

# **CA/CMA INTER DIRECT TAX**

**MAY/SEPT 25 & JAN 26 AND JUNE/DEC 25**

# **ORIGINAL NOTES**

**2025  
EDITION**

**As amended by  
The Finance Act, 2024**



**CA SHIRISH VYAS**



**CA INTER**  
**(MAY / SEPT. 25 & JAN. 26)**

**CMA INTER**  
**(JUNE / DEC. 25)**

**DIRECT TAX NOTES**

**PY 2024-25 / AY 2025-26**

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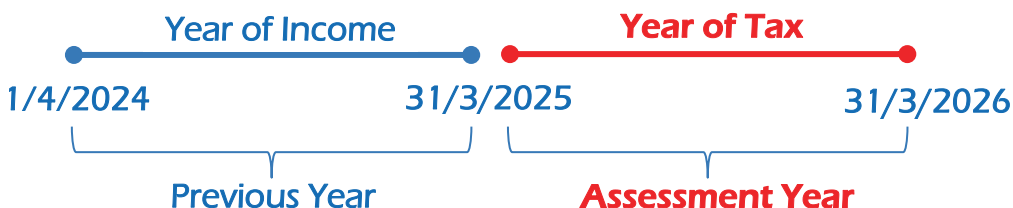
# INTRODUCTION TO INCOME TAX

- 1) In the study of income tax, we have to learn following:
  - a) How to compute **income** of any person and
  - b) How to compute **tax** on such income.
- 2) In order to compute income of any person, we prepare following statement:

## STATEMENT OF TOTAL INCOME

Particulars	Amt.
* Income from Salaries	xxx
* Income from House Property	xxx
* Income from Business	xxx
* Capital Gains	xxx
* Income from Other Sources:	xxx
<b>GROSS TOTAL INCOME</b>	<b>xxx</b>
<b>Less: Deductions under Chapter VI A</b>	- xx
<b>Less: Deduction under section 10AA</b>	- xx
<b>NET TAXABLE INCOME</b>	<b>xxx</b>

- 3) In the above statement, there are **5 heads of income**. Income under each head is computed separately by preparing a separate statement. Hence, to calculate 5 heads of income, we prepare **5 separate statements**.
- 4) To prepare these statements, we require knowledge of following:
  - **Income Tax Act, 1961** and
  - **Income Tax Rules, 1962**
- 5) The above income tax law keeps changing every year. For our exam, we have to study the law applicable to **previous year 2024-25**.





# INCOME FROM SALARIES

## MEANING:

An income is treated as salary if the relationship between the payer & the receiver is of **MASTER & SERVANT** [Employer & Employee]. In this chapter, we have to learn how to prepare a statement of Income from Salaries.

### Statement of Income from Salaries

Particulars	₹
* Basic Salary (Note 1)	XX
* Allowances (Note 2)	XX
* Provident Fund (Note 3)	XX
* Gratuity (Note 4)	XX
* Pension (Note 5)	XX
* Leave Salary (Note 6)	XX
* Voluntary Retirement Compensation (Note 7)	XX
* Retrenchment Compensation (Note 8)	XX
* Advance Salary, Arrears of Salary & Bonus (Note 9)	XX
* Perquisites (Note 10)	XX
<b>GROSS SALARY</b>	<b>XXX</b>
<b><u>Less: Deductions u/s 16:</u></b>	
➔ Standard deduction [Max.50,000]	- XX
➔ Entertainment Allowance	- XX
➔ Profession Tax	- XX
<b>TAXABLE INCOME FROM SALARIES</b>	<b>XXX</b>

## Note 1: BASIC SALARY

Basic salary is **fully taxable**. If net basic salary is given in the question then convert it in to **GROSS** by adding back the items which are deducted from employee's basic salary like PF contribution, Profession tax etc.

## Note 2: ALLOWANCES

Allowances are **fixed** amount received on **monthly** basis for a particular **expense**. All the allowances are fully taxable except following:

⇒ **EXEMPT ALLOWANCES:**

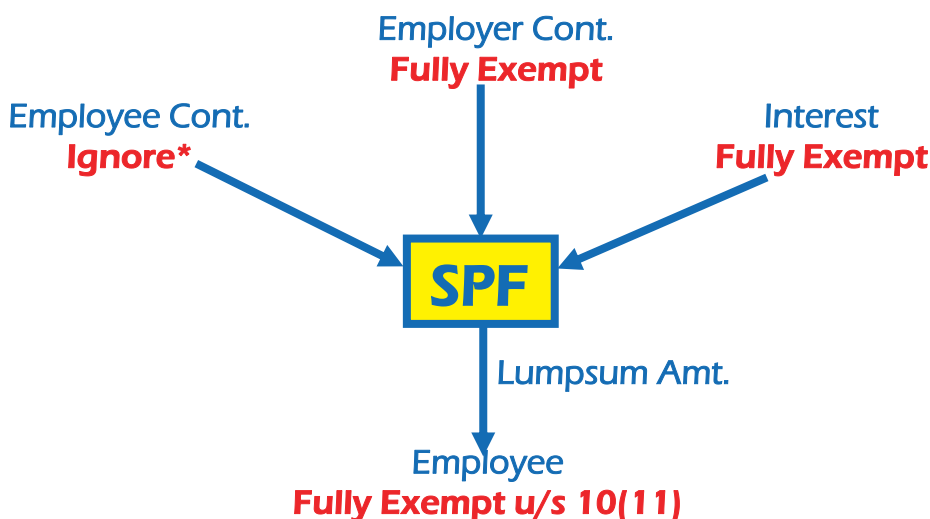
Type of Allowance	Amt. of Exemption
<b>Tribal Area Allowance</b>	Max.. <b>200 p.m.</b>
Transport allowance	Max. <b>3,200 p.m.</b>
[i.e. <b>Commutation Allowance</b> for journey between office & residence for <b>physically handicapped</b> employees]	
<b>Children Education Allowance</b>	Max. <b>100 p.m. per child</b> for max. <b>2 children</b>
<b>Children Hostel Allowance</b>	Max. <b>300 p.m. per child</b> for max. <b>2 children</b>
<b>House Rent Allowance (HRA)</b> [Exempt only if employee is actually paying rent]	1) <b>*50% / 40% of Salary</b> 2) <b>Actual amount received</b> 3) <b>Rent paid – 10% of Salary</b> <b>Whichever is less</b>
<b>* 50%</b> , If rent is paid in <b>Mumbai, Delhi, Chennai, Kolkata.</b> <b>40%</b> , If rent is paid in <b>Other places</b> Salary = Basic + DA (in terms) + Turnover Commission	
<b>Underground Allowance</b>	Max. <b>800 p.m.</b>
Allowances to employees of <b>Transport undertakings</b>	↓ <b>70%</b> of Amt. Received ↓ <b>10,000 p.m.</b>
<b>Travelling on "tour" or "transfer" allowance</b>	Amt Exempt = Amt <b>Spent</b>
<b>Conveyance Allowance</b> {for local travelling}	Amt Exempt = Amt <b>Spent</b>
<b>Uniform Allowance</b>	Amt Exempt = Amt <b>Spent</b>
<b>Daily Allowance</b> {for day to day exps on tour}	Amt Exempt = Amt <b>Spent</b>
<b>Helper Allowance</b> {for office assistant}	Amt Exempt = Amt <b>Spent</b>
<b>Research Allowance</b>	Amt Exempt = Amt <b>Spent</b>
Note: Few more allowances are exempt but not so important	

⇒ **ENTERTAINMENT ALLOWANCE:**

GOVT. EMPLOYEES	OTHER EMPLOYEES
<p>First <b>Include</b> Then <b>Deduction</b></p> <p>↓</p> <ol style="list-style-type: none"> <li>1) <math>\frac{1}{5} \times \text{Basic Salary}</math></li> <li>2) Actual Amt Received</li> <li>3) ₹ 5,000</li> </ol> <p>Whichever is less</p>	<p><b>Only Include</b> <b>No Deduction</b></p>

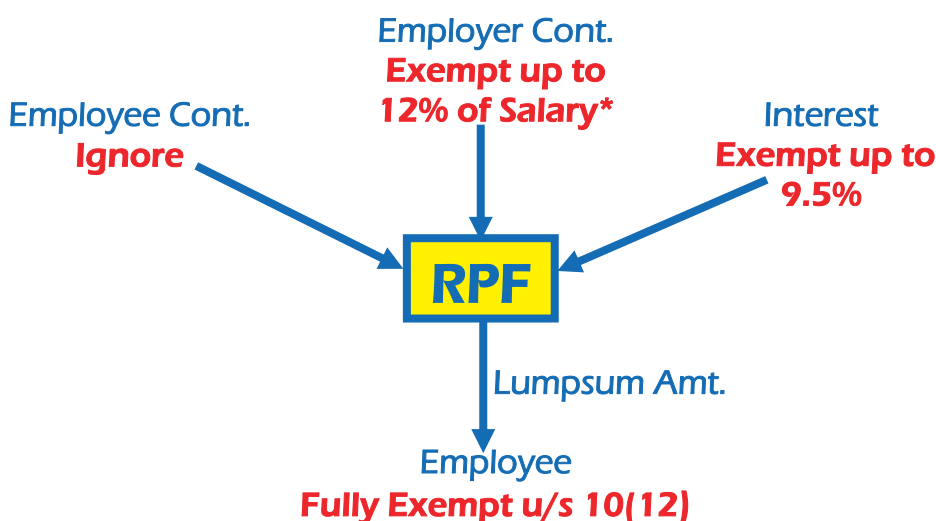
**Note 3: PROVIDENT FUND**

**STATUTORY PROVIDENT FUND [SPF]**



\* Because employee's contribution is not an additional benefit; it's part of basic salary

**RECOGNISED PROVIDENT FUND [RPF]**



\* Salary = Basic Salary + DA (in terms) + Turnover Commission

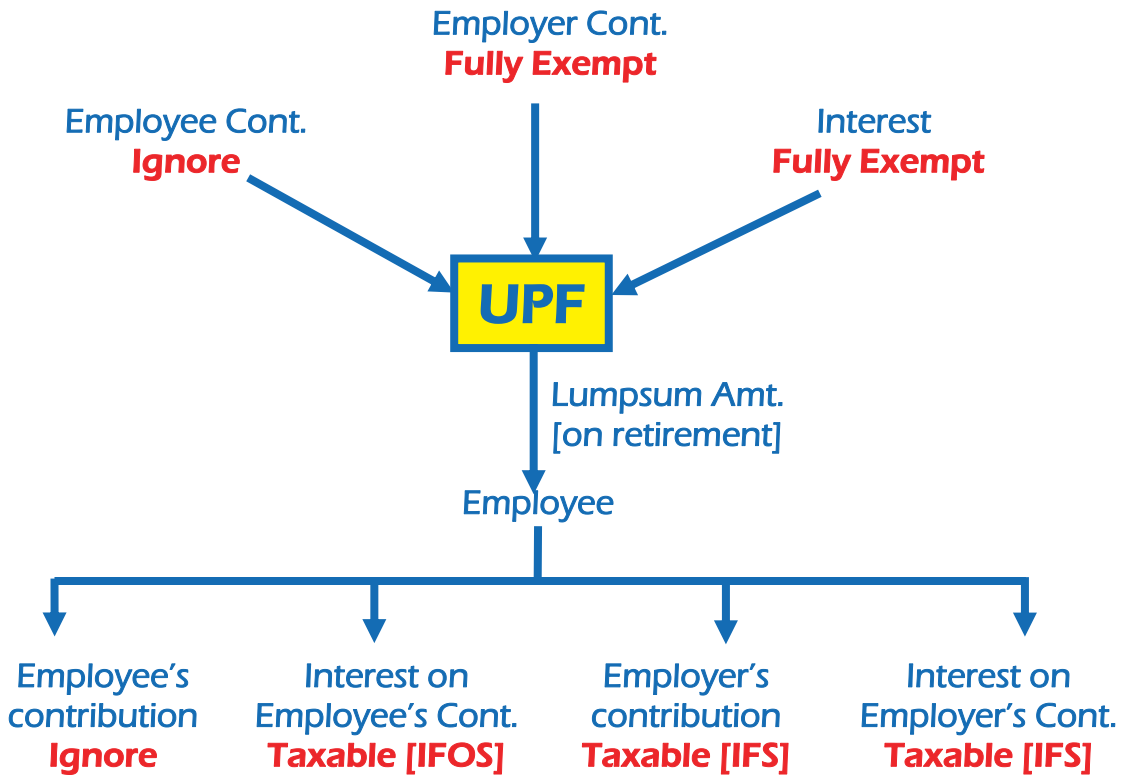
Lumpsum amount received from RPF is fully exempt only if the employee has rendered **service** for **at least 5 years**.

If the employee retires before 5 years then the **exemption** in respect of employer's contribution and interest (in past) shall be **withdrawn**.

However, in following cases, exemption will not be withdrawn even if the service is less than 5 years.

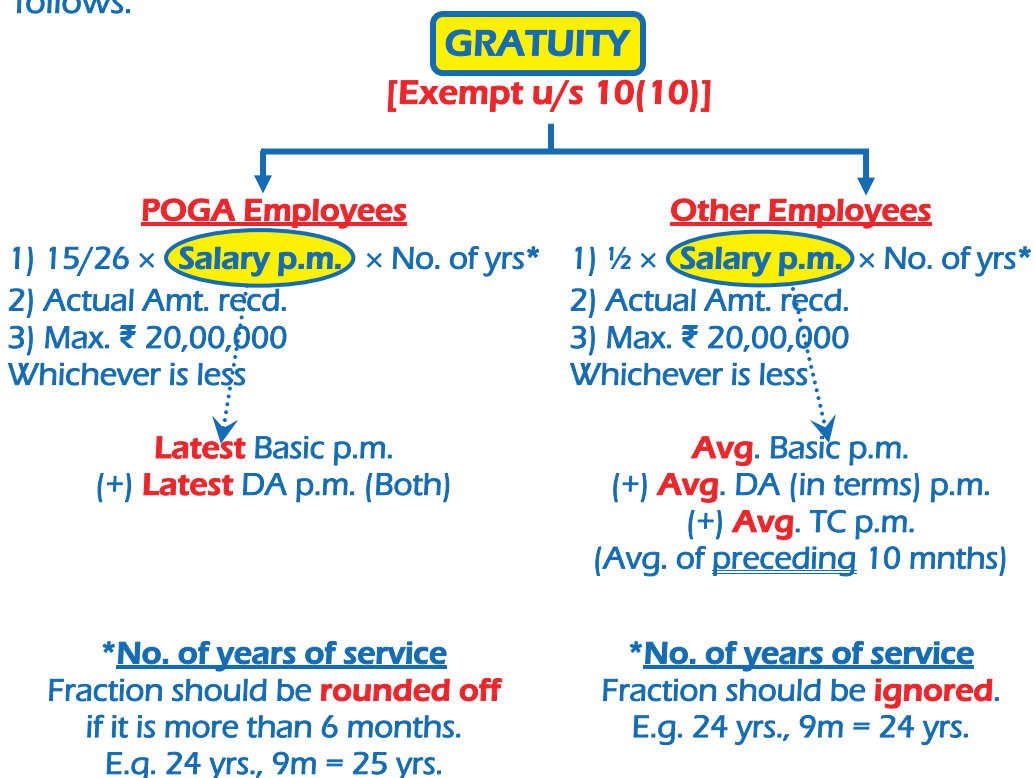
- Case i) The employee has retired due to **uncontrollable** reasons. [E.g. Death etc.]
- Case ii) Employer's **business** is **discontinued**.
- Case iii) The employee has retired and **joined** a **new employer** with an instruction that his balance in RPF should be transferred to the new employer.

