

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 [e.g. B.]

Eg: Painter.

Sculptor

Author

Auditor

Lawyer.

Doctor.

Architect

Astrologer.

Profit:

i) In cash or in kind.



Cash equivalent of the receipt on the
date of receipt.

ii) Capital receipts $\neq$ 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 $\Rightarrow$ taxable.

Method of Accounting [Sec. 145(1)]

↓
Pg BP
OS
↓
Cash or mercantile system of
accounting regularly employed
by the assessee.

↓
Salary
HP.
CG
↓
~~As per~~
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.

at or in connection with the
↓
termination of agency or modification of T&C.

d) Any person → Business Contract.

↓ ↓

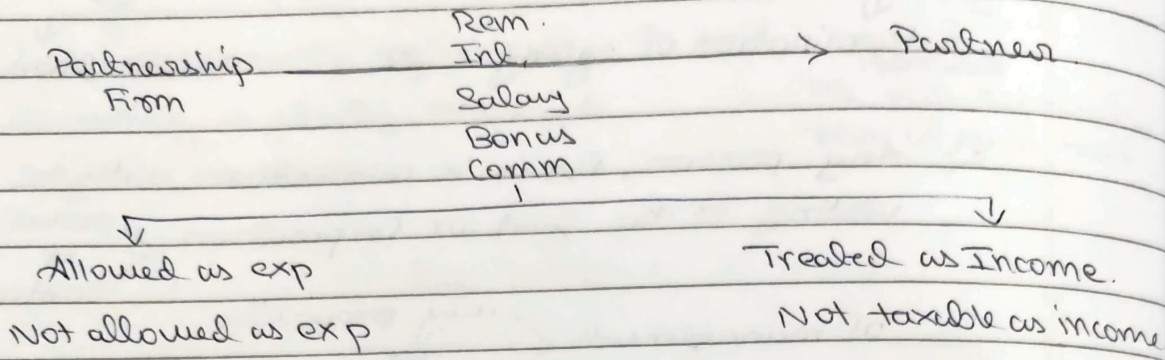
Termination or modification

Trade Specific Service → members
Profession ~~market~~
Similar associations

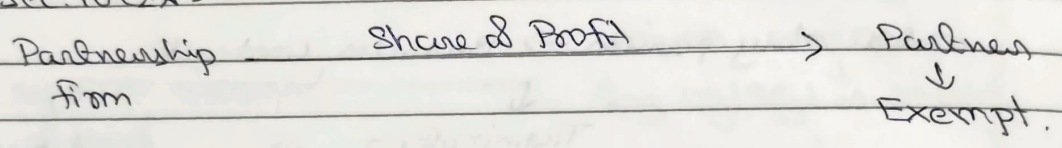
- a) Profit on sale of import entitlement.
- b) Cash assistance against exports.
- c) Customs duty / excise drawback.
- d) Profit on sale of duty entitlement Passbook.

v. Value of any benefit or Perquisite.

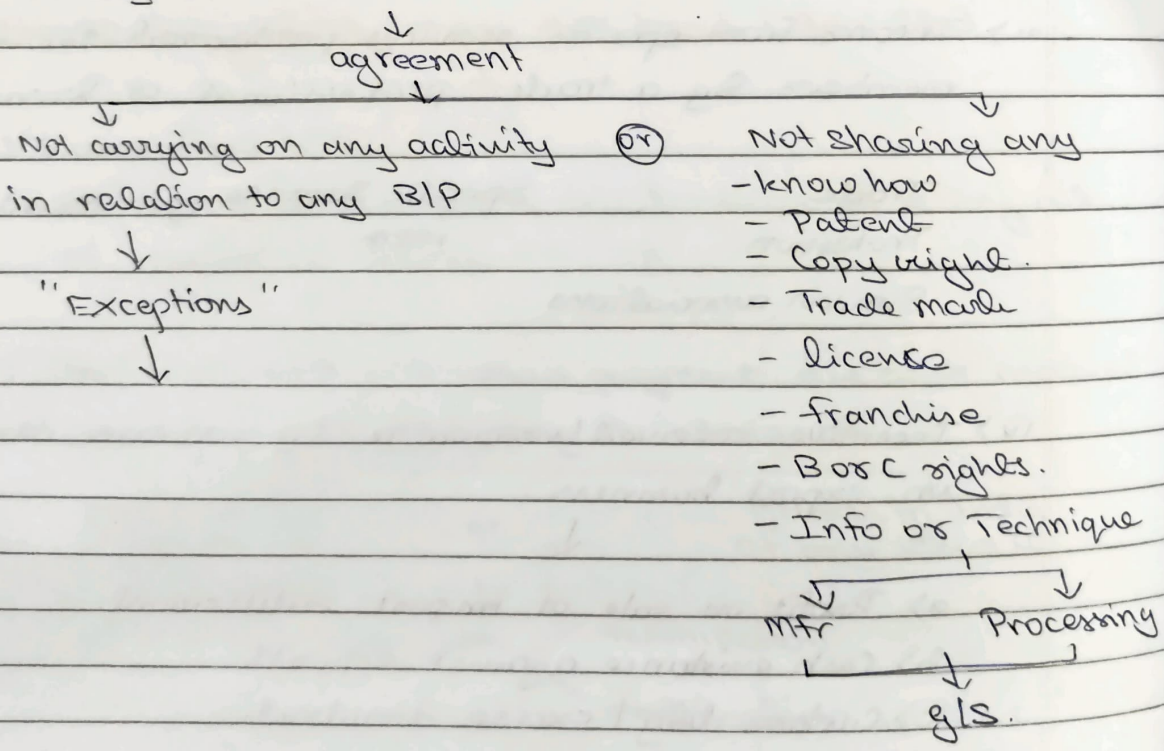
vi. Sum due to, or receivable by, a partner of a firm:



