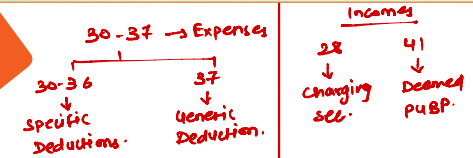


PROFITS AND GAINS FROM BUSINESS AND PROFESSION (PGBP)



Section 28: Charging Section Following income shall be taxable under the head PGBP.

- Any profit or gain of any **Business/Profession**
- Profit on sale of **import entitlement licence**.
- Cash compensatory support** or duty drawback.
- Profit on **sale of DEPB** (duty entitlement pass book scheme] or **Duty Free Replenishment certification (DFRC)**
- Any amount received under **Keyman insurance policy**
- Any **gift/benefit/perquisite** arising due to business or profession.
- Any **interest, salary, bonus commission** received by partner from partnership firm
- Non-compete Fees** [not carrying out any activity in relation to any business or profession or not sharing any know-how, patent, copyright, trade mark etc.)
- Income derived by a **trade, professional or similar association** from specific service perform for its member.
- FMV of SIT** as on the date on which it is converted into Capital asset.
- Any compensation or other payment due to or received by, any person, at or in connection with the **termination or modification of the terms and conditions** of any contract relating to his business.

Section 29: How to compute PGBP

PGBP are to be computed in accordance with the provisions contained in **sections 30 to 43D**

Section 30 : Rent , Rates, Taxes, Repairs & Insurance of Building

	Rent	Rates & taxes	Insurance	Revenue repair	Cap repair
Owner	Not Allowed	Allowed	Allowed	Allowed	Not Allowed
Tenant	Allowed	Allowed	Allowed	Allowed	Not Allowed

Note- If tenant spends on capital repair – he will not get the deduction of depreciation as he is not the owner of the asset. It will be deemed building and depreciation **CAN BE CLAIMED** on that

Section 31 : Insurance and repairs of Plant and Machinery

	Rent	Insurance	Revenue repair	Cap repair
Owner	Not Allowed	Allowed	Allowed	Not Allowed
Tenant	Allowed	Allowed	Allowed	Not Allowed

Note- If tenant spends on capital repair – he will not get the deduction of depreciation as he is not the owner of the asset. It will be deemed building and depreciation **CAN BE CLAIMED** on that

??Q 1 2 3 4 19 20 27 28 37



Section 32: Depreciation

Conditions to claim depreciation

1. Asset should be used for business / profession purposes (active or passive)
2. Assessee should be Owner of such asset (wholly or partly)

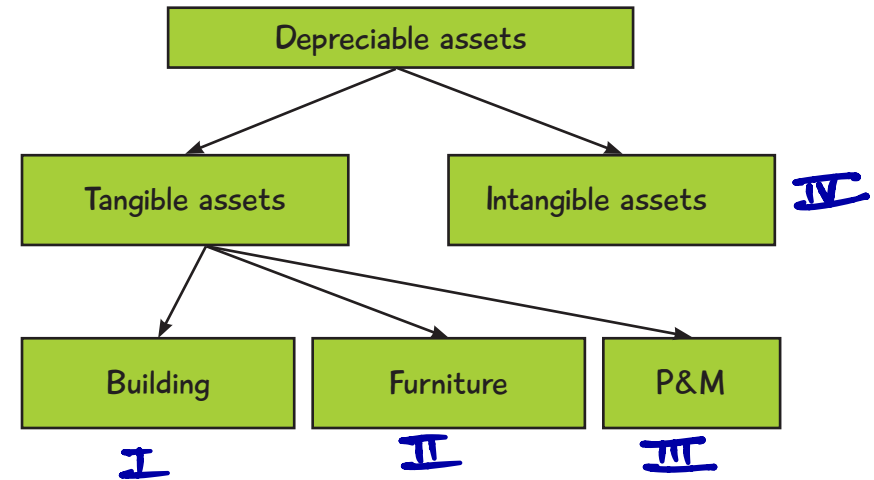
Notes:

1. Depreciation is allowed if assessee is beneficial owner (Even though not Registered owner)
2. In case of Hire Purchase, assessee gets the ownership only after payment of last instalment but he can claim depreciation from beginning, assuming assessee is the owner from beginning.
3. Depreciation on asset partially owned by the assessee shall be allowed to him to the extent of his share in asset.
4. In case of stand by machinery and emergency spares, the depreciation shall be allowed even if they are ready for use & not put to use.
5. NO Depreciation on LAND

Depⁿ → 1st year itself ✓

Depⁿ = Put to use

Passive → 1] Ambul.
2] Fire Exting.



1. Mandatory to claim depreciation for all assessee.
2. Depreciation on EPABX & Mobile phone - 15%
3. Depreciation allowed when asset actually put to use & not ready to use.