**UNRECOGNISED PROVIDENT FUND [UPF]**



### Note 4: GRATUITY

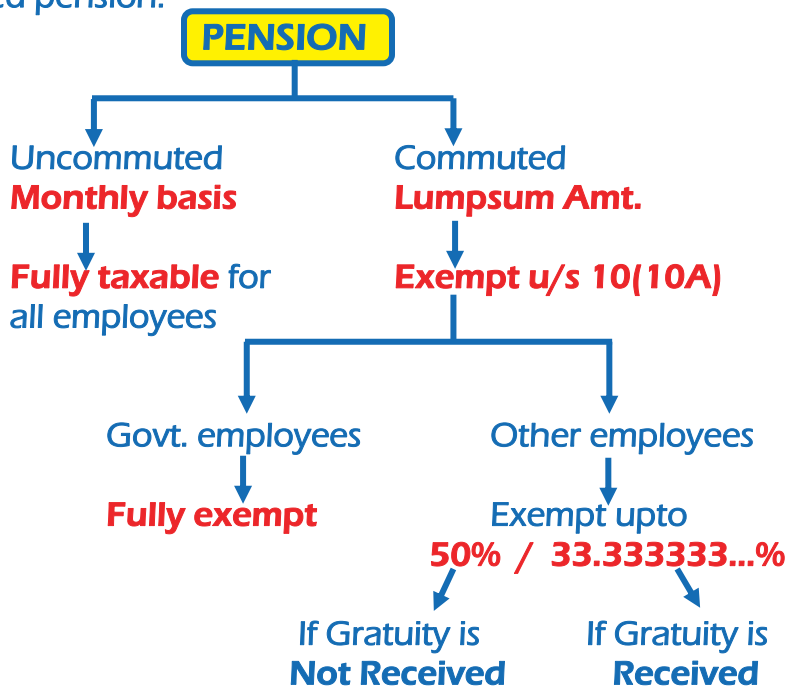
Gratuity received by **Government employees** is **fully exempt** but Gratuity received by Private sector employees is partly exempt as follows:



POGA Employees means employee covered by  
**Payment Of Gratuity Act, 1972**

**Note 5: PENSION**

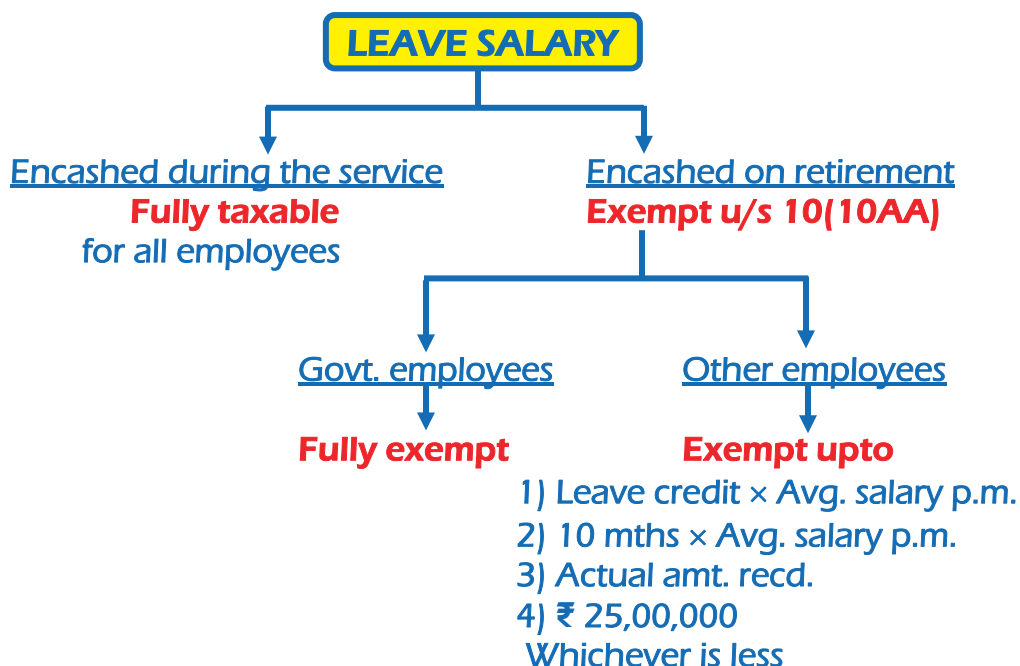
Pension is a monthly amount received after retirement. On retirement, the employee has the option to convert his monthly pension in to a lumpsum amount. Such lumpsum amount is known as commuted pension.

**Note 6: LEAVE SALARY**

Leave salary means encashment of “unused leave” (Leave Saved). E.g. If employer allows 40 days leave every year and if employee has taken only 10 days leave in a particular year then the unused leave of 30 days can be:

- 1) Encashed immediately
- or 2) Carried forward to subsequent years and encashed at the time of retirement





→ Leave credit =

Leave allowed as per Govt. Rules	XXX
( <b>Max. 30 days</b> × No. of yrs. Service <b>ignoring fraction</b> )	
<u>Less: Leave taken</u>	<u>-XX</u>
Leave credit	<u>XXX</u>

→ Average salary p.m. =

Avg. Basic p.m. + Avg. D.A. (in terms) p.m. + Avg. TC p.m.  
 [Average of last 10 months up to the date of retirement]

**Note:** In case of gratuity, month of retirement should be ignored while selecting 10 months.

### **Note 7: VOLUNTARY RETIREMENT COMPENSATION**

It is **exempt u/s 10(10C)** if the voluntary retirement scheme is as per the guidelines prescribed in Rule 2BA.

#### → **Amount of Exemption:**

- 1) Salary\* p.m. × 3 months × No. of years of service completed
  - 2) Salary\* p.m. × 1 month × No. of months of service remaining
  - 3) Actual amount received
  - 4) ₹ 5,00,000
- Whichever is less

\* Salary p.m. = Latest [Basic p.m. + DA (in terms) p.m. + TC p.m.]

### **Note 8: RETRENCHMENT COMPENSATION**

It is **exempt u/s 10(10B)**

#### → **Amount of Exemption:**

- 1) Amount calculated as per Industrial Disputes Act (Given)
  - 2) Actual amount received
  - 3) ₹ 5,00,000
- Whichever is less

### **Note 9: ARREARS/ADVANCE SALARY/BONUS**

#### **Arrears of Salary**

Arrears received after settlement of dispute is fully taxable.

#### **Advance Salary**

It is taxable.

Note: If the word advance is given without the word salary then it is a Loan/Liability (Ignore it)

#### **Bonus**

It is taxable on 'Receipt basis'.

### **Note 10: PERQUISITES**

Perquisites are **additional benefits** over and above the monthly salary. Here, the employer provides **money** or **facility** for **personal expenses** of employee.

If employer provides money then it is monetary perquisite and if employer provides facility, then it is non-monetary perquisites.

#### **Allowance**

Allowances are fixed amount **part of monthly salary** received on monthly basis [whether the expense is incurred or not]

#### **Example:**

Medical **Allowance**.

#### **Perquisites**

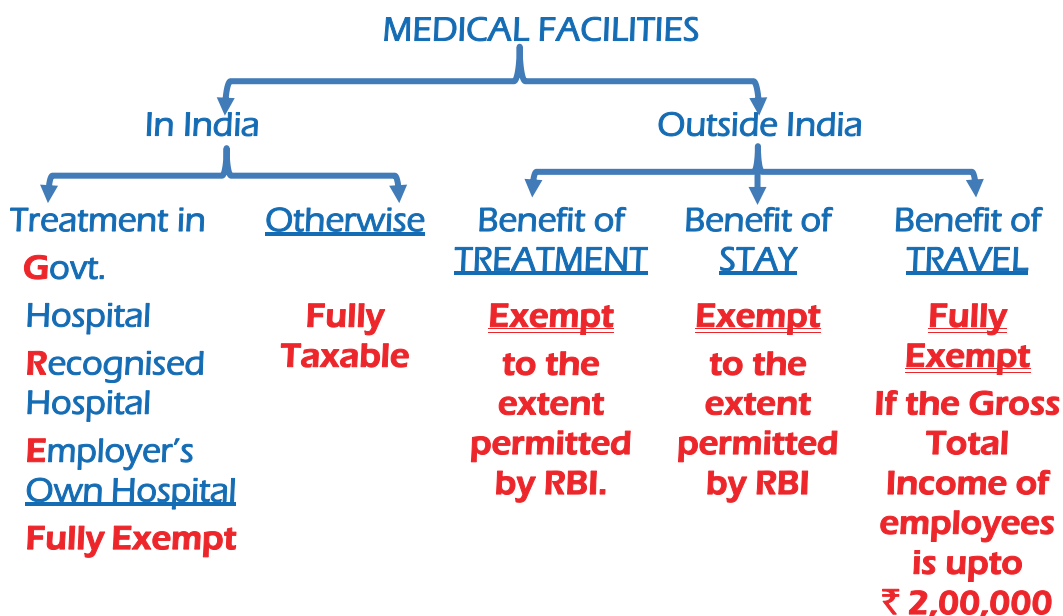
Perquisites are provided **over and above the monthly salary** [when the expenses are actually incurred]

#### **Example:**

Medical bills **paid/reimbursed** by employer (monetary)  
**Free** medical facility (non-monetary)

## TAX TREATMENT OF PERQUISITES

### 1) MEDICAL FACILITIES:



Note A: Benefit of Stay and Travel is exempt only for the patient and **one attendant**.

Note B: Medical facilities (inside or outside India) is exempt only if the **patient** is:

- Employee
- Spouse
- Children
- Dependent (Parent/Brothers/Sister)

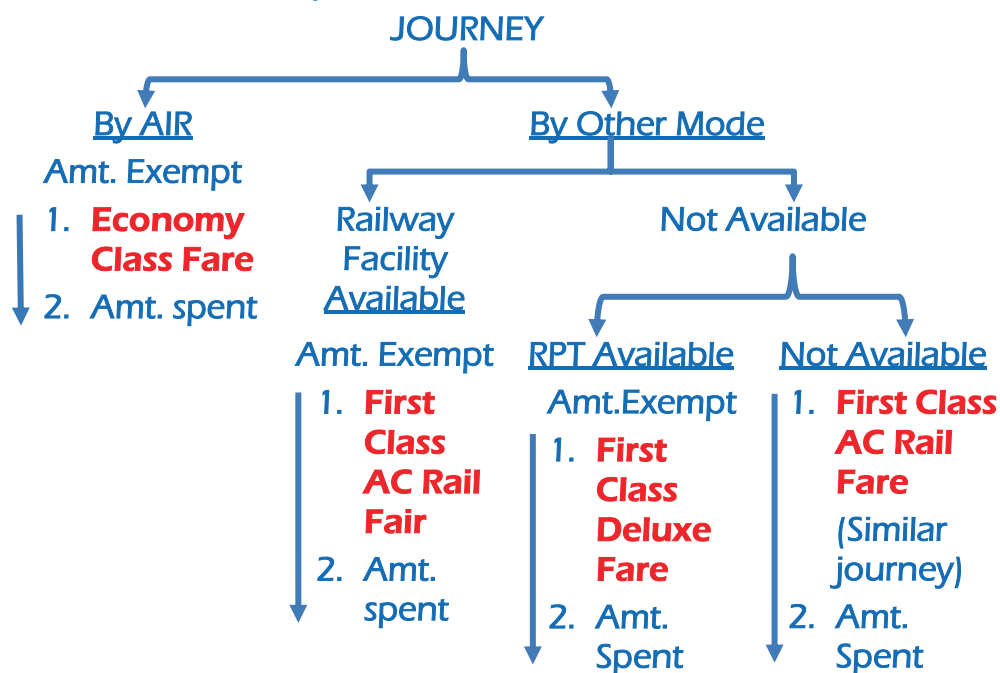
Note C: Mediclaim **Insurance** premium paid or reimbursed by employer is **fully exempt**.

Note D: If medical bills are reimbursed by employer for treatment of illness related to **COVID-19** then it is **fully exempt** (even if the treatment is not in GRE hospital)

**2) LEAVE TRAVEL CONCESSION:**

Leave travel concession is **exempt u/s 10(5)** read with Rule 2B.

→ Amount of Exemption



RPT – Recognised Public Transport

Note: Exemption for leave travel is allowed only for the journey of:

- Employee
- Spouse
- Children\*\*
- Dependent (Parents/Brother/Sister)

**\*\*Maximum 2 children, if the children are born on or after 1 October, 1998 (no limit on children born before 1.10.1998)**

**3) FREE LUNCH:**

Exempt up to **₹ 50 per meal** if it is in office or through paid vouchers. Free refreshments is fully exempt.