Sec. 10(2A)



vii. Any sum received or receivable



i> Any sum received or receivable



Tfr of right to manufacture, produce or process → AIT
or

Right to carry on any B/P

Taxable ↓ under reg.

ii> Sum received as compensation under UNEP.

vii> 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]

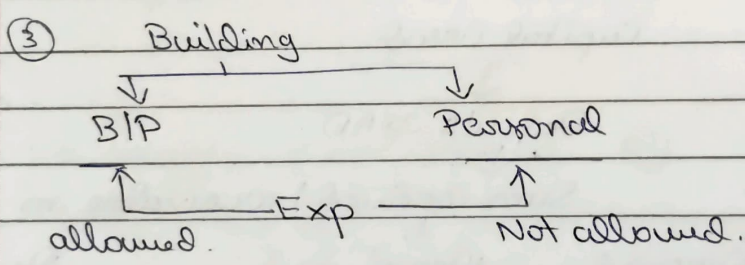


- ① Admissible expenses [Sec. 30-37]
- ② Inadmissible " [Sec. 40]
- ③ Excess Payment not deductible in certain circumstances [Sec. 40(A)]
- ④ Profits chargeable to tax [Sec. 41]
- ⑤ Others.

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

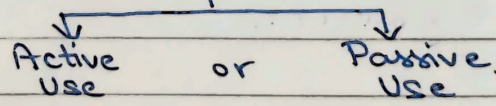


- | | |
|---|--|
| ① Building
↓
Used by assessee
for B/P. | ② Rent
Rates & Taxes
Revenue Repairs
Insurance. |
|---|--|



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

- Assets must have been used for assessee's own B/P.



- Repairs ≠ Replacement / Reconstruction.
- Current repairs only. ✓
- Current repairs of capital nature X.

Standby P&M
 Fire Extinguishers.

Depreciation [Sec. 32]

1) change 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.

Knowhow,

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



Trees Bushes.

Livestock

Human

Stock in trade.

Building = Roads

Bridges.

Culverts.

Wells

Tubewells.

b) Assets should be used for B/P

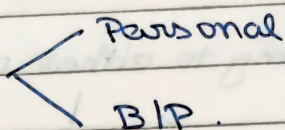


• Asset must be put to use any time during the PY.

• Asset acquired during the PY & put to use < 180 days.



$$\text{Depn} = \text{Allowable Depn} \times 50\%$$

• If asset is used 

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. [e.g. or e.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 within 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)(iii)]

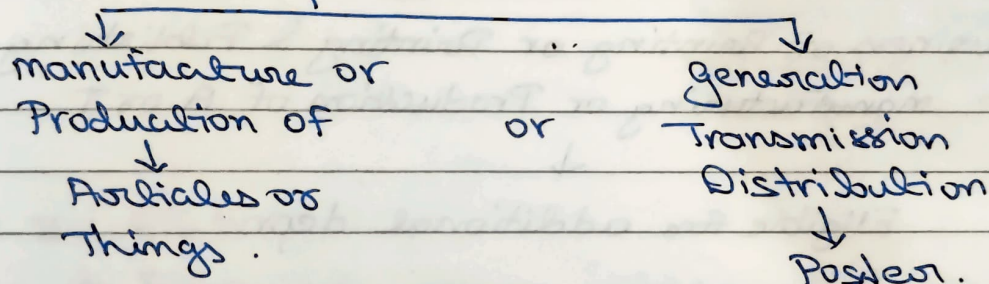


→ OTR.