Salary

Rates of depreciation:

Asset	Rate (%)
Class I - Building	
i. Residential	✓ 5
ii. General ★	10
iii. Temporary structure	✓ 40
Class II - Furniture & Fittings ★	10
Class III - Plant & Machinery	
i. Motor Vehicles	
Q 33 a) Used in business of running on hire	✓ 30
b) Other motor vehicles ★	✓ 15
ii. Ships	20
iii. Aircraft	40
iv. Computer/laptop ★	✓ 40
v. Books	✓ 40
a) Owned by assesses carrying on a profession (annual publications or other than annual pub)	✓ 40
b) Libraries business	40
vi. Windmills & its equipment	
a) Installed before 1.04.2014	✓ 15
b) Installed on or after 1.04.2014	✓ 40
vii. Pollution control equipment	✓ 40
viii. Other plant & machinery ★	✓ 15
ix. Oil wells	✓ 15
Class IV - Intangible assets ★	25

Depreciation for Power Generating undertaking/ sale of asset/ SLM method/ Individual asset system:

If power units follow SLM method then they are subject to individual asset system profit & loss is calculated on every sale.

For eg.

Actual cost of asset: Rs 100 - rate of depreciation = 10% SLM
In 3rd year suppose asset sold for a) 70 b) 85 c) 120

Calculation of depreciation is as follows for 2 yrs:

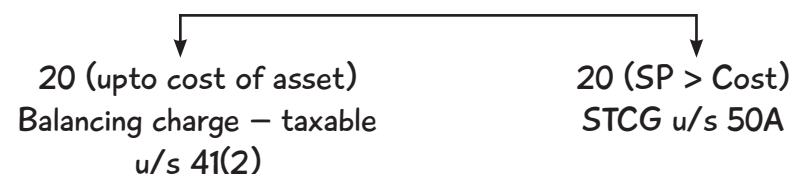
Actual cost	100
(-) depreciation for 1st yr	(10)
	90
(-) depreciation for 2nd yr	(10)
Opening WDV in 3rd yr	80

Tax treatment in case of sale (3rd year)

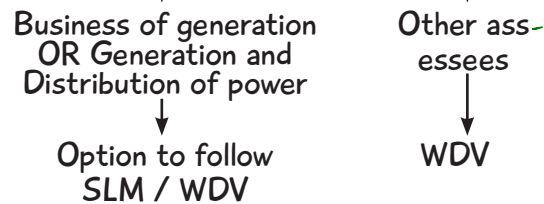
a) Sale value	70
(-) WDV	(80)
Loss - P&L (Dr side)	(10) ----> Terminal depreciation allowed as deduction u/s 32(i)(iii)

b) Sale value	85
(-) WDV	(80)
Profit - P&L (Cr side)	5 ----> Balancing charge taxable as income under PGBP

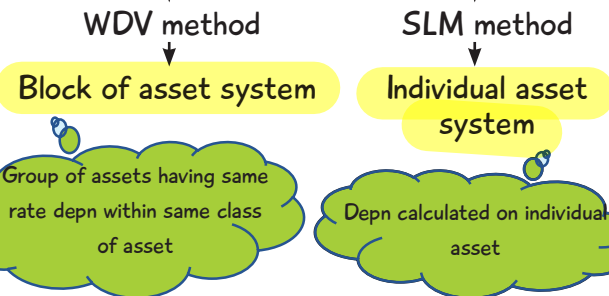
c) Sale value	120
(-) WDV	(80)
Profit	40



Method of depreciation



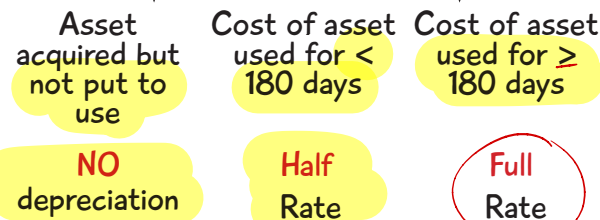
System of depreciation



Calculation of depreciation (Block of asset/ WDV method)

Opening WDV of block	XXX
Add:	
Actual cost of asset acquired during PY	
- Put to use 180 days or more	XXX
- put to use less than 180 days	XXX
- acquired but not put to use	XXX
Less: Selling price of asset (XX)	
WDV of block for Depreciation	XXX
Less: Dep actually allowed (XX)	
Closing WDV of block	XXX

WDV of block for depreciation



Notes:

- If asset acquired during current FY & not put to use then depreciation shall not be allowed for such asset but that asset should be added to Block of asset.
- Actual sale price of asset shall be reduced and not the FMV / SDV of asset sold.

P/Y	Purchase	Paid up	Depn %	Depn %	4% of purch	4% of put to use
1/4/19	1/7/23	15%	25-26%	25-26%		
1/4/25	30/3/24	7.5%	25-26%	25-26%		
1/4/23	1/10/24	15%	25-26%	25-26%		
1/4/23	30/3/25	7.5%	25-26%	25-26%		

50% of Depn rate

Proviso to Sec 32(1) – Depreciation is restricted to 50% if asset is put to use for less than 180 days in the year of acquisition. Restriction applies in the year of acquisition.