**4) INTEREST BENEFIT:**



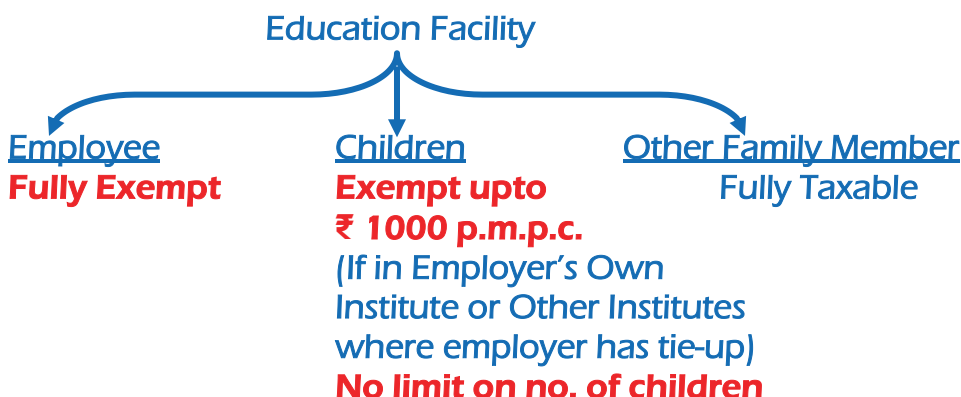
[Taxable Amt. = Loan Amt. × (SBI Rate – Actual Rate)]

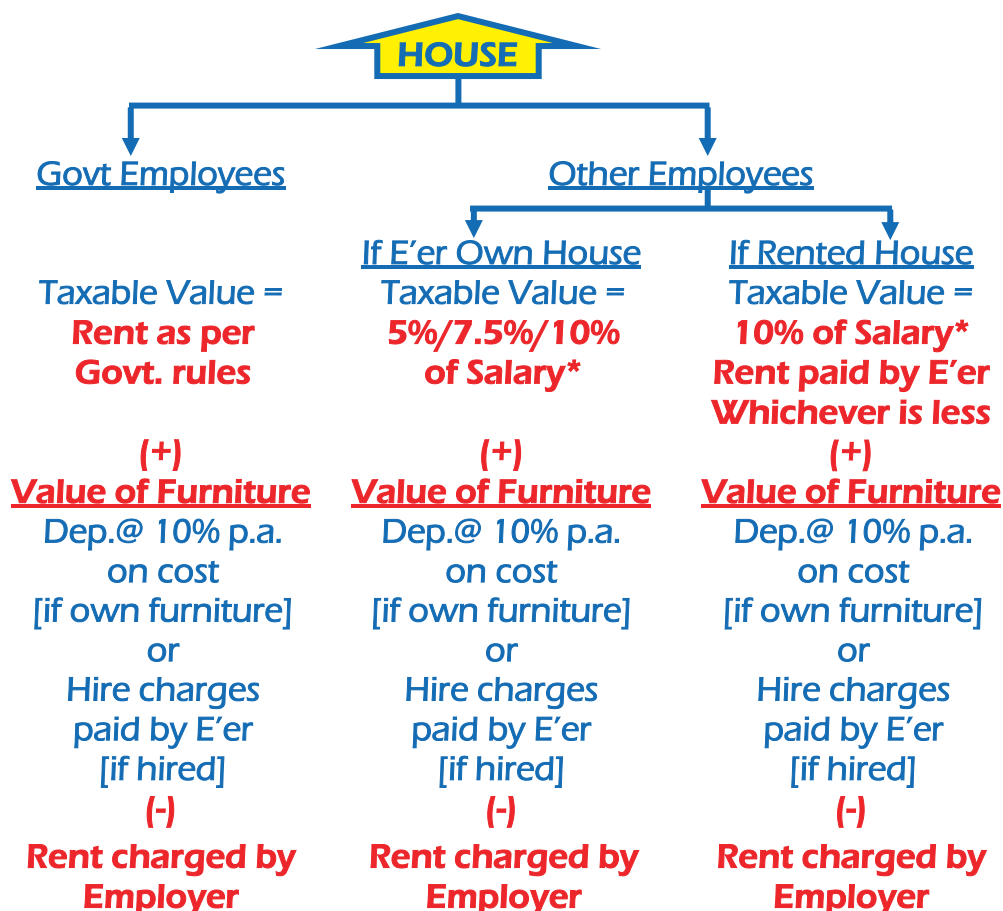
Interest benefit on loan taken from employer for treatment of **specified disease** is **fully exempt**.

**5) GIFT FROM EMPLOYER:**

Gift in kind or Gift voucher is exempt upto **₹ 5,000**)  
Cash gift is fully taxable.

**6) EDUCATION FACILITY:**



**7) HOUSE (ACCOMODATION):**

Population	%
Upto 15,00,000	5%
More than 15,00,000 up to 40,00,000	7.5%
More than 40,00,000	10%

\*Salary for the purpose of above calculation includes BDA BCM

B – Basic Salary

D – Dearness Allowance (In terms)

A – Other Taxable Allowances

B – Bonus

C – Commission

M – Other Monetary Incomes (excluding perquisites)



**Important points on BDA BCM**

- 1) Only **current year's** salary should be considered. Ignore past and future i.e. ignore arrears of salary, advance salary and past bonus.
- 2) BDA BCM should be calculated for the **period** during which house is **occupied** by the employee.
- 3) If the employee is employed with more than one employer, then while calculating BDA BCM, salary from **all the employers** should be considered.
- 4) **Provident Fund** contribution and interest **should not be considered** in BDA BCM.

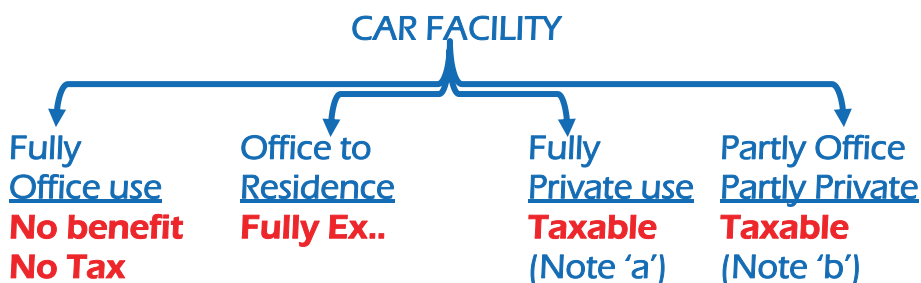
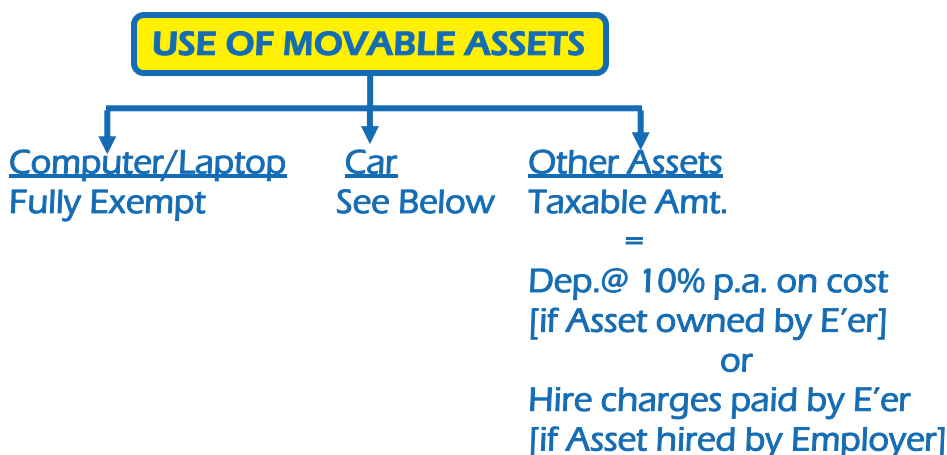
⇒ **Hotel accommodation:**

If an employee (whether Government or Non-Govt.) is provided an accommodation in Hotel, then the taxable value

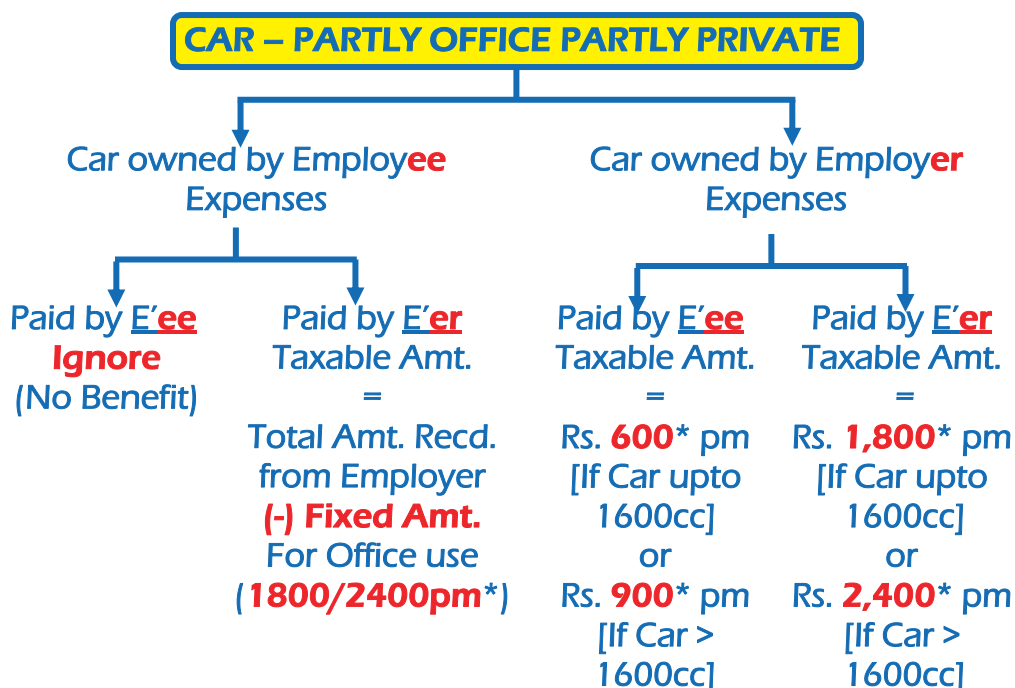
- 1) **24%** of BDA BCM
- 2) Rent paid by Employer to Hotel  
whichever is less  
Less: Rent charged by Employer.

⇒ **Important note:**

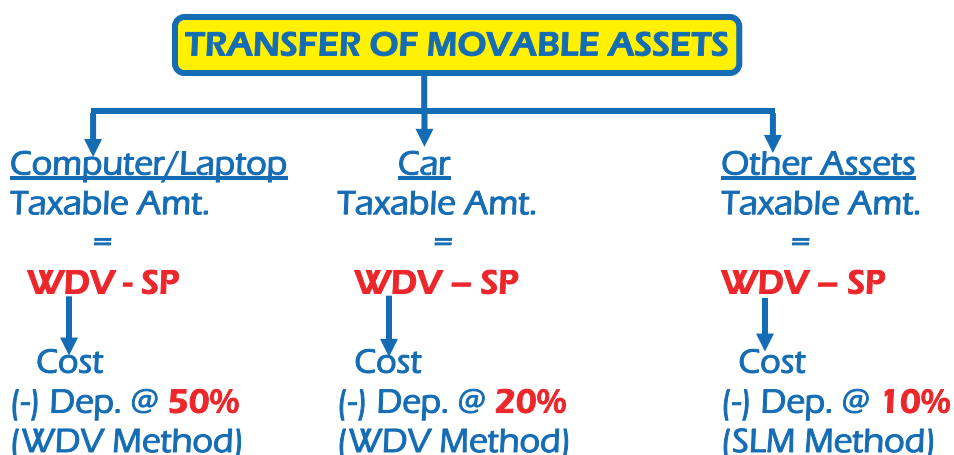
If employee is transferred to some other place and he is provided an accommodation in Hotel at other place, then the **stay in Hotel up to 15 days is exempt.**

**8) USE OF MOVABLE ASSETS:****Note 'a': CAR FOR FULLY PRIVATE USE:**

Depn @ 10% p.a. on cost/Hire charges paid by E'er	XXX
<u>Add:</u> Running & Maintenance Exps (If paid by E'er)	XXX
<u>Add:</u> Drivers Salary (If paid by Employer)	XXX
Taxable Amount	XXX

**Note 'b': CAR FOR PARTLY OFFICE PARTLY PVT. USE:**

\*All the amounts should be **increased by ₹ 900 p.m. if Driver** is provided by Employer or his salary is paid by Employer.

**9) TRANSFER OF MOVABLE ASSETS:**

Depn should be calculated for **completed years** starting from the date of purchase by employer up to the date of transfer to employee  
 [Part of the year should be ignored]

**10) EMPLOYEES STOCK OPTION SCHEME [ESOPS]:**

Taxable Amt. =

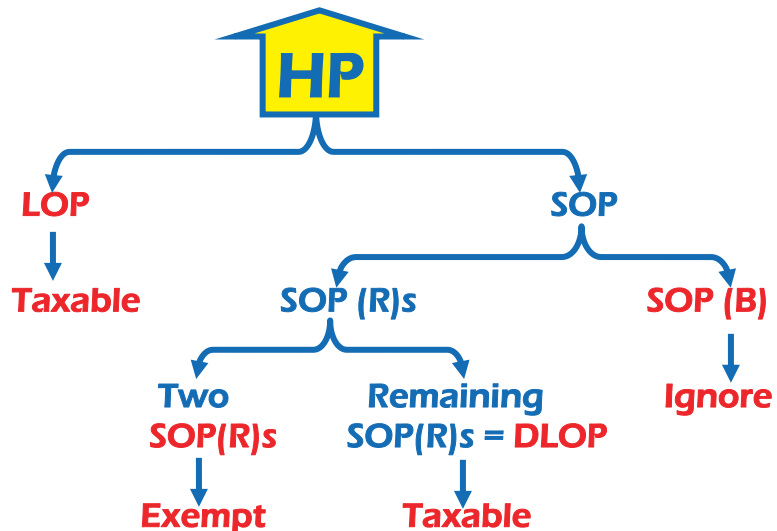
FMV on the date of exercising the option – Issue Price.

**Mobile bills** paid/reimbursed by employer is **fully exempt**  
**Scholarship** for employee's children is fully **exempt u/s 10(16)**

Perquisites **other than** those discussed **above** are **fully taxable**

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# INCOME FROM HOUSE PROPERTY



LOP – Let out property

SOP (B) – Self Occupied Property for Business

SOP (R) – Self Occupied Property for Residence

DLOP – Deemed to be let out property

Statement of Income from House Property

| Particulars                   | LOP  | DLOP | SOP (R) |
|-------------------------------|------|------|---------|
| Gross Annual Value            | XX   | XX   | NIL     |
| <u>Less:</u> Municipal Taxes  | (XX) | (XX) | NIL     |
| Net Annual Value              | XX   | XX   | NIL     |
| <u>Less: Deduction u/s 24</u> |      |      |         |
| → Standard dedn [30% of NAV]  | (XX) | (XX) | NIL     |
| → Interest on Loan            | (XX) | (XX) | (XX)    |
|                               | XX   | XX   | (XX)    |
| Taxable IFHP                  |      | XXX  |         |

Limit

## GROSS ANNUAL VALUE

|   |                             |    |
|---|-----------------------------|----|
| ↑ | <b>Municipal Value</b>      | XX |
|   | <b>Fair Rent</b>            | XX |
| ↓ | whichever is higher         | XX |
| ↓ | <b>Standard Rent</b>        | XX |
| ↑ | Expected Rent               | XX |
| ↑ | <b>Actual Rent Received</b> | XX |
|   | GAV (whichever is higher)   | XX |

**Municipal Value** means rent as per the records of Local Authority.

**Fair Rent** means rent of similar houses in the same locality.

**Standard Rent** means maximum rent which can be legally recovered as per "Rent Control Act".

**Expected Rent** is computed for the entire **12 months**. However, if the property is newly acquired during the PY say on 1st June, 2023 then it should be computed for 10 months only i.e. **ownership period**.

