has not been disputed in any other appeal or revision or HC.

iv) VO > SDV → SDV.
VO < SDV → VO.

Compulsory maintenance of accounts [Sec. 44AA]

1) Notified Professionals: [Sec. 44AA(1)]

↓

Legal
medical
Engg.
Architectural
Accountancy
Technical consultancy
Interior decoration
other prof notified by CBDT.

↓

maintain such books of acc & records.
Enable the AO to calc TI.

Notified Prof

↓

Authorised Representative.
Film Artists – Actor
Cameraman.
Director
Music Director
Editor
Singer.
lyricist.
Story writer.
Dialogue "
Dress Designer.

CS
Information technology professionals.

Prescribed books of accounts & other documents — CBDT

↓

CBDT has been authorised.
Having regard to the nature of B/P.
to prescribe by rules the - B & D.
- Particulars
- Form & manner
- place.

Rules pertaining to maintenance of B & D. [Rule 6F]

↓

Prescribed class of persons (Notified professionals)

↓

if Gross receipts > 150,000 in all 3 PPY

or.

Newly setup in the PY,
gross receipts likely > 150 000 in that year.

↓

Prescribed books of accounts.

i) CB
ii) Journal
iii) Ledger.
iv) Carbon copies of bills & receipts
Serially numbered, Sum > ₹25.
v) Original bills & receipts for exp incurred.

+

vi) Medical Profession:

↓

Daily case register.
Inventory: drugs, medicines, other consumable accessories

Opy & close ↓ PY.

Place → B & D are kept & maintained.

↓

place of BIP

↓ Single

Such place of BIP

↓ more than one

@ Principal place of business.

or

Separate books & doc at respective places.

Period →

↓ Min 6 years from the end of RAY.

Q. 15 [Page 3.295.]

2) Business & other than notified [Sec. 44AA(2)]

↓ Individual

HUF.