Ex – Purchased in FY 2018-19 put to use in the same FY for less than 180 days = Half rate

Ex – Purchased in FY 2018-19 put to use in the NEXT FY for less than 180 days = Half FULL rate

Proviso to Sec. 32(1): Depreciation in case of Amalgamation / Demerger/ Succession
Dep is calculated normally & after that it shall be distributed between Amalgamating co./ Demerged co./ Predecessor AND Amalgamated co./ Resulting co./ Successor in the ratio of the number of days for which assets were used by them

Section 32(1)(iii) Additional Depreciation

Eligible assessee? – Engaged in the business of manufacture of any article or Generation Transmission or Distribution of Power
Rate of additional depreciation = 20% on P&M ONLY

P&M will not include the following [SOS 100%]

- S = Second hand P&M
- O = Any P&M installed in office premises or residential accommodation (Factory premises – ALLOWED)
- S = Ships, aircraft & transport vehicles
- 100% = P & M on which 100% deduction allowed

Note – Additional depreciation is allowed Only in the First year in which it is put to use. If put to use for < 180 days then 10% depn shall be allowed [20% * 50%]

Additional notes:

- If additional depreciation allowed at Half Rate [asset used less than 180 days] then balance half rate depreciation shall be allowed in Next year.
- Additional depreciation is allowed only if assessee follow WDV method. It is not allowed to Power units if they follow SLM method.

Depn
compute Depn as if there is no transfer
Answer
No. of Days

Idea → vada.
qm 2/12/23 gm.

Additional Depⁿ



Addⁿ x
505 100

Q → Addⁿ Depⁿ → only in the 1st year
of put to use ✓

P/M → 120 days.

CFY → ND + AD
7.5% + 10%
10%

1/12/23

£ 10,00,000

ND → (75,000)

FY 23-24.

AD → (1,00,000)

Cl. WDV /
Op. WDV

8,25,000

(-) ND

(1,23,750)

FY 24-25

(-) AD

~~(82,500)~~
(1,00,000)

Cl. WDV. 6,01,250



Block of asset

Furniture → 1L

MV → 3L

Books → 60K

Bldg → 40L

Computer → 5L

Patent → 2L

II 10% → B1

III 15% → B3

III 40% → B4

I 10% → B2

III 40% → B4

IV 25% → B5

✓

3 puBP
✓

WDV

Same
Class

same
Rate

WDV → Block of Asset → P/M → 15%

op. WDV of block.	10,00,000	(15%)	1.5L
+ Purchased during FY			60K
• ≥ 180 days.	4,00,000	(15%)	15K
• < 180 days.	2,00,000	(7.5%)	
• Purchased but not put to use.	-		
	16,00,000		

2.25L

(-) Asset sold during FY.

WDV for Dep"
(-) Dep" [WN-1]

16,00,000
(2,25,000)

Closing WDV

13,75,000

WN-1 Completion of Dep"

Full rate → $[10L + 4L] \times 15\% \rightarrow 2,10,000$

Half rate → $2L \times 7.5\% \rightarrow 15,000$

2,25,000

Examples on WDV → Block → PIM (15%)

	I	II	III	IV	V	VI
opening WDV	100	100	100	100	10	10
+ Purchase	40	40	40	10	5	5
≥ 180	20	20	30	60	1	3
< 180	10	-	10	30	1	1
X Put to use						
(-) sale	170	160	180	200	17	19
	-	(30)	(40)	(100)	(10)	(1)
WDV for Dep ⁿ	170	130	140	100	7	18
(-) Dep ⁿ	(22.5)	(18)	(18.75)	(10.5)	(0.975)	(2.475)
closing WDV	147.5	112	121.25	89.5		

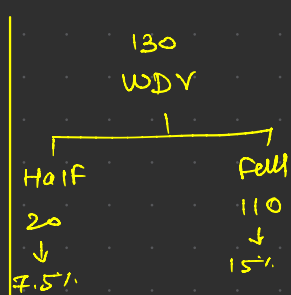
Asset sell



1] Purch ✓ → not put to use

2] Assets ≥ 180 days

3] Assets < 180 days



NP ↓

Section 43(1) – Actual cost Q (2)

Cost of asset (purchase price) (+)	XXX
i. Installation charges	XXX
ii. Transportation expenses for asset	XXX
iii. Trial run/test run expenses	XXX
iv. Taxes & duties (if ITC not available)	XXX
Interest on loan taken for acquisition of asset (upto the date of asset put to use)	XXX
(-) Amount recd. on sale of trial run product	(XX)
(-) Subsidy / Govt Grants recd. for acquisition of assets	(XX)
Actual cost	XXX