→ New P & M (≠ ship & Aircrafts)

→ acquired & installed

→ Business,



→ 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 ci) above]



if any asset is $\left\{ \begin{array}{l} S \\ 3D. \end{array} \right\}$ 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

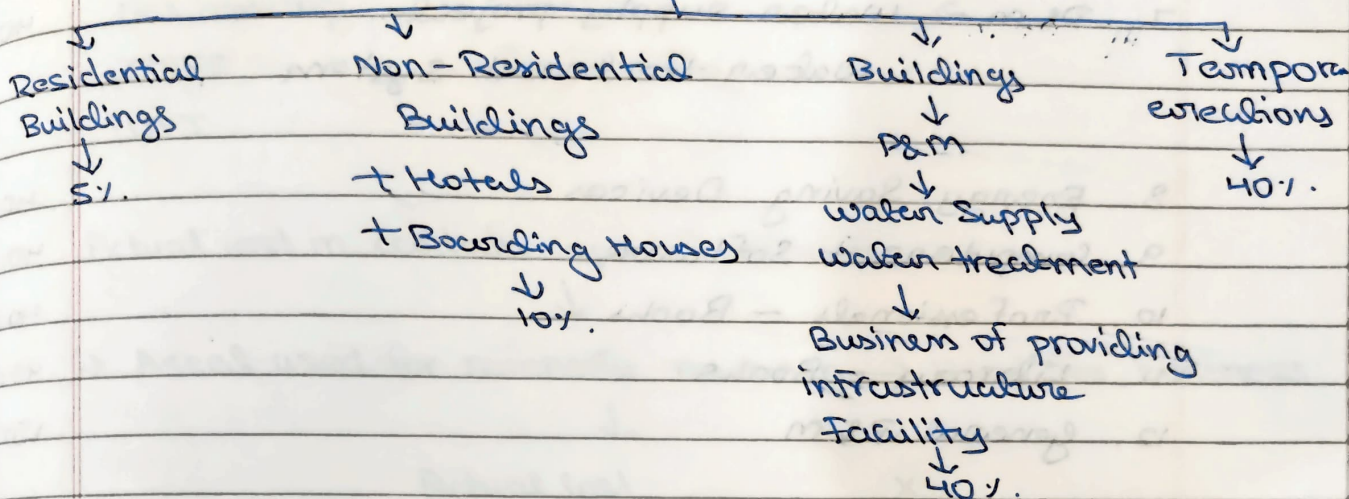


↓
Insurance
Salvage
Compensation

↓
Selling Price.

4) Rate of depreciation:

~~Block~~ I: Building.



~~Block~~ II: F&F

+ Electrical Fittings [wiring, switches, fans etc]

↓
10%.

~~Block~~ III: P&M.

1) motor cars

↓
Not running them
on hire

↓
Acq. b/w
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
↓
15%.

↓
Motor Bus, Lorries, taxis
Running on hire.

↓
Acq. b/w
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) =

$$\begin{array}{r}
 \text{Cost of asset} \quad \quad \quad \times \\
 (-) \text{ Cost met by any other person} \quad \quad \quad (X) \\
 \hline
 \quad \quad \quad \times
 \end{array}$$

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 form 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	<u>(X)</u>
	<u>X</u>

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



Actual cost = FMV as on date of its conversion.

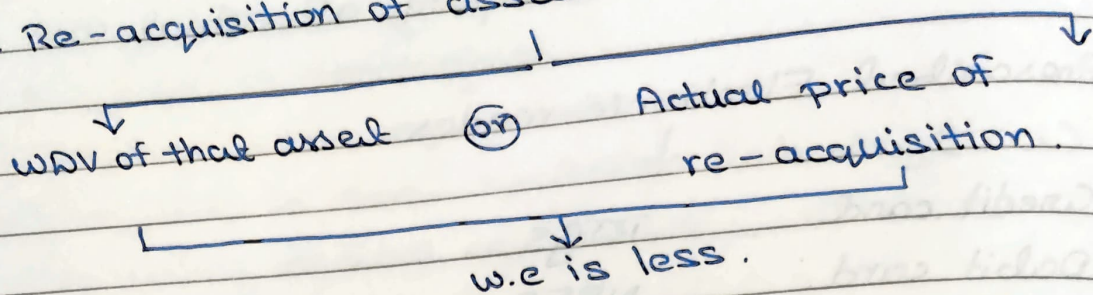
iii) Asset is acquired by way of gift or inheritance:



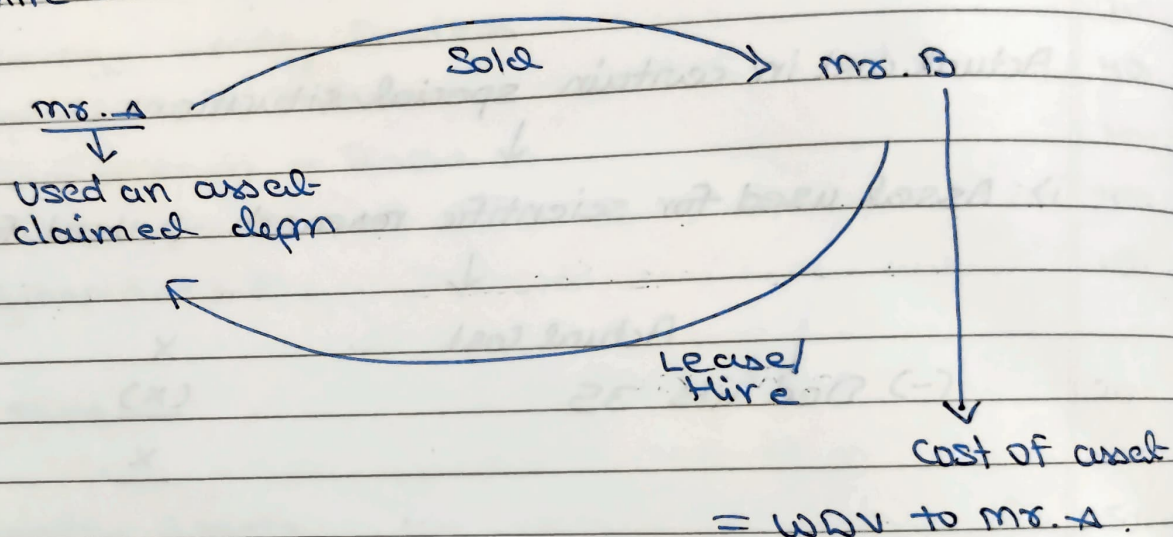
Actual cost to the previous owner
(-) Depn allowable to the assessee.

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

v. Re-acquisition of asset:



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 BIP is now used for BIP.

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 → eg, eg,
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 depn from DOA.

xii. Asset → Ded u/s 35AD

Cost = Nil. if

↓
1) Assessee himself has claimed ded u/s 35AD
or

2) Previous owner has claimed ded u/s 35AD & asset is acquired by way of

↓
a) gift, will or irrevocable trust.

b) distribution on liquidation of a company.

c. HUF → member.
Partial / Complete
partition of HUF.

d. H co $\xrightarrow{\quad}$ 100% S co
(Indian co).

e. S co $\xrightarrow{\quad}$ 100% H co.
(Indian co).

f. Amalgamating Co $\xrightarrow{\quad}$ Amalgamated Co
(Indian co).

g. Demerged Co $\xrightarrow{\quad}$ Resulting Co
(Indian co).

h. From Succession $\rightarrow$ Company.

AOP $\xrightarrow{\quad}$ Company
BoI Corporationisation of
RSE.

i) Sole proprietor $\xrightarrow{\text{Succession.}}$ Company

j) Private Co $\xrightarrow{\text{Conversion.}}$ LLP.
Unlisted Public Co

IF Ded u/s 35AD $\rightarrow$ Deemed income



Cost of Asset = Cost
($\rightarrow$) Notional depn from DDA.

6) Written Down value.

i) Assets acquired during the PY:

WDV = Cost of asset.

ii) Assets acquired before the PY:

WDV = Cost of Asset $\times$

($\rightarrow$) Total depn allowed $(\times)$

WDV. $\times$

iii> Block of Assets.