**Actual Rent** should be taken for the period **actually let-out** (whether **received** or **outstanding**)

GAV of LOP which is **VACANT** for some part of the year

If Actual Rent Received + Vacancy Rent  $\geq$  Expected Rent  
then GAV = **Actual Rent Received**

If Actual Rent Received + Vacancy Rent  $<$  Expected Rent  
then GAV = **Expected Rent**

## MUNICIPAL TAXES

- (a) Any tax paid to Municipality i.e. **Local Authority** is Municipal Tax like Water Tax, Local Tax, Property Tax, Corporation Tax, Sewerage Tax, etc.
- (b) Deduction is allowed on **payment basis**
- (c) Deduction is allowed only, if it is **paid by the owner**.
- (d) If it is given in **%** form then it apply % on **Municipal Value**.

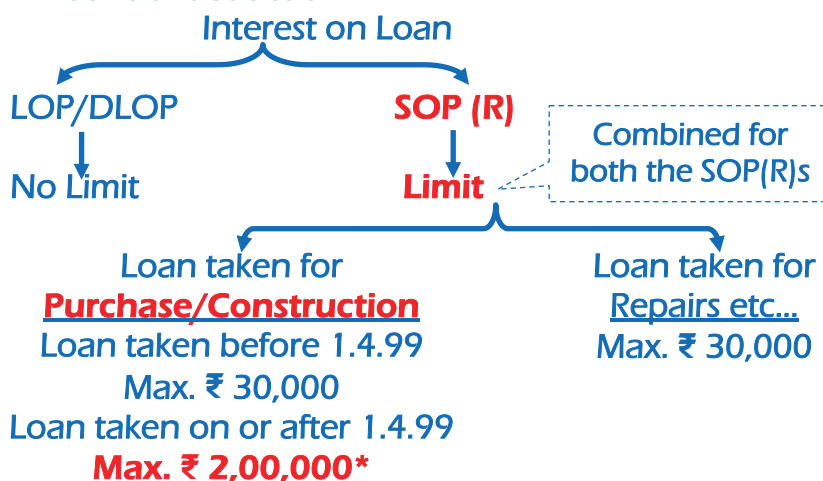
## INTEREST ON LOAN

- (a) Deduction is allowed on **accrual basis**.
- (b) Loan may be taken for **any purpose** of house whether **purchase**, construction, **repairs**, renovation etc..
- (c) Dedn is allowed whether loan is taken from **Banks/Others** [But u/s 80C, deduction for principal repayment is allowed only if loan taken from Banks/Financial Institution]

→ Housing Loan

| Deduction u/s 24        | Deduction u/s 80C          |
|-------------------------|----------------------------|
| Interest                | Principal                  |
| Loan taken from Any One | Loan taken from Banks/FI's |
| Loan for any purpose    | Loan for Purchase/Const.   |

- (d) Amount of deduction:



\* If purchase/construction is **completed within 5 years** from the end of the year in which loan is taken and the assessee furnishes a **certificate** from the lender specifying the amount of interest payable.

- (e) **Pre-Construction Interest:**  
It means interest paid **before the year** in which construction/acquisition is completed. It is allowed as deduction in **5 equal instalments**, starting from the year in which construction/acquisition is completed.
- (f) If loan is taken by mortgaging House 1 & it is used for purpose of House 2 then deduction is allowed in House 2.



## UNREALISED RENT

- (a) It means rent which could not be recovered (Bad Debts).
  - (b) It should be deducted from Actual Rent.
  - (c) Recovery of unrealised rent should be added at the end of the statement. Taxable Amt. =  
Unrealised Rent Recovered – **30% Standard Deduction**
- Note: Any expense on recovery shall not be allowed.

## ARREARS OF RENT

If the rent of the property is retrospectively increased or due to any other reason, the owner receives rent for past years (which was not taxed earlier) then it should be added at the end of the statement.

→ Taxable Amount = Arrears Received – **30% Standard Dedn**

Note:

Recovery of unrealized rent and arrears of rent shall be taxable even if the assessee is no more the owner of such house property.

## PARTLY LET OUT PROPERTY

It means some area of the house is let out & the remaining area is self-occupied. In such case, prepare 2 columns assuming there are 2 houses [LOP & SOP (R)].

**Divide all the amounts** in the given ratio.

**Don't divide actual rent** because it is already for let out portion.

Interest on loan for let out area – Deduct full amount

Interest on loan for self-occupied area – Deduct as per limit

## CO-OWNERSHIP

In such case, prepare the statement as usual & at the end divide the final answer between the owners (in the given ratio)

If such house is SOP (R), then the limit for interest deduction will be maximum ₹ 30,000/2,00,000 **per owner**.

## OTHER POINTS

- (a) No standard deduction, if NAV is Negative.
- (b) **Penalty** in respect of M. Tax & Int. on Loan is **not allowed**.
- (c) A house is treated as **SOP (R)** only if it is self-occupied for full 12 months [it may be vacant for some period but **should not be let-out at all**]. If the house is let out for some months & self-occupied for remaining months then it is treated as LOP.
- (d) Expenses of the house property:
  - ➔ Municipal Taxes – Allowed
  - ➔ Interest on loan – Allowed
  - ➔ **Other Expenses – Not Allowed**

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# INCOME FROM BUSINESS

In this chapter,

We have to learn how to calculate **Net Profit as per I.Tax.**

To compute this, we have to prepare following statement:

## STATEMENT OF "INCOME FROM BUSINESS"

	Amt.	
<b><u>GROSS BUSINESS INCOME:</u></b>		
Sec. 28	XX	} GP etc...
Sec. 41	XX	
	XXX	
<b><u>Less: DEDUCTIONS u/s 30 TO 37:</u></b>		
Sec. 30	-XX	} Expenses
Sec. 31	-XX	
Sec. 32	-XX	
Sec. 35	-XX	
Sec. 35 AD	-XX	
Sec. 35 D / DDA	-XX	
Sec. 36 (1)	-XX	
Sec. 37 (1)	-XX	
<b>TAXABLE IFB</b>	<b>XXX</b>	→ N.P. as per I.T.

## → OTHER REVELANT SECTIONS:

Expenses Expressly Disallowed	Special Provisions
Sec. 37 (2B)	Sec. 44 AA
Sec. 40 (a)	Sec. 44 AB
Sec. 40 (b)	Sec. 44 AD
Sec. 40 A (2)	Sec. 44 ADA
Sec. 40 A (3)	Sec. 44 AE
Sec. 40 A (7)	
Sec. 43 B	

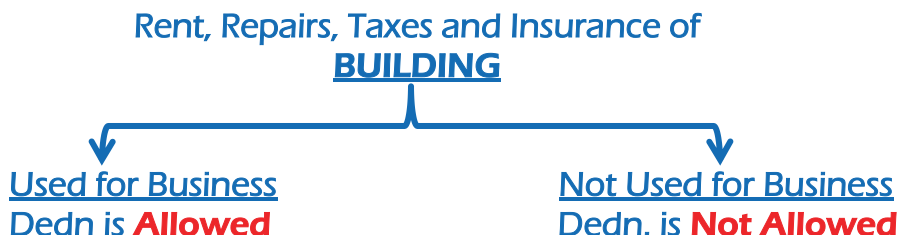
## PART - I

## DEDUCTIONS U/S 30 TO 37:

Deduction is for "**Expenses**" and for each expense, we have to learn whether deduction is **allowed** or **not allowed**.

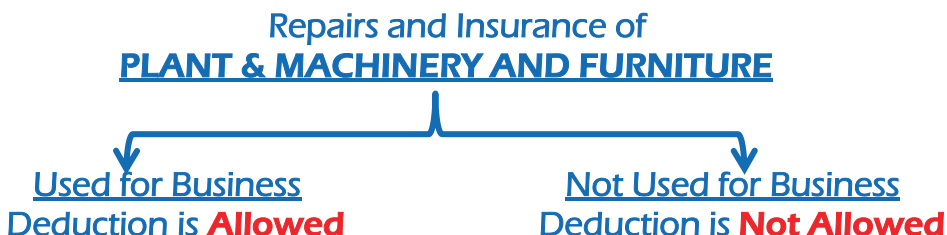
### Sec. 30

### RENT, REPAIRS, TAXES & INSURANCE OF BLDG.



### Sec. 31

### REPAIRS & INSURANCE OF P & M / FURNITURE

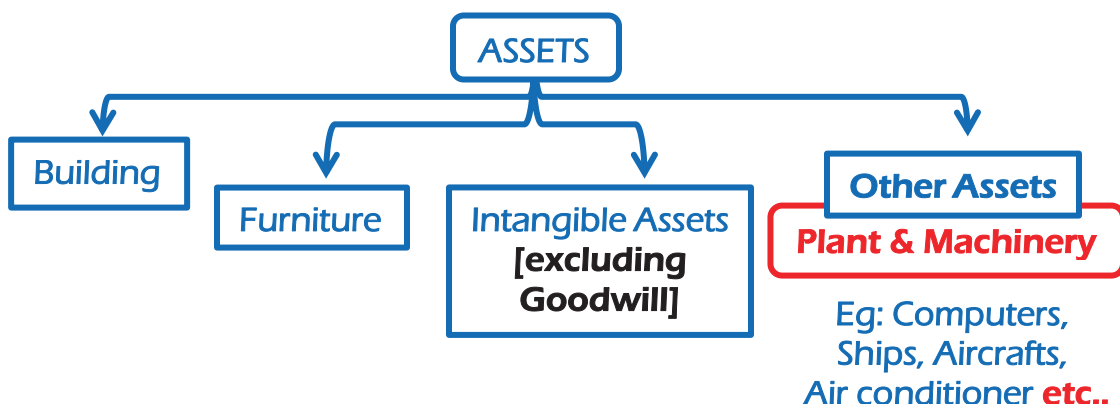


### Sec. 32

### DEPRECIATION

⇒ **Summary:**

- I. Class of Assets.
- II. Conditions
- III. Method of Depreciation
- IV. Rates of Depreciation
- V. System of Depreciation
- VI. Amount of Depreciation
- VII. Sale of Assets
- VIII. Actual Cost
- IX. Additional Depreciation
- X. Other Points

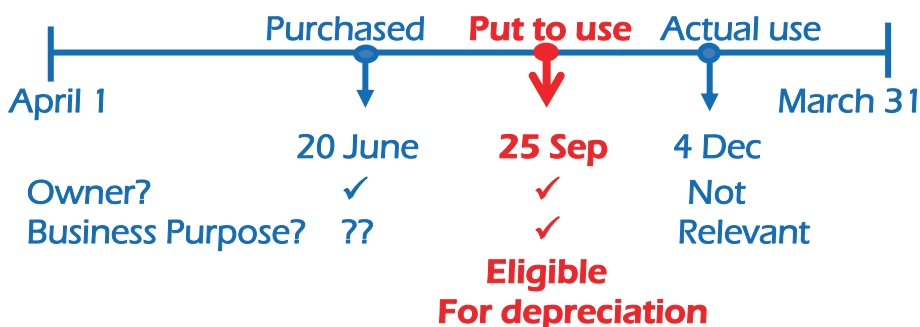
**I) CLASS OF ASSETS:****II) CONDITIONS:**

Depreciation is allowed if following conditions are satisfied:

1. The Asset should be used for **Business** purpose.
2. The Assessee should be the **Owner** of such asset.
3. In the **year of purchase**, the asset should be put to use for **180 days or more** [If 180 days or more then **full** year depreciation and if less than 180 days then **half** year depreciation].

**Note 1:**

To count 180 days, consider the date when asset is put to use.



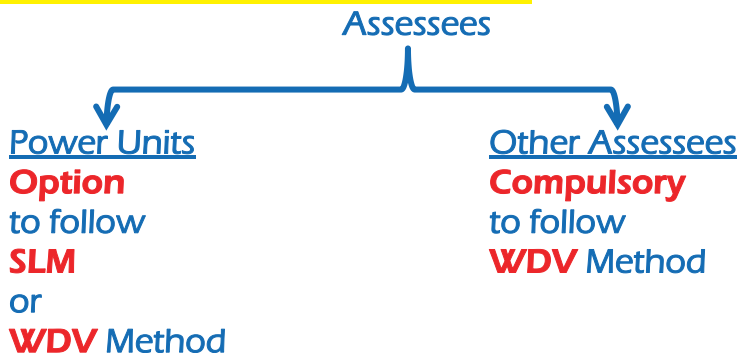
**Note 2:**

The rule of **180 days** is applicable **only in year of purchase**. This means, if an asset is purchased in a particular year and put to use in next year then, in the year of purchase no depreciation (because it's not put to use) and in the next year full year depreciation, whether put to use for 180 days or more or less (because it's the second year)

**Note 3:**



**III) METHODS OF DEPRECIATION:**



**IV) RATES OF DEPRECIATION: For WDV Method**

CLASS OF ASSETS	%
<b>BUILDING</b>	
⇒ Commercial Building	<b>10%</b>
⇒ Residential Building	5%
⇒ Temporary Exections/ wooden structures	40%
<b>FURNITURE</b>	<b>10%</b>
<b>INTANGIBLE ASSETS</b>	<b>25%</b>
<b>PLANT AND MACHINERY</b> (All other assets)	
1) Motor Cars	
⇒ Normally	15%
⇒ Hiring Business	30%
2) Ships	20%
3) Aircraft	40%
4) Computers [including computer software]	40%
5) Books	40%
6) Pollution Control Equipments	40%
7) General Rate (eg. A/c , Machinery etc.)	<b>15%</b>

**V) SYSTEM OF DEPRECIATION:**

There are two system of calculating depreciation as follows:



- ➔ Individual Asset system.
- ➔ Block of Assets system.

**All the assesseees** have to follow **Block of Assets** System. However, if **Power units** opt for **SLM** then they have to follow **Individual Assets System** [because under SLM, each asset has a different and unique rate; so its difficult to make blocks].