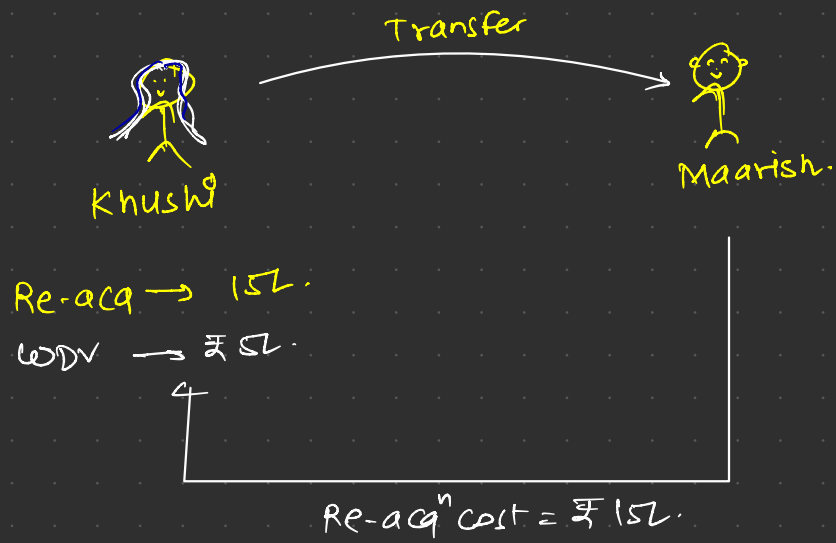
NOTE - Where an assessee incurs any expenditure for acquisition of any asset or part thereof in respect of which a payment made to a person in a day, other wise than by an account payee cheque or account payee DD or use of electronic clearing system, or any other mode as may be prescribed exceeds Rs 10,000, such expenditure shall not form part of actual cost of such asset.

Sec 38(2) - Asset partly used for other purpose

If asset is not exclusively used for the purpose of Business / Profession then deduction u/s 30/31/32 shall be restricted to a proportionate part as determined by Assessing Officer

Cases	Actual cost as per Sec 43(1)
Asset previously used for Scientific research brought in to regular business	Actual cost = NIL [because deduction already claimed u/s 35]
Stock converted into Capital asset and used for Business or Profession	FMV on the date of conversion
Asset acquired by way of gift / Will / Inheritance (-) Depn 44m.	Actual cost to the previous owner LESS Dep already allowed to him
Asset acquired with an intention to claim higher depreciation	Amount determined by AO, with the approval of Joint Commissioner (JC)
Re-acquisition of asset sold	i. WDV at the time of sale ii. Reacquisition cost
Asset Purchased & Leased back to the same person	WDV of the previous owner (Lessee)
Building was used for personal purpose now brought into business 100% FY 04-05 → Personal Purpose ✓ FY 20-21 → Bus. Purpose ✓ → 100%	Original cost (-) notional depn till date at current depn rate Actual cost
Capital asset transferred by holding Co. to 100% subsidiary Co. or 100% Subsidiary Co. to holding Co. [Sec. 47 (iv)/(v)]	Cost / WDV to the transferor company H Co → Sub Co. WDV 100
Transferred by Amalgamating Co. to Amalgamated Co.	Cost / WDV to the amalgamating company
Transferred by Demerged Co. to Resulting Co	Cost / WDV to the demerged company
Asset acquired out of Borrowed fund	Interest up to first put to use form part of actual cost
GST	Duty in respect of which ITC is not allowed forming part of Actual cost
Govt grant / subsidy	If related to Asset = Reduce from actual cost
Asset brought into India by NR for use in his Business or Profession	Actual cost (-) Depn calculated at the rate in force as if the asset was used in India from date of acquisition
Any capital asset acquired under Scheme of corporatisation of recog. Stock exchange (AOP/BOI to Company)	Cost / WDV of AOP / BOI
Actual Cost allowed as deduction u/s 35AD and capital asset transferred to non-specified business after 8 years from the year of acquisition or transfer by way of transactions referred in section 47	Actual cost for transferee shall be NIL

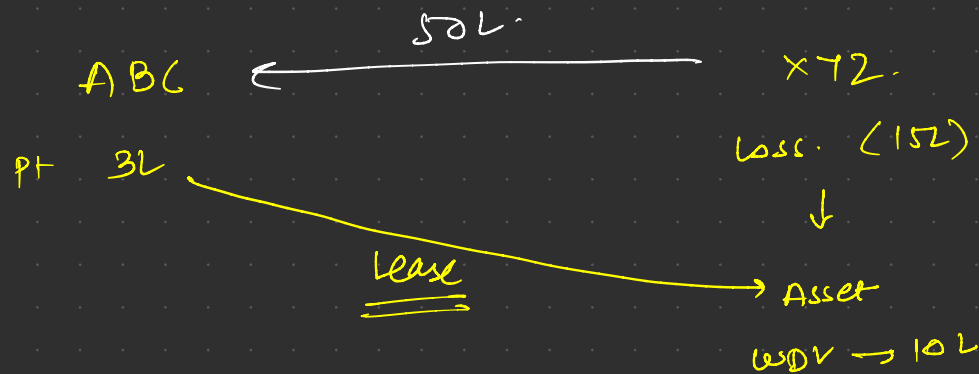
NR → 14-15
↓
India
↓
Actual → 100
(-) Notional Depn.