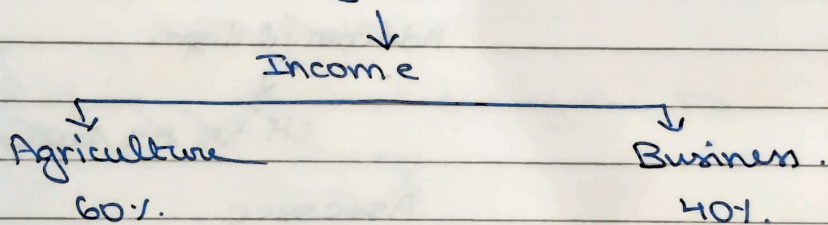


WDV =

→ WDV of block in immediately PPy	X
(-) Depn actually allowed in said PPy	(X)
O/B as on 01/04 of RPy	X
+ Actual cost of assets acquired during RPy	X
(-) Money receivable → S/3D 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].



For calc of WDV of asset acquired before the PPy, total amount of depreciation is computed as if the entire composite income is taxable as 'BIP'.

vi> WDV = Nil if

↓	↓
Opening WDV	X
+ Actual cost of assets acquired during PPy	X
	X
	X

(or) All the assets in the relevant block are transferred during the RPy.

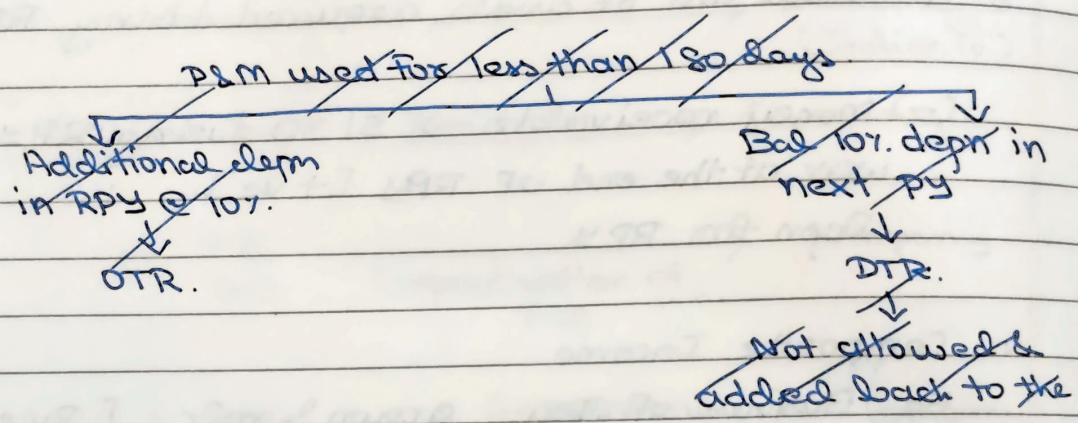


Money Receivable = S/3D.

7) Carry forward & set off of depreciation.

Total depn for RPY	X
(-) Profits/gains of BIP	(X)
Unabsorbed depn.	<u>X</u>

↓
clf for unlimited years.



~~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.

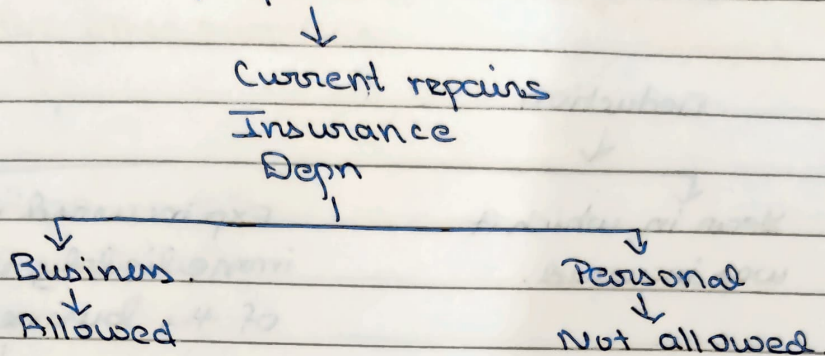
↓
Increase the WDV.

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



9) Balancing charge:

↓

Money payable on S/30.	x
(-) Opening wdv	(x)
(-) Cost of asset acquired during the PY	(x)
Balancing charge	<u>x</u>

↓

Income under PGBP.

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

Balancing charge $\leq$ [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.

↓

Expon SR in relation to the business of the assessee

(or) Contribution for

- SR
- Social science
- Statistical research.

I. Incurred by Assessee: [ETR & 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 reg.

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 $\begin{cases} \text{Social Science} \\ \text{or} \\ \text{Statistical research} \end{cases}$

↓
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(2A)].

↓

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 $\leq$ 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 or alc 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 RPY 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/30.