Individual Asset system	Block Of Assets System
Depreciation is computed <b>asset wise</b> (each asset is treated as separate asset)	Depreciation is computed <b>block wise</b> (all asset having <b>same rate</b> of depn within the <b>same class</b> of assets are <b>grouped</b> together and treated as one block)
Each asset has its own identity. Hence, <b>profit or loss</b> is computed on sale of <b>each asset</b>	Entire block is treated as a single asset. Individual asset loses its identity. Hence, <b>profit or loss</b> is not computed on sale of each asset. Its computed only <b>when the entire block is sold</b> .
Applicable only for <b>Power units - SLM</b>	Applicable to <b>all the assesses</b> [other than power units following SLM]

## VI) AMOUNT OF DEPRECIATION:

	<u>Amt.</u>	<u>No.</u>
Opening WDV	XXX	XX
<u>Add: Purchases:</u>		
→ 180 days or more	XXX	XX
→ Less than 180 days	XXX	XX
	<u>XXX</u>	<u>XX</u>
<u>Less: Sales (S.P)</u>	XXX	XX
	<u>XXX</u>	<u>XX</u>
<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  <p>Cost of Asset used for For <b>less than 180 days</b> <b>Half year</b> depreciation</p> </div> <div style="text-align: center;">  <p><u>Balance</u> Full year depreciation</p> </div> </div>		

**VII) SALE OF ASSETS**

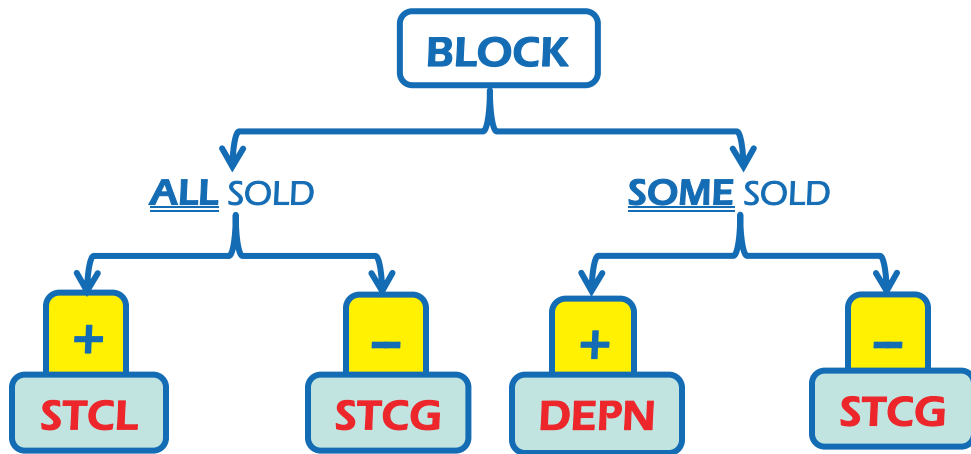
Under **Individual asset system**, profit or loss is calculated on sale of **each asset**. However, under **block of asset system**, profit or loss is calculated only if the **entire block** is sold. (if some assets are sold then it is not treated as sale; its mere recovery of cost).

→ **Sale under BLOCK OF ASSETS SYSTEM:**

Under Block of Asset system, there are 4 possibilities as follows:

	<b>ALL ASSETS SOLD</b>			<b>SOME ASSETS SOLD</b>		
	<b>(+) Balance</b>		<b>(-) Balance</b>	<b>(+) Balance</b>		<b>(-) Balance</b>
	Amt.	No.	Amt.	Amt.	No.	Amt.
Op. WDV	2,00,000	(3)	2,00,000	2,00,000	(3)	2,00,000
Add: Purchases	+7,00,000	(2)	+7,00,000	+7,00,000	(2)	+7,00,000
	9,00,000	(5)	9,00,000	9,00,000	(5)	9,00,000
Less: Sales(S.P.)	(6,00,000)	(5)	(10,00,000)	(6,00,000)	(4)	(10,00,000)
	<b>3,00,000</b>	<b>(0)</b>	<b>(1,00,000)</b>	<b>3,00,000</b>	<b>(1)</b>	<b>(1,00,000)</b>
	→ <b>STCL</b>	→ <b>No Asset No Depn</b>	→ <b>STCG</b>	→ <b>Depn @__%</b>	→ <b>Yes Asset Yes Depn</b>	→ <b>STCG</b>
						→ <b>Yes Asset But, No Depn.</b>
Opening WDV {Next Year}	No Block No WDV	No Block No WDV	No Block No WDV	3,00,000 Less: Depn	1 Asset	Nil 1 Asset

Capital Gains / Loss under block of asset system is **always SHORT TERM**.



**VIII) ACTUAL COST: Sec. 43 (1)**

	Amt.
Opening WDV	XXX
Add: Purchases <b>[Actual Cost]</b>	XXX
Less: Sales ( SP )	- XX
	XXX

Depn @ \_\_\_\_%

As per sec 43(1), Actual cost for the depn. is calculated as follows:

	Amt.
Cost of the Asset	XXX
Add: Incidental Exp.: Installation charges Transportation etc..	+XXX
Less: Subsidy recd. from Govt. or part of the cost of the asset met by any other person	- XXX
<b>ACTUAL COST</b>	<b>XXX</b>

**Note1: INTEREST ON LOAN FOR ASSET:**

→ Cases when **ACTUAL COST** is taken at **NOTIONAL** figure:

Cicumstances	Notional figure
1) Asset acquired by way of <b>Gift/ Will/ Inheritance</b> .	WDV of the previous owner.
2) Asset sold and <b>Reacquired</b>	1. WDV at the time of sale 2. Reacquisition cost whichever is less
<p>Cost 100</p> <p>WDV 70 X ----- Sold -----&gt; Y</p> <p>Reacq Cost 500/65</p>	
3) Asset purchased and <b>Leased back</b> to same person (assessee is in leasing business)	WDV of the previous owner.
<p>Cost 100</p> <p>X &lt;----- Pur..500 ----- Y WDV 70</p> <p>Leased back</p>	
4) Asset acquired with an <b>Intention to reduce tax liability</b> by claiming higher depreciation.	Amount determined by A.O [with the prior approval of Joint Commissioner]
5) <b>Personal Building converted</b> into Business Building.	Original cost <u>Less:</u> Notional depn for the no. of years of personal use at current rates.
<b>Etc.....</b>	

**IX) ADDITIONAL DEPRECIATION:**

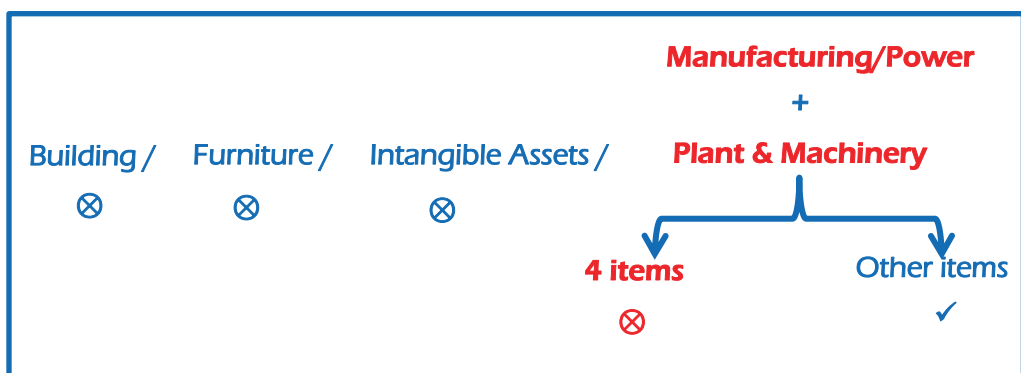
In case of Plant & Machinery, additional depreciation @ **20% on cost** is allowed if following conditions are satisfied:

**→ Conditions:**

- 1) The Assessee should be engaged in **Manufacturing** business or in the business of generation / distribution of **Power**.
- 2) The Asset should be **Plant and machinery excluding** following 4 items:
  - a) Ships, Aircrafts and Road Transport Vehicles.
  - b) Plant & Machinery installed in Office Building.
  - c) Second hand Plant & Machinery.
  - d) Plant & Machinery, the entire cost of which is allowed as deduction in one year.

**Note 1:**

Additional depreciation is allowed only in the year in which asset is **first put to use**. In the year of purchase, if the plant and machinery is put to use for **less than 180 days**, then **only half year's** additional depreciation is allowed but the **balance half** can be claimed in the immediate **next year**.



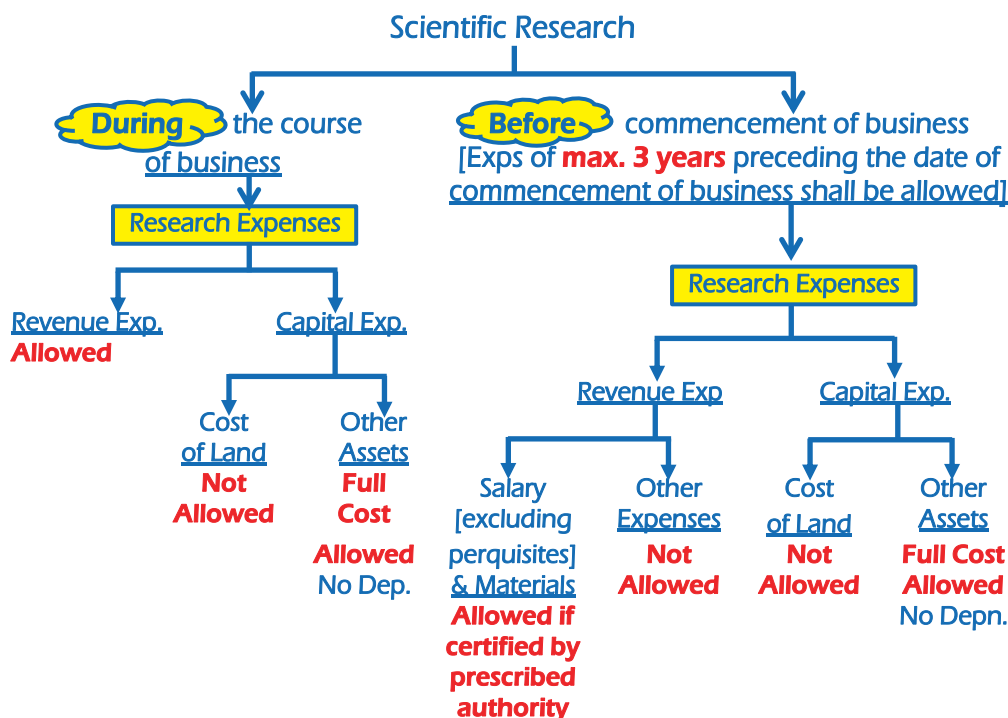
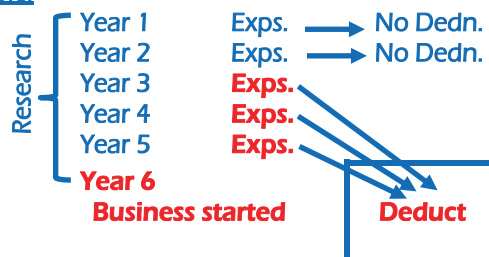
**X) OTHER POINTS:**

**HIRE PURCHASE SYSTEM:**

Normally, depn is allowed only if the assessee is the owner of the asset. Under hire purchase system, the assessee becomes the owner only after payment of last instalment but **depn is allowed** right from the beginning assuming assessee is the owner from the beginning.

**Sec. 35****EXPENDITURE ON SCIENTIFIC RESEARCH****PART – I: IN-HOUSE RESEARCH:**

This means, research is done by Assessee himself within the business [for the business]

**Example:**



**PART-II: CONTRIBUTION TO OUTSIDERS:**

This means, research is carried on by outsiders and assessee has made donation for such research. Deduction is allowed in respect of donation made to:

- ➔ National Laboratory
- ➔ Indian Institute of Technology [I.I.T]
- ➔ Indian company engaged in R & D
- ➔ Approved **R U C I**

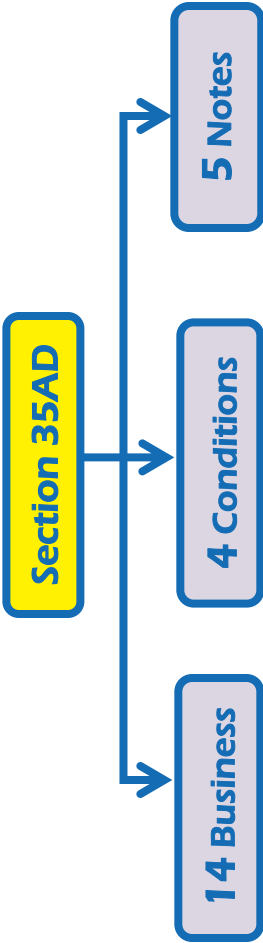
**R** – Research Association   **U** – University   **C** – College   **I** – Institute

**Sec. 35AD****DEDUCTION FOR SPECIFIED BUSINESS**

As per this section, **100%** deduction is allowed in respect of **Capital Expenditure** incurred in following business:

NATURE OF BUSINESS	Started on/after 1/4/...
Setting & Operating <b>Cold Chain Facility</b>	<b>09</b>
Setting & Operating <b>Warehousing facility</b> (For Agricultural Produce)	<b>09</b>
Laying & Operating <b>Cross Country Pipeline Network</b> (For distribution of Petroleum & Natural Gas) (For Natural Gas, 1/4/ <b>07</b> )	<b>09</b>
Building and Operating <b>Hospitals</b> (min. 100 Beds)	<b>10</b>
Building and Operating <b>Hotels</b> (min. 2 star category)	<b>10</b>
Building and developing <b>Housing Project</b> (Slum Redevelopment Scheme)	<b>10</b>
Building and developing <b>Housing Project</b> (Affordable Housing scheme)	<b>11</b>
Production of <b>Fertilizers</b> .	<b>11</b>
Setting and Operating <b>Inland Container Depot</b> or container freight station (App.. by Customs Act, 1962)	<b>12</b>
<b>Beekeeping</b> and production of honey & Beeswax	<b>12</b>
Setting and Operating <b>Warehousing facility</b> (for sugar)	<b>12</b>
Laying and Operating <b>Slurry Pipeline Network</b> (for transportation of iron ore)	<b>14</b>
Setting up and operating <b>Semi-Conductor Wafer</b> Fabrication Manufacturing unit	<b>14</b>
Developing /Operating /Maintaining <b>Infrastructure facility</b>	<b>17</b>

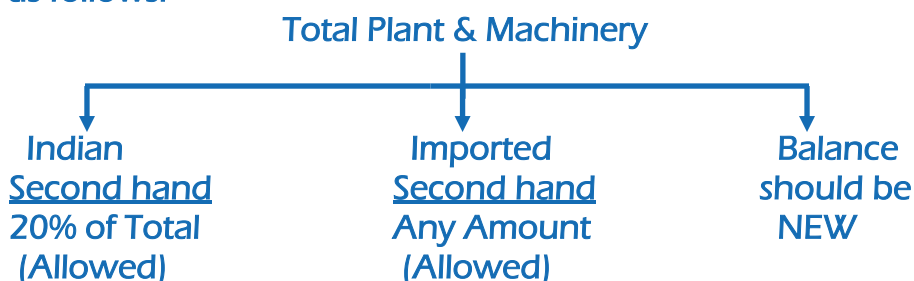
S/O	S/O	L/O	B/O	B/O	B/D	B/D	Prod.	S/O	S/O	S/O	L/O	D/O/M
C W C			H	H	H	H	F	I	B	W	S	S
Any Prod.	Ag. Prod.	PNG	Min. 100 beds	Min. 2 Star	SRS	AHS		App by Custom Act, 62	Honey Wax	Sugar	Wafer	Iron ore
09	09	09	10	10	10	11	11	12	12	12	14	14
												17



## → **4 CONDITIONS:**

Deduction u/s 3AD is allowed only if the following conditions are satisfied:

1. **Business** should be **newly** established. It should not be formed by splitting up or reconstruction of an existing business.
2. **Plant & Machinery** required in the business should be **new** (first hand). However, use of second-hand P & M is allowed as follows:



3. In case of **Cross Country Pipeline Network** (petroleum and natural gas), following additional conditions should be satisfied – **IPCO**
  - a) Business should be owned by **Indian Company** or consortium of Indian companies
  - b) Business should be approved by **PNGRB** (Petroleum and Natural Gas Regulatory Board).
  - c) Atleast some portion of the total pipeline capacity (as may be prescribed by PNGRB) should be made available for use by "others" on **common carrier basis**.
  - d) Any **other conditions** as may be prescribed
4. In case of **Infrastructure facility**, following additional conditions should be satisfied:
  - a) Business should be owned by **Indian Company** or consortium of Indian companies
  - b) The assessee should enter in to an **Agreement** with **Central** or **State Govt.** or **Local** Authority for developing, operating or maintaining infrastructure facility.