Actual cost
 \downarrow
 WDV OR Acqⁿ cost
 5L 15L

AC \rightarrow SL

PQR



purchase
 & lease back
 \rightarrow A.C.
 \downarrow
 WDV at the time
 of transfer by
 the lessee (X 72)



Computation of Capital Gains for depreciable assets

Block of asset ceased to exist	Rs	No.	Rs	No.
Selling price of asset	6,20,000		11,30,000	
Opening WDV of block	8,00,000	5	8,00,000	5
(+) actual cost of asset acquired	3,00,000	2	3,00,000	2
	11,00,000	7	11,00,000	7
(-) sale value of assets	(6,20,000)	7	(11,00,000)	7
WDV of block of asset	4,80,000	-	NIL	-

wdv method
is Block of asset ✓

CG ✓
Block becomes zero. OR wdv becomes zero.

Asset	NO	Asset	NO
WDV	YES	WDV	NO
Depn	NO	Depn	NO
CG	YES	CG	YES

Capital Gains computation	Rs
FVOC	6,20,000
(-) COA = Opening WDV + asset acquired during PY	(11,00,000)
Capital Gains / Loss	(4,80,000)

Rs
11,30,000
(11,00,000)
30,000

Some assets of the block are transferred	Rs	No.	Rs	No.
Selling price of asset	11,20,000		11,30,000	
Opening WDV of block	8,00,000	5	8,00,000	5
(+) actual cost of asset acquired	3,00,000	2	3,00,000	2
	11,00,000	7	11,00,000	7
(-) sale value of assets	(11,00,000)	4	(8,30,000)	4
WDV of block of asset	NIL	3	2,70,000	3

Asset	YES	Asset	YES
WDV	NO	WDV	YES
Depn	NO	Depn	YES
CG	YES	CG (NO CG as block not ceased)	NO

Capital Gains computation	Rs
FVOC	11,20,000
(-) COA = Opening WDV + asset acquired during PY	(11,00,000)
Capital Gains / Loss	20,000