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.	<u>X</u>



Actual cost:

Cost	X
- Notional Depn u/s 32	(X)
From DOA.	<u>X</u>

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 of 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 3m
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 139C(1).

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

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

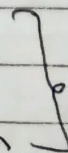
1) Nature of exp: Assessee who has incurred exp in any
PY in the form of payment to any employee in
connection with his voluntary retirement.

2) Deduction = $\frac{1}{5}$ of the amount paid for the PY &
balance in 4 equal installments in 4 immediately
succeeding PY.

Other Deduction [Sec. 36]:

1) Insurance Premium paid:

Insurance policy → Risk
Damage
Destruction



of stock / Stores
↓
B/P.

- 2) Premium 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 BIP



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.



For daily exp



Int from date the asset is first put to use



Allowed.

- 5) Discount on Zero Coupon Bonds [ZCB].



Discount = Maturity value - Issue Price.

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



Dis allowed 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

② Capital Exp



Ded = 1/5 of such exp in 5 Yrs.

clf & set off the unabsorbed exp = Unabsorbed depn

117 Deduction of Securities Transaction Tax [STT]



for taxable security transactions entered into in the course of business. [PgBP]



127 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 KIP := Business exp

4) Exp for any purpose $\left\{ \begin{array}{l} \text{offence} \\ \text{or} \\ \text{prohibited by law} \end{array} \right. =$

i) offence under any law for the time being $\left\{ \begin{array}{l} \text{in India} \\ \text{or} \\ \text{outside India} \end{array} \right.$

or
Prohibited by any law for the time being $\rightarrow$ "

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 $\rightarrow$ Contravention of law
Eg: Fines to medical practitioner by Pharmaceutical

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

7. Advertisements in souvenirs of political parties:
 $\downarrow$
Disallowed.

Ineligible Deductions [Sec. 40]

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

Interest, Royalty, FTS or other exp payable

$\downarrow$
outside India

(or)

$\downarrow$
in India to a NR

$\downarrow$
Non-Corporate

or

$\downarrow$
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 139C.

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 139C.

ii) has taken such income in calculating his TI

iii) has paid the tax due on income declared & payer 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): during the RPY.

Any expense payable 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.

República de Chile

11

↓

Tax includes Surcharge & cess.

5

or

8

2

↓

1

7

7

✓

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)
	<u>x</u>

Q. 11.

1) Explanation to Sec. 40(b):

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
gls

↓

Legitimate needs
of BIP

↓

Benefit derived
or accruing.

Specified Person

↓

Individual → 1) Relative of I.

2) Any person → B or P, if

- Individual has substantial interest in the BIP or
- Relative of I has substantial interest in the BIP.

Company, Firm, HUF or AOP → ① Director of a Co.
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 BIP of the company or any relative of such individual.

③ Any person who carries on a BIP



in which the Co / Firm / HUF / AOP / D / P / M / any relative of such D / P / M



has substantial interest.

All Assessee → ① A person who has substantial interest in the assessee's BIP.



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 → Co2
int.

③ Co
Firm
AOP/HUF } of which he is D/P/M.

* 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 operators 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:

Principal ——— goods ———→ Agent



Advance payment.

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.

iv) 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 creditor.

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.

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 $\leq$ 50,000

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

Temporarily posted for continuous period $\geq$ 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

Cash

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 succeeded 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 lia
↓

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 B/P

② Due to Δ in the exchange

& rate of the two currencies,

↓
Increase or Decrease in liability (2)

↓
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 $\xleftarrow{\text{Contract}}$ $\xrightarrow{\text{Authorised Dealer}}$

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 $\xrightarrow{\text{Leave encashment}}$ Employee
- 6) Amt payable to Indian Railways for use of Railway assets

For claiming deduction of the above in the RPY 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 139C(1)

+

Evidence of Payment $\rightarrow$ ROI.

$\rightarrow$ 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

$\downarrow$

Interest so converted $\neq$ 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

$\downarrow$
Employer's Cont

$\downarrow$
on or before the due date
of filing ROI u/s 139C(1)

$\downarrow$
Employee's Cont

$\downarrow$
on or before the due date
mentioned under the
relevant Act, rules etc.

Date _____
Page _____

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

↓

can not be more than 45 days
from the date of acceptance
of the goods.

↓

No written agreement

↓

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 ac 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 $\leq$ 1 crore

&

T/O $\leq$ 5 crore.