## → **5 NOTES:**

- 1) **Expenses** incurred **before commencement** of business shall be **allowed** as deduction in the **first year** of business.
- 2) Deduction is allowed for all the capital expenditures **excluding**:
  - Cost of **Land**;
  - Cost of **Goodwill**;
  - Cost of **Financial instruments**;
- 3) Amount received (selling price) on **sale or disposal** of asset (in respect of which deduction is allowed u/s 35AD) shall be **taxable u/s 28**.
- 4) Loss from **Specified** Business can be set off **only against** Income from **Specified** Business. If it cannot be set off in the same year, then it can be carried forward for **unlimited** no. of years [Sec. 73A]
- 5) Asset acquired for specified business should be used **only in specified** business for a minimum **8 years** (from the year of purchase). During such 8 years, if such asset is used in non-specified business then the following amount shall be taxable:

Taxable amt. = Dedn allowed earlier u/s 35AD (-) Depn that would have been allowable till last year.

Eg: Asset cost ₹ 100

Yr.1	Specified Business	Dedn ₹100
Yr.2	Specified Business	NIL
Yr.3	Specified Business	NIL
Yr.4	Non-Specified Bus.	₹72.9 (100 - 27.1*) Added to income

\* 27.1 = 10 + 9 + 8.1 [Depn for 3 years @ 10% assumed]

**Sec.35 D****PRELIMINARY EXPENSES**

Preliminary exp. means expenses incurred **before** commencement of a **new project**.

The following expenses are eligible for deduction:

→ **List of Eligible Expenses: PFME DRSO**

- **P**roject Report
- **F**easibility Report
- **M**arket Survey
- **E**ngineering Services
- **D**rafting of Memorandum/Articles of association & other legal Documents
- **R**egistration Fees
- **S**hares & Debentures Issue Expenses
- **O**thers expenses as may be prescribed

→ **Amount of Deduction:**

For Companies	For Other assesseees
Deduction = <b>1/5<sup>th</sup></b> of:	Deduction = <b>1/5<sup>th</sup></b> of:
1) Actual Eligible Expenses	1) Actual Eligible Exps.
2) 5% of COP or CE [whichever is high]	2) 5% of COP
Whichever is less	Whichever is less

→ **Notes:**

- 1) The above deduction is for **5 years** starting from the year in which project commences.
- 2) COP (Cost of Project) = Cost of Fixed Assets  
(required for the new project)  
CE (Capital Employed) = Share Cap. + Deb. + L.T. Loans  
(for the new project)
- 3) This deduction is only for **Indian companies** and **Others Resident** in India.

**Sec.35 DDA**

**VOLUNTARY RETIREMENT COMPENSATION**

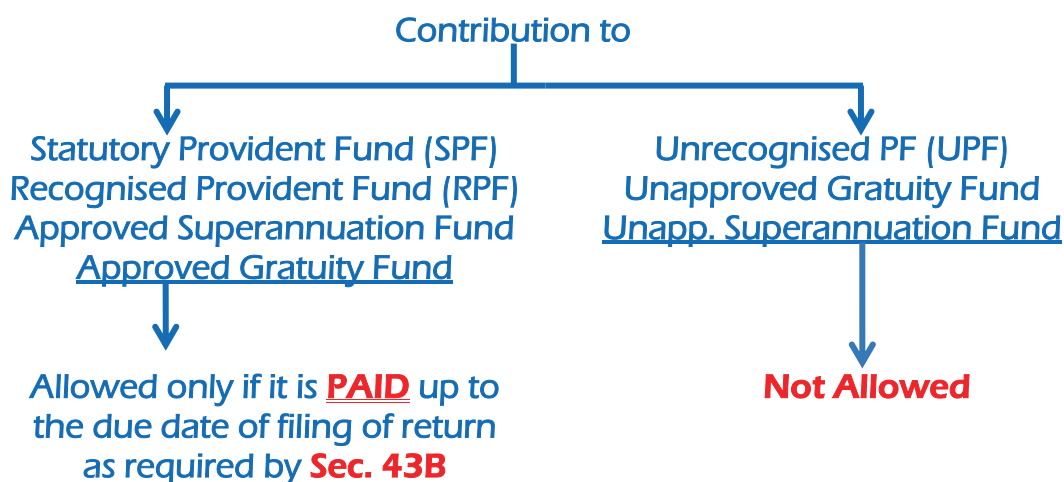
Deduction is allowed in **5 equal Instalments**.

**Sec.36(1)**

**OTHER SPECIFIC DEDUCTIONS – C I<sub>2</sub>B<sub>2</sub>**

**C**

**CONTRIBUTION TO PF etc.**



**Notes:**

1. Employer's Contribution to RPF is allowed if it is paid upto due date of filing return as required by Section 43B.  
However, **Employee's** Contribution to RPF is allowed if **paid upto due date of the fund** as required by section 36(1)(va).  
If not paid upto due date of the fund, then it is **disallowed forever**.
2. Employer's contribution to NPS (**National Pension Scheme**) is allowed as **deduction u/s 36(1)**  
⇒ Max. **14%** of [**Basic Salary + D.A (in terms)**]

I<sub>1</sub>

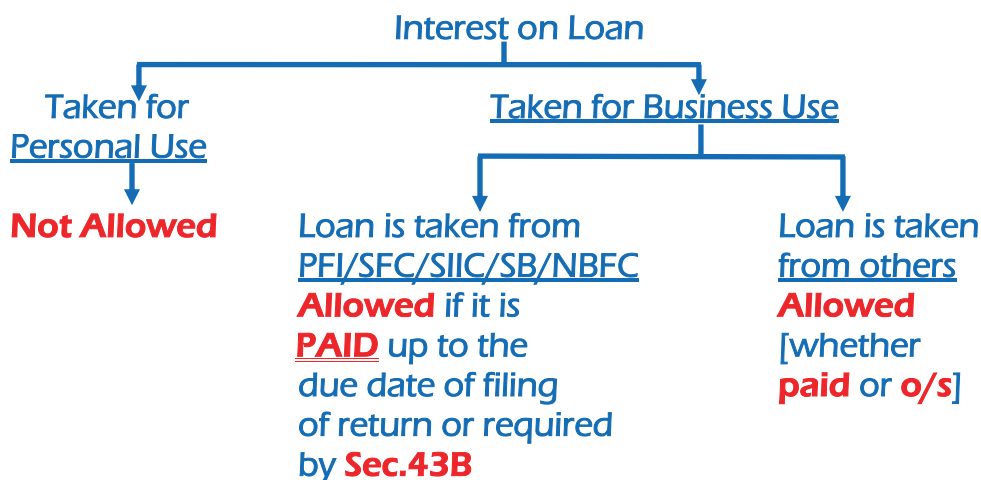
## INSURANCE PREMIUM

- Stock – **Allowed**
- Medical Insurance Premium on Employee's health.



I<sub>2</sub>

## INTEREST ON LOAN



PFI	-	Public Financial Institution
SFC	-	State Financial Corporation
SIIC	-	State Industrial Investment Corporation
SB	-	Schedule Banks [including Co-operative Banks]
NBFC	-	Non-Banking Financial Companies

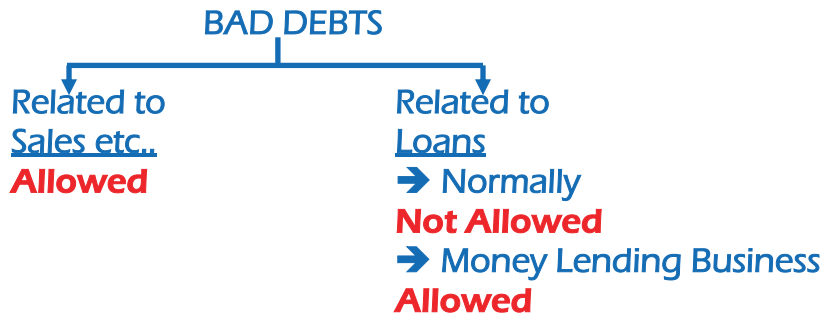


**B<sub>1</sub>****BONUS & COMMISSION TO EMPLOYEES**

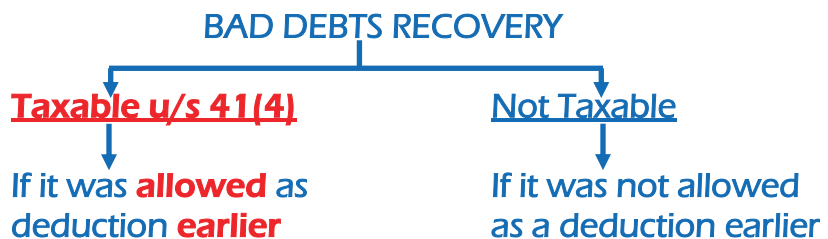
Bonus and commission to employees is **allowed** as dedn if it is **PAID** up to the due date of filing of return as required by **Sec. 43B**.

**B<sub>2</sub>****BAD DEBTS**

a)



b)



c) Actual Bad debts is allowed as a deduction but **RDD** is **not allowed**.

**F****FAMILY PLANNING EXPENDITURE**

Any Expenditure incurred for promoting family planning amongst the **employees** is allowed as a deduction as follows:



**Note:** This deduction is only for **Companies**.

**Sec.37(1)****GENERAL DEDUCTION**

Any expense which is **not covered u/s 30 to 36(1)** shall be allowed as a deduction u/s 37(1) if following 2 conditions are satisfied:

1. Expense should be related to **Business**.
2. Expense should be **Revenue** in nature.

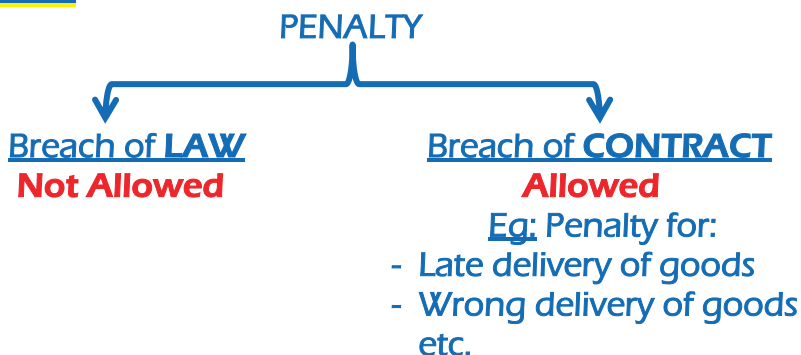
**Note 1:** Any Expense which is **illegal** in nature is **disallowed** even if such expense is necessary for the business. Eg: Bribes, protection money, secret commission etc.

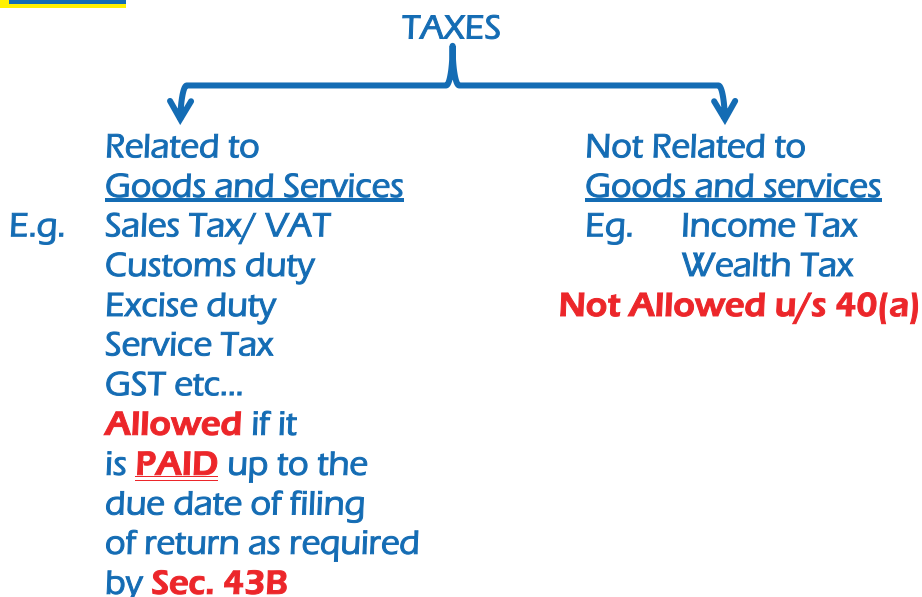
Settlement amount paid to settle contraventions is illegal (disallowed). Expenditure for any purpose which is an offence or prohibited by law shall include any expenditure incurred to settle proceedings initiated in relation to a contravention under any law.