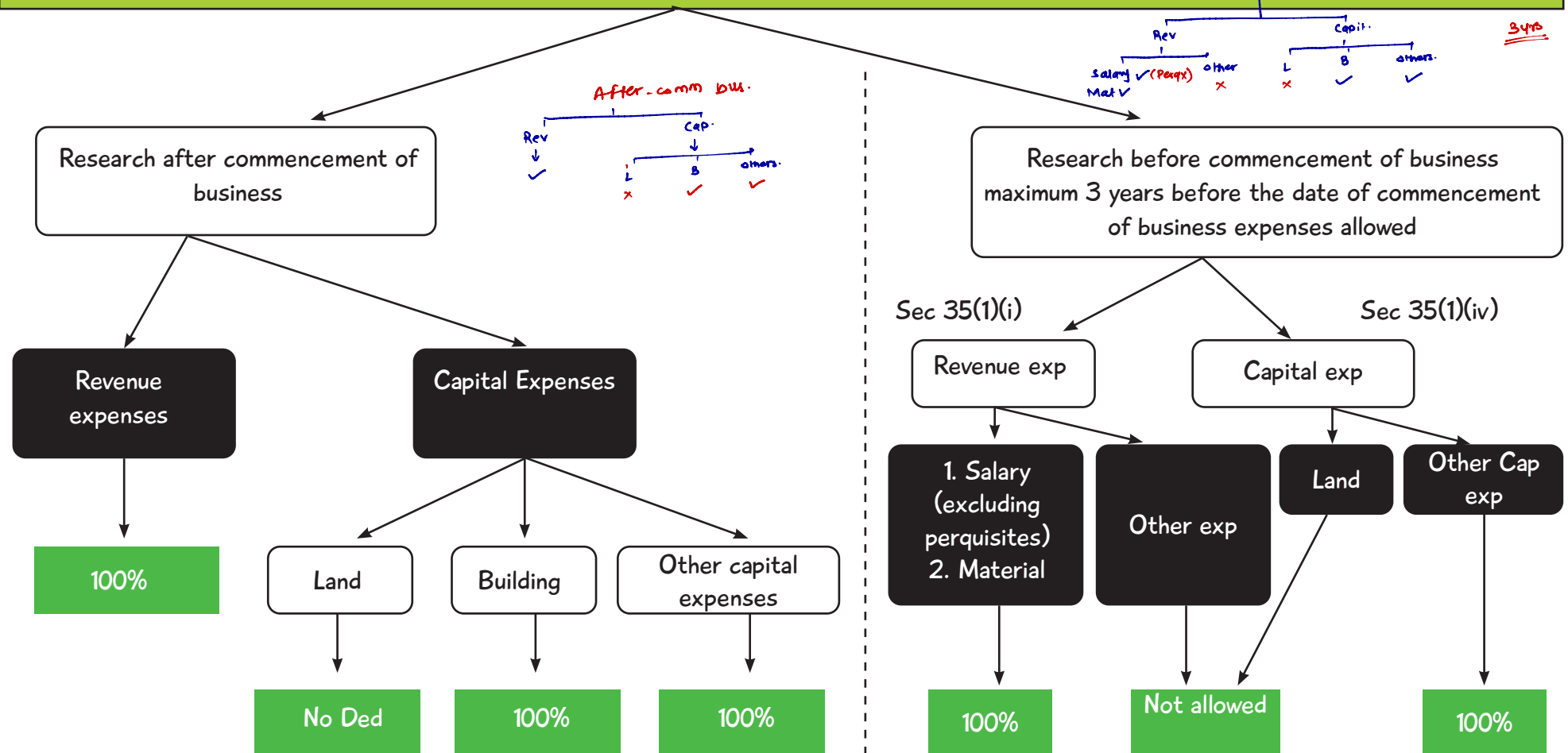
Normal depreciation will be allowed

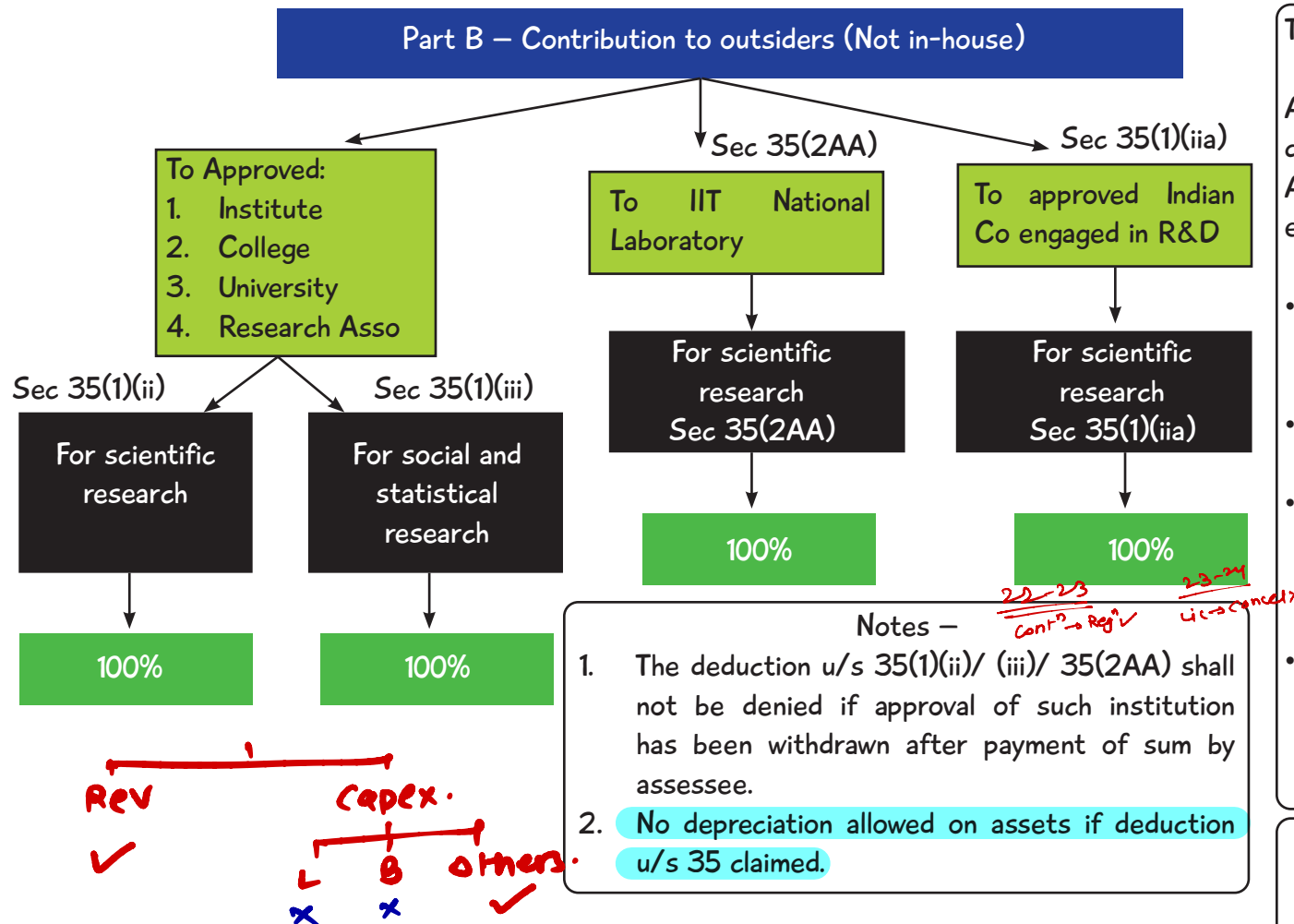


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Section 35 – Expenditure on scientific Research

Part A – In-house research (related to business of the assessee)



**Taxation of Grants/Subsidies from Govt**

Any subsidy, grants, cash incentive, duty drawback, waiver etc by CG or SG or any Authority or Body (other than referred in explanation 10) shall be **treated as Income**.