Small ↓



P & M $\leq$ 10 crore

&

T/O $\leq$ 50 crore

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



i) L & B held as stock in trade.
is sold



~~Not consideration~~

SDV $\leq$ 110% of
Consideration.



SP = Consideration.



SDV $>$ 110% of
Consideration

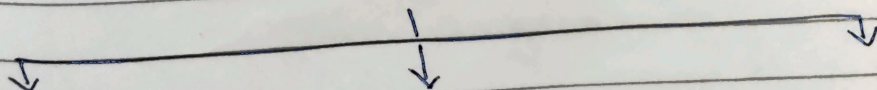


SP = SDV.

ii) Date of Agreement
 $\neq$

Date of Registration.

SDV Date = ?



Part of Consideration has
been received by way of

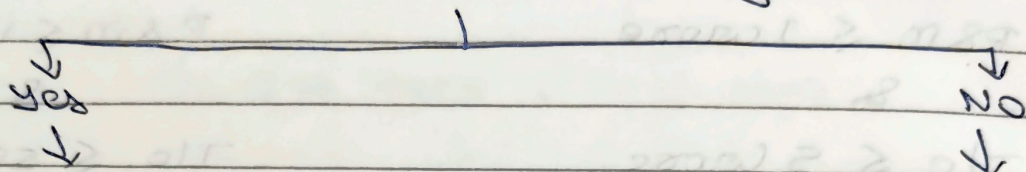
- APC

- APD

- ECS

- E mode

on or before date of agreement.



SDV as on DDA.

SDV as on DOR

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) $VO > SDV \rightarrow SDV$
 $VO < SDV \rightarrow VO$

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 has been authorised.

Having regard to the nature of BIP
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 > 1,50,000 in all 3 PY
or.

Newly setup in the PY,

gross receipts likely > 1,50,000 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 & Q are kept & maintained.

↓
place of BIP

↓
Single

↓
Such place of BIP

↓

more than one

① 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. 44A(2)]

↓

Individual

HUF.

Place $\rightarrow$ B & D are kept & maintained.

$\downarrow$
place of BIP

$\downarrow$
Single

$\downarrow$
Such place of BIP

$\downarrow$
more than one

$\downarrow$
@ Principal place of business.

or

Separate books & doc
at respective places.

Period $\rightarrow$

$\downarrow$

min 6 years from the
end of RAY.

$\downarrow$

Q. 15 [Page 3.295.]

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

$\downarrow$
I. Individual

HUF

$\downarrow$

i) Existing Business / Prof:

Income $>$ 250,000

or

Tlo $>$ 25,00,000

$\downarrow$

in any one of 3 PPy.

$\downarrow$
II. Other than I & HUF

$\downarrow$

i) Existing BIP:

Income $>$ 120,000

or

Tlo $>$ 10,00,000

in any one of the 3 PPy.

ii) Newly Setup BIP in PPy:

Likely income $>$ 120,000

or

Likely Tlo $>$ 10,00,000

in the RPy.

ii) Newly setup BOP in PPy:

Likely income $>$ 250,000

or Likely Tlo $>$ 25,00,000

in RPy.



must maintain such B & D as may enable the AO to calculate the TI

III. Showing lower income as compared to income computed on presumptive basis u/s 44AE.

IV. Assessee not declared profits in any PY u/s 44AD(1) & his ~~BEL~~ Income > BEL



5 A.Ys subsequent to the AY relevant to the PY in which the profit not declared in accordance with Sec. 44AD(1)

2. Penalty for failure to maintain the books & Retain



₹. 25,000.

Audit of Accounts of certain persons carrying B/P
[Sec. 44AB]:

i) Requirement of tax audit:

Person

Condition

1. Business:

Total Tlo > 1 cr in RPY

a) Business.

Note: 44AB does not apply when 44AD is applicable.

IF

i) total cash receipts

Total Tlo > 10 cr in RPY.

≤ 5% of total receipts

&

total cash payments

≤ 5% of total payments

Note: Payment or receipts in cheque / draft $\neq$ A/c payee
↓
= cash.

Q7 Assessee covered u/s 44AE

Actual profits < Presumptive Profit
u/s 44AE.

Q Eligible assessee

T10 $\leq$ 200L

&

Eligible Assessee
Cash receipts $\leq$ 5% T10.

T10 $\leq$ 300L

who has opted for Sec. 44AD
in any earlier PY.

& who opted for Sec. 44AD
in any earlier PY

↓

↓

If he declares profit for any 5 successive PY not
in accordance with 44AD, then he cannot opt for 44AD
for 5 successive PYs after the year of such default.