**Note 2:** Any Expense on **CSR** is **not allowed** because these expenses are not related to business [CSR = Corporate Social Responsibility]

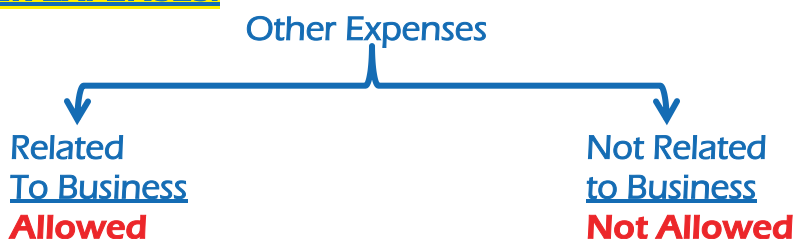
**Examples:****1) ADVERTISEMENT:**

- Normally – Allowed u/s 37 (1)
- Advt. in the souvenir, brochure, pamphlets etc of a **Political Party** – **Not allowed** u/s **37 (2B)** – Treated as donation to political party [Dedn u/s 80GGB – For companies or u/s 80GGC – For others]

**2) PENALTY:**

**3) TAXES:**

	Taxes	Int. on late payment	Penalty
Sales Tax/VAT	✓	✓	×
Custom Duty	✓	✓	×
Excise Duty	✓	✓	×
Service Tax	✓	✓	×
GST	✓	✓	×
Income Tax	×	×	×
Wealth Tax	×	×	×

**4) OTHER EXPENSES:**

## PART - II

### EXPENSES EXPRESSLY DISALLOWED

#### Sec.37 (2B)

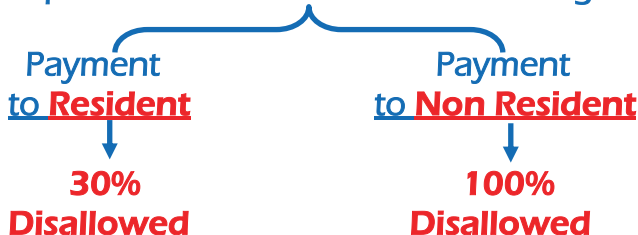
#### ADVERTISEMENT – POLITICAL PARTY

Advt. in souvenir, brochure, pamphlets etc. of a political party is expressly disallowed under this section

#### Sec.40 (a)

Under this section, following expenses are expressly disallowed:

- a) **Income Tax** and **Wealth Tax**
- b) Expenses incurred **without** deducting **TDS**



#### Sec.40 (b)

While computing business Income of Partnership firm, deduction for **remuneration** and **interest** shall be allowed subject to following **conditions** and **limits**:

#### → CONDITIONS:

1. Remuneration and interest should be **AUTHORISED** and **QUANTIFIED** by the Partnership Deed. (either the exact amt. of interest/remuneration should be mentioned in the deed or method of calculating such amount should be mentioned in the deed)
2. Remuneration should be paid to **WORKING PARTNER**.

→ **LIMITS:**

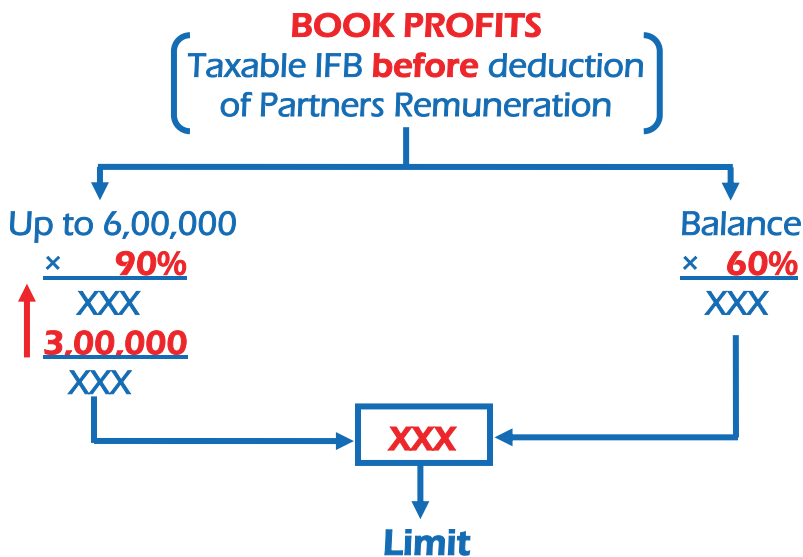
→ **For INTEREST TO PARTNERS:**

(on Partners' Capital or Partners' Loan):

**Max. 12% p.a.**

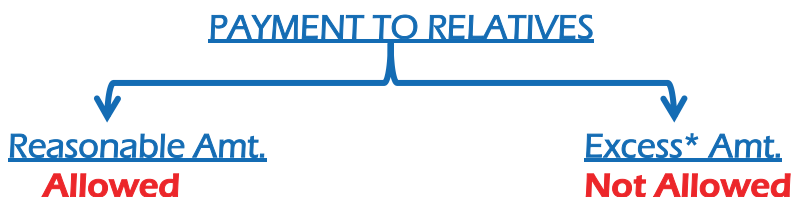
→ **For REMUNERATION TO PARTNERS:**

(Salary, Commission, Bonus etc. to working partners)



**Amount of deduction:**

1. Actual Remuneration to working Partners
2. Limit u/s 40(b) as calculated above

**Sec.40 A (2)****PAYMENT TO RELATIVES**

\*A payment is treated is excessive if it exceeds the **fair market value** of the goods, services or facilities or the **legitimate needs** of the business.

**Meaning of Relative:**

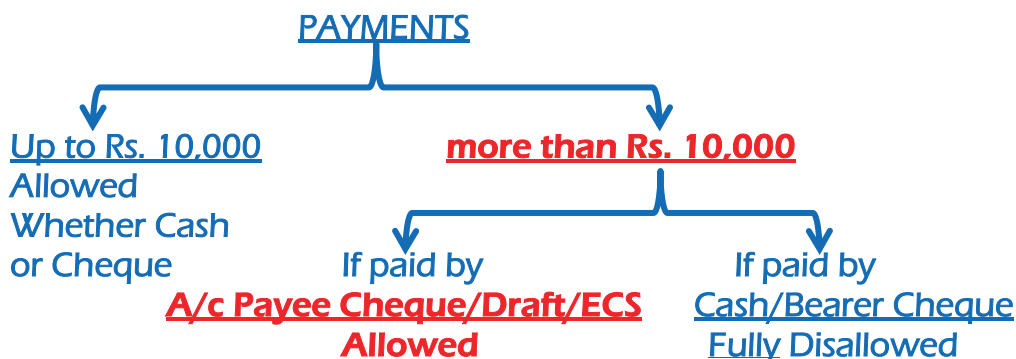
Assessee	Relatives
Individual	Husband, Wife, Brothers, Sisters, Lineal Ascendant and Lineal Descendant (H/W/B/S/L <sub>A</sub> /L <sub>D</sub> )
Partnership Firm	Partner and their relatives (H/W/B/S/L <sub>A</sub> /L <sub>D</sub> )
HUF	Members and their relatives (H/W/B/S/L <sub>A</sub> /L <sub>D</sub> )
Company	Directors and their relatives (H/W/B/S/L <sub>A</sub> /L <sub>D</sub> )
Any Assessee	→ Substantial interest → Any Person
Any Assessee	← Substantial interest ← Any Person

**Note:**

Substantial Interest means having atleast:  
**20% shares** [in case of companies] or  
**20% rights in profits** [in other cases]

**Sec.40 A (3)**

**PAYMENT EXCEEDING Rs.10,000**



**Note 1:**

The above rule is applicable to all the expenses **except** medical **insurance premium of employee's health**. Insurance premium of employee's health is allowed as a deduction only if it is paid by cheque [whether less than or more than Rs.10,000].

**Note 2:**

The restriction of cash payment is applicable to **revenue exp. as well as capital exp.** This means, if an asset is purchased in cash then such asset will not be eligible for depreciation or any other deduction like section 35 AD etc..

**Note 3:**

The restriction of cash payment is applicable to payment **per person per day**.

Case	Date	Payment	Allowed or not
I	14.10.24	7,500 cash to "A" 7,500 cash to "B"	Both allowed because different Persons
II	14.10.24 15.10.24	7,500 cash to "A" 7,500 cash to "A"	Both allowed because different dates
III	14.10.24 14.10.24	7,500 cash to "A" 7,500 cash to "A"	Same Person, Same date, Same Expense ∴ Not Allowed (because in aggregate it exceeds Rs.10,000)

**Note 4:**

If an expenditure exceeding Rs. 10,000 (**outstanding**) is claimed as a deduction on accrual basis in a particular year and **subsequently**, it is **paid by cash** then **deduction** allowed earlier shall be **withdrawn**.



→ **EXCEPTIONS TO SEC. 40 A (3) [RULE 6 DD]:**

In following cases, deduction is allowed even if payment exceeding Rs.10,000 is made in cash:

- 1) Payments made to **Government** or **Banks/Financial Institutions** Eg: GST, custom duty, Interest to bank etc.
- 2) Payments made to **producers** of:
  - Agricultural products
  - Forest products
  - Fish products
  - Poultry products
  - Dairy products
  - Animals products
  - Products manufactured without the aid of power
- 3) Payments made in a place where there are **no banking facilities**.
- 4) Payment of **Terminal Benefits** to an employee (i.e. Gratuity, PF etc.) **up to Rs. 50,000**
- 5) Payment of **Salary** to an employee who is **posted** to a place other than his normal place of duty for minimum **15 days** (where he has no bank A/c)
- 6) Payment made to **Transport operator up to Rs. 35,000**

**Sec.40 A (7)**

**PROVISION FOR GRATUITY**

This means, assessee has provided for gratuity payable to employees who will retire in future. Since employees will **retire in future**, the gratuity expense will accrue in future & since it will **accrue in future**, it will be **allowed in future (not now)**. Hence, provision for gratuity is **not allowed**.

Note: Similarly, **any provisions/reserves** in respect of expenses or losses which will accrue in future are **not allowed**.

Eg: Provision for contingencies, RDD, Reserve for discount etc.

**Sec.43 B**

**DEDUCTION ON PAYMENT BASIS**

As per this section, following expenses are allowed only if such expenses are **PAID** up to the due date of filing of return:

**T. B. L I C R M**

- T:** Any **T**ax, cess, duty payable to Govt.
- B:** **B**onus & Commission to employees.
- L:** **L**ease salary to employees.
- I:** **I**nterest on loans taken from PFI, SFC, SIIC, SB & NBFC
- C:** **C**ontribution to SPF, RPF, Approved Gratuity fund & Approved Superannuation fund.
- R:** Payment to Indian **Railways**
- M:** Payment to **Micro and small enterprises**

If the **payment is not made** up to the due date of filing of return, deduction is **not allowed in the current PY**. However, deduction will be allowed in future i.e. **in the year of actual payment**.

However, in case of amount payable to micro and small enterprises, sec.43B requires that the payment should be made within the **time limit prescribed in sec.15** of MSMEDA, 2006 [Micro, Small and Medium Enterprises Development Act, 2006]. If payment is made **within the time limit** u/s 15 of MSMEDA 2006 then dedn is allowed on **accrual basis** and if it is paid **after such time limit** then dedn is allowed on **payment basis**.

As per sec. 15 of MSMEDA, 2006, any sum due to micro and small enterprises should be paid on or before the **date agreed** upon in writing between the parties [**which shall not exceed 45 days**]. If there is **no such agreement** then it should be paid within **15 days**.

Eg: Our Previous year is **2024-25**

On **26<sup>th</sup> March 2025**, Assessee purchased stationery from Mr.X [who is a micro and small enterprise]. The assessee did not agree as to when the amount will be paid by him to Mr.X. Accordingly, the stationery bill should be paid within 15 days i.e. latest upto **10<sup>th</sup> April 2025**.

In this case:

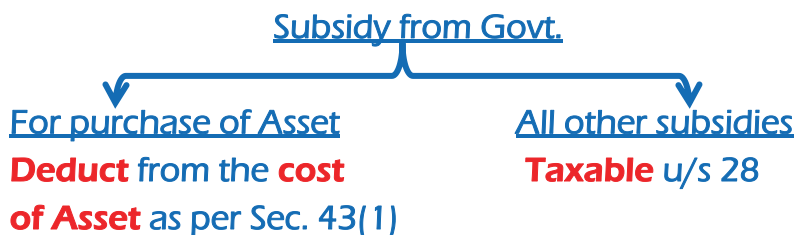
- ⇒ If the assessee pays the bill **on or before 10<sup>th</sup> April 2025** then dedn will be **allowed in the PY 2024-25** itself on accrual basis.
- ⇒ If the assessee pays the bill **after 10<sup>th</sup> April, 2025** then dedn will not be allowed in PY 2024-25. It will be allowed in the **year of actual payment**.

## **PART - III** → **LIST OF BUSINESS INCOMES**

Following incomes are taxable as business income:

→ **As per Sec. 28:**

1. Gross Profit ;
2. Fees for providing services ;
3. Gifts from customers / clients ;
4. Cash Compensatory support (subsidy), Duty Drawback and Sale of Import license ;



5. Remuneration and Interest received by partner from partnership firm is taxable u/s 28 [but share in Net Profit is exempt u/s 10 (2A)];

6. Non-compete fees i.e. amt. received for not carrying on competitive business/activity ;
7. Amount recd. from Keyman Insurance Policy ;  
Note: Amount received is taxable u/s 28 but Premium paid for Keyman Insurance is allowed as deduction u/s 37(1).
8. Amount recd. on sale or disposal of asset (in respect of which deduction is allowed u/s 35AD) ; and
9. Any Other income which is related to the business.

→ **As per Sec. 41: DEEMED BUSINESS INCOMES:**

**Section 41(1): GENERAL RECOVERY:**

Subsequent recovery of **Any Expense** or Loss shall be taxable as business income if such expense or loss was **allowed in past**.

Eg: GST Refund, custom duty refund, etc.

**Section 41(4): BAD DEBTS RECOVERY:**


Subsequent recovery of **Bad debts** shall be taxable as business income if such bad debts was **allowed in past**.

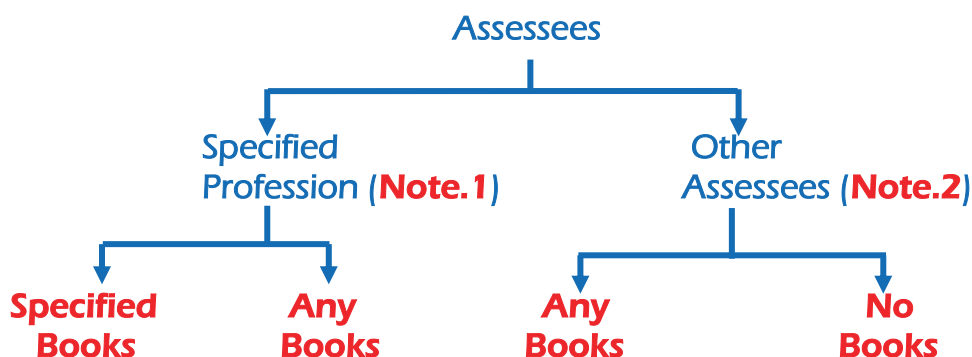
**Section 41(3): SALE OF SCIENTIFIC RESEARCH ASSETS:**

Eg:

Cost	100
<u>Less: Dedn u/s 35</u>	<u>– 100</u>
WDV	<u>Zero</u>

SP.	105
<u>Less: WDV</u>	<u>0</u>
Profit	<u>105</u>

	
<u>Capital gains</u>	<u>Bus. Income u/s 41(3)</u>
5 [SP – Cost]	100

**PART - IV****SPECIAL PROVISIONS****Sec. 44 AA****COMPULSORY MAINTENANCE OF BOOKS****Note 1: ASSESSEE CARRYING ON SPECIFIED PROFESSION:**

An assessee carrying on specified profession is required to maintain specified books if the **Gross Receipts** of **all** the preceding **3 years** is more than **₹ 1,50,000**. Otherwise, the assessee can maintain any books as are necessary for completing the assessment.

**→ Specified Books (Rule 6F)**

- Cash Book
  - Journal
  - Ledger
  - Copies of Bills
  - Receipts of Expenses
  - Stock of Medicines Register
  - Daily Case Register
- } only in case of Medical Profession.