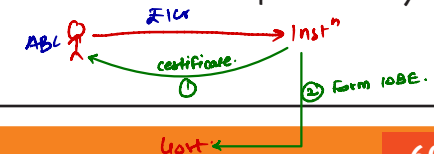
Notes

- If subsidy received for acquiring an asset = it shall be deducted from actual cost of asset
- Any other subsidy / waiver of loan / Govt. Grant = Taxable under PGBP
- Any subsidy / grant received by trust or institution (established by CG/SG) as a Corpus fund from Central Govt shall not be treated as income.
- If loan taken for acquisition of asset is waived = then such loan shall be reduced from Actual cost of asset [block of asset].

NEW POINT

Section 35(1A) - Payer shall be entitled to deduction u/s 35(1)(ii) / (iia) / (iii) ONLY IF

- The institution prepares a statement in Form 10BD and submit the same to the prescribed authority upto 31 May of next FY
- The institution furnishes a certificate to the Donor in Form 10BE upto 31 May of next FY



Section 35CCC: Expenditure on **Agriculture Extension Project** - **Deduction @ 100 %** allowed, if expenses (revenue + capital) (except Land & Building) incurred for notified agriculture extension project. This deduction is allowed to **all assessee** Co, Firm, Individual, HUF, AOP, BAI [ALL]

Section 35CCD: Expenditure for **Skill Development Project** - **Deduction @ 100%** allowed, if any expenditure incurred (revenue + capital) (except Land & Building) for notified skill development project. This deduction is allowed **only to companies** **Company ONLY**

Section 35D – Preliminary expenses

Preliminary expenses means:

Market survey
Preparation of feasibility report
Engineering services
Drafting and printing services
Legal fees, etc

Eligible exp

Deduction allowed to resident assessee who incurs preliminary expenses before commencement of business or after commencement for extension / setting up a new unit.

Indian Co =

i. Actual Prel Expenses

ii. 5% of [COP / CE]

Whichever is LOWER

COP or CE, Whichever is HIGHER

Individual

Other Non corporate assessee =

i. Actual Prel expenses

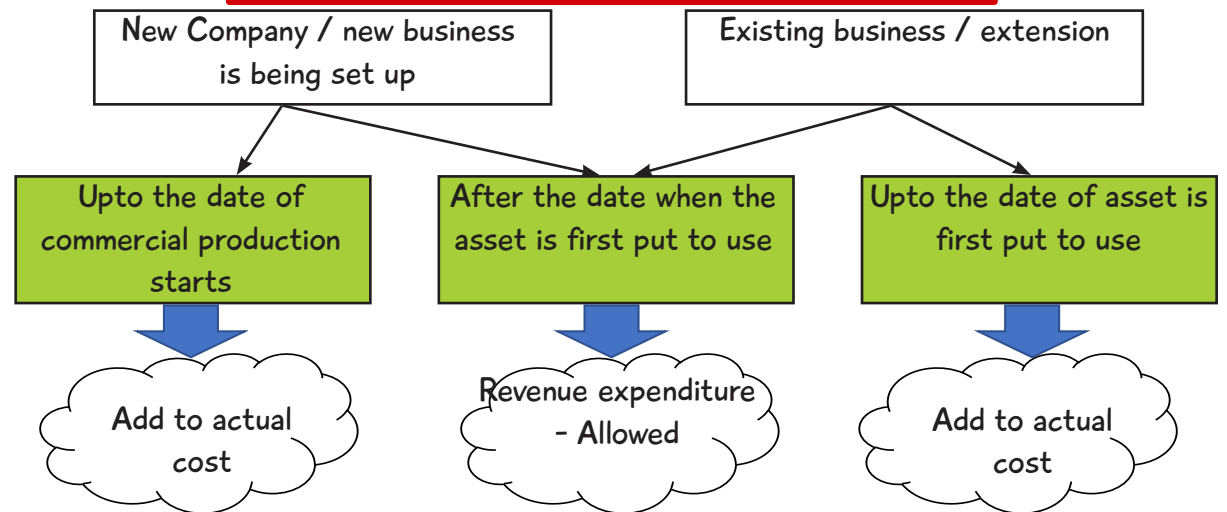
ii. 5% of COP

Whichever is LOWER

NOTES

1. Deduction = 5 equal installments
2. COP = Cost of Project means = Amt invested in fixed asset of new project
3. CE = Cap Employed (Share Capital + Debentures + Long Term borrowing for new project) = NO Reserves and Surplus
4. Accordingly, statement containing particulars of above specified expenditure is required to be furnished one month prior to the due date of ROI.