↓

Year of default + 5 Successive PY

↓

Books of Acc u/s 44AA

Audit u/s 44AB

↓

if Income > BEL.

11. Profession:

a) Profession:

If gross receipts > 50L in RPY.

Note: If Sec 44ADA $\rightarrow$ No Sec. 44AB.

b) Notified Profession

Income $\leq$ Sec. 44ADA.

u/s 44AA C12.

&

Income > BEL.

↓

Gross receipt $\leq$ 50L

or

Notified Profession

↓

$$\frac{\text{Total cash receipts}}{\text{S.L. of total gross receipts}} \leq$$

or

$$\text{Gross receipts} \leq 75\%$$

iii) Audit Report : Forms 3CA / 3CB / 3CD.

iii) Accounts audited under other statutes are considered [Before the specified date]

↓

Eg: Audit of Companies.

iv) Specified date

↓

Date one month prior to the due date for furnishing the returns u/s 139CD.

v. Penalty for failure to get books of accounts audited.

↓

a) 112% of $\left\{ \begin{array}{l} \text{total sales/turnover} = B \\ \text{or} \\ \text{Gross receipts} = P \end{array} \right\}$ in RPY

or

b) ₹ 150,000

↓

w.e is less.

classmate
Date _____
Page _____

Special provisions for calculating PGBP on presumptive basis.

Sec. 44AD.

① Applicability:

- Resident I, HUF, Firm (≠ LLP)
- who has not claimed ded u/s 10A or chapter VIA under "C - Ded in respect of certain incomes".

② Not applicable to:

- Profession
- Agent: Commission/Brokerage.
- Agency business.

③ Conditions:

Total Tlo in the PY $\leq$ 200L.

&

where ^{Total} cash receipt $\leq$ 5% of total turnover.

Total Tlo in the PY $\leq$ 300L.

Note: Cheque/Draft $\rightarrow$ Not Alc payee = cash.

④ Presumptive Income =

↓

- 8% of cash turnover
- 6% of bank turnover [APC, APD, ECS, Emode] during the PY or before due date u/s 139C(1) in respect of that PY

⑤ Not allowable expenses:

↓

Deduction u/s 30 to 38.

In case of Firm



Salary & Int not deductible.

WDV = Cost - Notional depn.

6) Maintenance of books of acc u/s 44AA &

Audit u/s 44AB



• Profit u/s 44AD → 44AA X

• Declaring profit u/s 44AD

for any AY



Not declaration of profit u/s 44AD

for any of the 5 successive AYs thereafter



Disentitle the assessee from Sec. 44AD for 5 successive AYs subsequent to the RAY.



Sec. 44AA Book ✓

Sec. 44AB Audit if Income > BEL.

7) Advance tax → 15th March of the FY

Sec. 44ADA

① Eligible Assessee:
 Resident Individual

From (≠ LLP)

Profession u/s 44AA (1)
 whose gross receipts $\leq$ 50L in RPY.

where cash receipts $\leq$ 5% of total gross receipts.

Gross receipts $\leq$ 75L in RPY.

Note: Cheque / Draft $\rightarrow$ Not Alc payee = Cash

2) Presumptive Income =

50% of Gross receipts of such profession.

3) Not allowable expenses = Same as Sec. 44AD.

4) Sec. 44AA & 44AB.

Income as per Sec. 44ADA $\rightarrow$ 44AA & 44AB X.

Income $<$ Income as per Sec. 44ADA

Books u/s 44AA ✓ &

Audit u/s 44AB if Income $>$ BEI

Sec. 44AE.

Assessee owning ≤ 10 goods carriage any time during the PY

Business of $\left. \begin{array}{l} \text{Leasing} \\ \text{plying} \\ \text{Hiring} \end{array} \right\}$ goods carriage.

3) Presumptive Income =

Each HGV = ₹1000 per ton of gross vehicle weight for every month or part of a month.

Each N-HGV = ₹7500 p.m or part of a month.



during which such vehicle is owned by the assessee.

4) Non-allowability of deductions:



Sec. 30 to 38.

In case of firm -



Salary & int paid to partners is deductible.

5) Books u/s 44AA & Audit u/s 44AB:

Profits as per Sec. 44AE → 44AA & 44AB X.

Profits not as per Sec. 44AE → " ✓.

HGV = $\frac{\text{Gross Vehicle weight}}{\text{weight}} > 12000 \text{ kg.}$