Treatment of interest on loan taken for acquiring asset



Miscellaneous Provisions – Please read this after reading Section 36

Security Transaction Tax [Sec 36(1)(xv)]

Any amount of Securities Transaction Tax (STT) paid by the assessee during the previous year shall be allowed as deduction provided income arising from such transactions is included in the income computed under the head PGBP

Commodity Transaction Tax [Sec. 36(1)(xvi)]

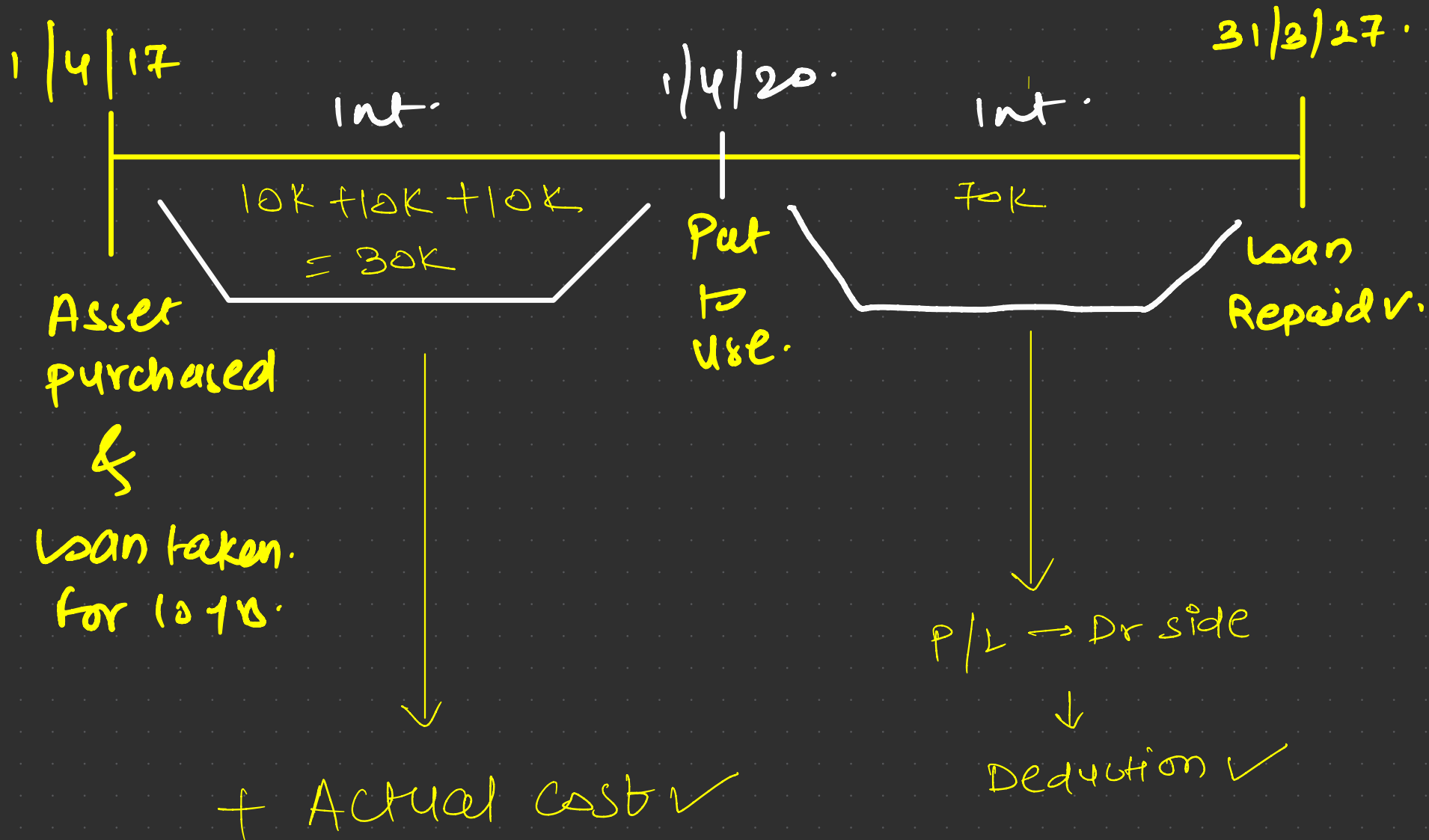
Any amount of Commodities Transaction Tax (CTT) paid by the assessee in respect of the taxable commodities transactions entered into in the course of his business during the previous year shall be allowed as deduction provided income arising from such transactions is included in the income computed under the head PGBP

Purchase of Sugarcane [Sec. 36(1)(xvii)]

The amount of expenditure incurred by a co-operative society engaged in the business of manufacture of sugar for purchase of sugarcane at a price which is equal to or less than the price fixed or approved by the Government shall be allowed

Loss as per ICDS [Sec 36(1)(xviii)]

Marked to market loss or other expected loss as computed in accordance with the ICDS shall be allowed.



35AD X
L & Fridge
Land & d → Financ. Instruments