**→ Specified Profession [MA<sub>2</sub>LE FIT CO.]**

Medical, Accountancy, Architecture, Legal, Engineering, Film Artist, Interior Decoration, Technical Consultancy, Company Secretary and Others as may be notified by CBDT.

**Note 2: OTHER ASSESSEES:**

Other assessees are required to maintain any such books as are necessary to complete the assessment if:

→ In case of Individual / HUF:

<b>Total Sales</b> > ₹ 25,00,000	}	in <b>any one</b> of the preceding <b>3 years</b> .
or		
<b>Taxable IFB</b> > ₹ 2,50,000		

→ In case of Others:

<b>Total Sales</b> > ₹ 10,00,000	}	in <b>any one</b> of the preceding <b>3 years</b> .
or		
<b>Taxable IFB</b> > ₹ 1,20,000		

Otherwise, these assesseees are not required to maintain books of accounts.

Failure to comply with above provision –  
**PENALTY of ₹ 25,000 u/s 271A**

**Sec. 44 AB****COMPULSORY AUDIT OF ACCOUNTS**

- 1) In case of a **Business**, audit is compulsory if the total sales/turnover is **more than ₹ 1 crore/10 crores**.  
Limit is ₹10 crores, if **max. 5%** of the Total Payments\* during the financial year and **max. 5%** of the Total Receipts\* during the financial year is by cash or bearer chq. or crossed chq.  
\*Total payments & receipts shall include all payments & receipts whether revenue or capital in nature.
- 2) In case of a **Profession**, audit is compulsory if the Gross Receipts is **more than ₹ 50 lakhs**.
- 3) Audit should be done by a **CA** and the **Audit Report** should be furnished atleast **one month prior the due date of filing return** i.e. upto **30<sup>th</sup> September** of AY.

- 4) The assessee should submit following **forms**:
  - i. Form 3 CA (for companies) / Form 3 CB (for others)
  - ii. Form 3 CD (for all assessees)
- 5) Failure to comply with above provision shall attract **penalty u/s 271B** which will be lower of following:
  - i. 0.5 % of Total sales/ Gross Receipts
  - ii. ₹ 1,50,000

**Sec.44 AE**

**PRESUMPTIVE SCHEME - TRANSPORT BUSINESS**

Transport business = Business of plying / hiring goods carriages.  
In case of Transport business, following special provisions are applicable if the assessee **owns up to 10 goods vehicle** throughout the previous year:

1. Income from such business is computed on presumptive basis as follows:  
Taxable IFB = **Rs. 7,500 × No. of months × No. of trucks**  
However, in case of Heavy Goods Vehicle (Weight >12,000 kgs/12 tons):  
Taxable IFB = **Rs. 1,000 per ton × [Weight] No. of tons × No. of mnths × No. of trucks**
2. **Deductions** u/s 30 to 37(1) shall **not** be **allowed**. However, in case of a P. Firm carrying on transport business, dedn for **remuneration** and **interest** paid to **partners** shall be **allowed** subject to limits & conditions u/s 40(b).
3. If assessee follows presumptive basis then such assessee is **not required** to maintain **books** of accounts and get it **audited**.
4. If the Assessee **claims** that his actual business income is less than the presumptive amt. then he can declare such **lower Income** provided he **maintains books** and **gets it audited**.



**Sec.44ADA**

**PRESUMPTIVE TAXATION FOR PROFESSIONALS**

In case of assessee carrying on specified profession [MA<sub>2</sub>LE FIT CO.], following special provisions are applicable if the **Gross Receipts is up to ₹ 50 lakhs\***.

1. Income from such profession is computed on presumptive basis as follows:

**Taxable IFB = 50% of Gross Receipts**

2. Deduction u/s **30 to 37(1)** shall **not** be **allowed**. Even partner's remuneration and interest is not allowed.
3. If assessee follows presumptive basis then such assessee is **not required** to maintain **books** of a/c's and get it **audited**.
4. If the Assessee claims that his actual professional income is less than the presumptive amt. then he can **declare lower Income** provided he **maintains books** of accounts and **gets** it **audited**. However, if the **net taxable Income** of such assessee is **upto the Basic Exemption** then the Assessee can **declare lower Income without** the requirement of maintaining **books** of accounts and getting it **audited**.

**Note 1:**

This section is applicable only to **Residents Individuals** and **Resident Partnership firms [not being LLP]**.

**\*Note 2:**

The threshold limit for claiming presumptive taxation u/s **44ADA** is **Rs.75 lakhs** for those assessee in whose case **max. 5% of the gross receipts** is by way of cash or bearer chq. or crossed chq.



**Sec.44 AD**

**PRESUMPTIVE TAXATION FOR ALL BUSINESS**

In case of all the business (other than transport business, professionals and agency business) following special provisions are applicable if the **Total Sales** [or Turnover or Gross Receipts] **is upto ₹ 2 crores\***.

1. Income from such business is computed on presumptive basis as follows:  
**Taxable IFB = 6% / 8 % of Total Sales** [or Turnover]  
**Note:** **6%**, in respect of the amount of Sales/turnover received by account payee **Cheque/Draft/ECS** during the PY or up to the due date of filing return.
2. Deduction u/s **30 to 37(1)** shall **not** be **allowed**. Even partner's remuneration and interest is not allowed.
3. If assessee follows presumptive scheme then such assessee is **not required** to maintain **books** and get it **audited**.
4. If the Assessee claims that his actual business income is less than the presumptive amt. then he can **declare lower Income** provided he **maintains books** of accounts and **gets** it **audited**. However, if the **net taxable Income** of such assessee is **upto the Basic Exemption** then the Assessee can **declare lower** Income **without** the requirement of maintaining **books** of accounts and getting it **audited**.

**Note 1:**

This section is applicable only to **Residents Individuals, Resident HUF** and **Resident Partnership firms [not being LLP]**.

**Note 2:**

If assessee follows presumptive scheme in a particular year then it is **compulsory** to follow this scheme for **coming 5 years**. During these 5 years, if assessee **opts out** of the scheme then for the **next 5 years**, the assessee **cannot enter** this scheme.

**\*Note 3:**

The threshold limit for claiming presumptive taxation u/s **44AD** is **Rs.3 crores** for those assessees in whose case **max. 5% of the turnover** is by way of cash or bearer chq. or crossed chq.

**PART - V****PROBLEMS****QUESTION:**

Profit and Loss A/c

		Rs.			Rs.
To Allowed Exps	✓	xxx	By Business Incomes	✓	xxx
<b>To Disallowed Exps</b>	⊗	<b>xxx</b>	<b>By Non - Bus. Incomes</b>	⊗	<b>xxx</b>
To Net Profit		xxx			
		xxx			xxx

**ANSWER:**

STATEMENT OF INCOME FROM BUSINESS [Indirect Method]

	Amt.	Amt.
N.P as per P/ L A/c		xxx
<b>Add: DISALLOWED EXPENSES:</b>		
-----	xxx	
----- } Dr.⊗	Xxx	
-----	Xxx	+ xxx
<b>Less: NON-BUSINESS INCOMES:</b>		xxx
-----	Xxx	
----- } Cr.⊗	Xxx	
-----	Xxx	- xxx
<b>Less: UNRECORDED BUSINESS EXPS: [U B E]</b>		xxx
-----	Xxx	
-----	Xxx	- xxx
<b>Add: UNRECORDED BUSINESS INCOME: [U B I]</b>		xxx
-----	xxx	
-----	xxx	+ xxx
<b>TAXABLE INCOME FROM BUSINESS</b>		xxx

**Note 1: Treatment of Depreciation while Solving Sums:**

Depreciation as per books (P/ L Dr.) – ⊗ **Disallowed**

Depreciation as per Income Tax (Addl. Info.) – **UBE**

# INCOME FROM BUSINESS - Summary

## Statement of "Income from Business"

	Amt.
<b><u>GROSS BUSINESS INCOME:</u></b>	
→ <b>Sec. 28:</b>	
Gross Profit	xxx
Fees for providing services	xxx
Gifts from customers/clients	xxx
Cash Compensatory Support [Subsidy]	xxx
Duty drawback / Sale of import license	xxx
Remuneration/Int. from P.Firm [Share in NP – Ex.10(2A)]	xxx
Amount recd from Keyman insurance policy	xxx
Non-compete fees	xxx
Sale proceeds of sec. 35AD assets	xxx
Other business incomes	xxx
→ <b>Sec. 41:</b>	
Recovery of allowed expenses [Sec. 41(1)]	xxx
Bad debts recovery [Sec. 41(4)]	xxx
Sale of asset by power unit following SLM [Sec. 41(2)]	xxx
Sale of research asset [Sec. 41(3)]	xxx
	XXX
<b><u>Less: DEDUCTIONS u/s 30 to 37:</u></b>	
<b>Sec. 30:</b> Rent/Repairs/Taxes/Insurance (Building)	-XX
<b>Sec. 31:</b> Repairs & Insurance (P & M / Furniture)	-XX
<b>Sec. 32:</b> Depreciation	-XX
<b>Sec. 35:</b> Scientific Research Exp./Donation [100% dedn]	-XX
<b>Sec. 35 AD:</b> Capital exp. in specified bus.. [100% dedn.]	-XX
<b>Sec. 35 D:</b> Preliminary exps. [5 Equal Inst.]	-XX
<b>Sec. 35 DDA:</b> Voluntary Retirement Comp. [5 Equal Inst.]	
<b>Sec. 36(1):</b>	
Cont. to SPF/RPF/App. SAF/App. GF [payment basis]	-XX
Insurance of Stock	-XX
Insurance of Employees' health [if paid by cheque]	-XX
Int. on loan from PFI/SFC/SIIC/SB/NBFC [payment basis]	-XX
Interest on loan from others [accrual basis]	-XX
Bonus/Comm. to employees [payment basis]	-XX
Bad debts	-XX
<b>Sec. 37(1):</b> General deduction	-XX
<b>TAXABLE IFB</b>	<b>XXX</b>

**Sec. 37 (2B):**  
Advt. [Political Party]

**Sec. 40(a):**  
Income tax/Wealth tax  
Exps without TDS

**Sec. 40(b):**  
Limit for Partners Remy/Int.

**Sec. 40A (2):**  
Excess Payment to relatives

**Sec. 40A (3):**  
Cash Payment > 10,000

**Sec. 40A (7):**  
Provision for Gratuity

**Sec. 43B:**  
Dedn. on payment basis  
[T.B.LICR]

FORMAT FOR SOLVING SUMS	
NP as per P & L	xxx
Add: Disallowed Exps.	+xx
<u>Less:</u> Non-Bus. Incomes	- xx
<u>Less:</u> UBE	- xx
<u>Add:</u> UBI	+ xx
TAXABLE IFB .....	XXX

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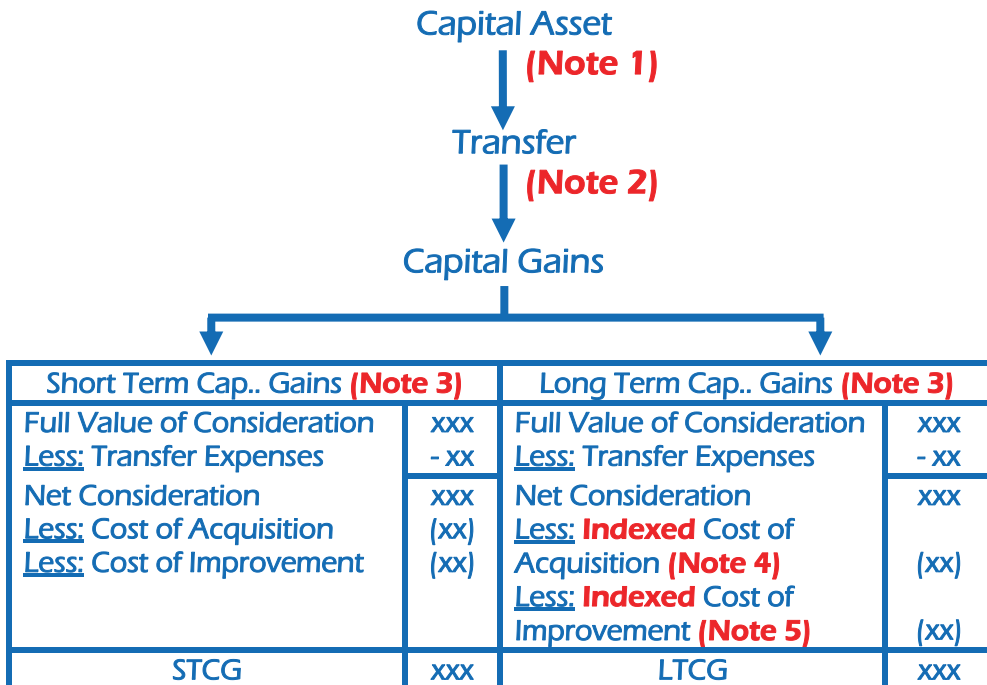
# CAPITAL GAINS

## → SUMMARY:

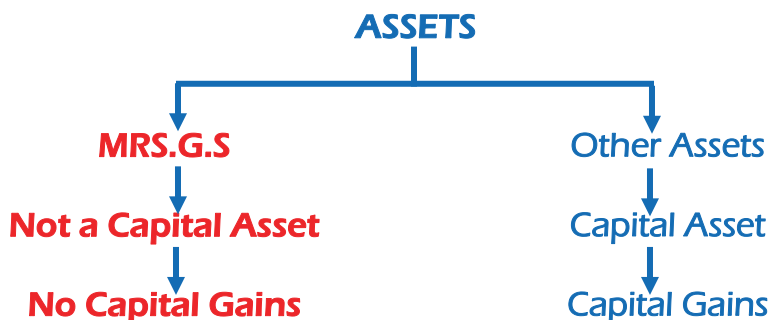
- I. BASIC CONDITIONS and COMPUTATION
- II. SECTION WISE [Sec. 45(1) TO Sec. 55]

### PART - I

### BASIC CONDITIONS & COMPUTATION



### Note 1: DEFINITION OF CAPITAL ASSET [Sec. 2(14)]:



**M**ovable Personal\* Assets (T.V., Fridge, Washing machine etc)

**R**ural Agricultural Land in India [RALI]

**S**tock-in-Trade

**G**old Bonds issued under Gold Deposit Scheme, 1999 and deposit certificates issued under Gold Monetisation Scheme, 2015

**S**pecial Bearer Bonds

\*Following are Movable Personal Assets but capital assets:

→ Jewellery

→ Drawings, Paintings, Sculptures or any work of art [DPSA]

→ Archaeological collections

### **Note 2: DEFINITION OF TRANSFER [Sec. 2(47)]:**

Transfer includes **S**EREC<sub>2</sub>:

**S**ale of capital asset

**E**xchange of capital asset

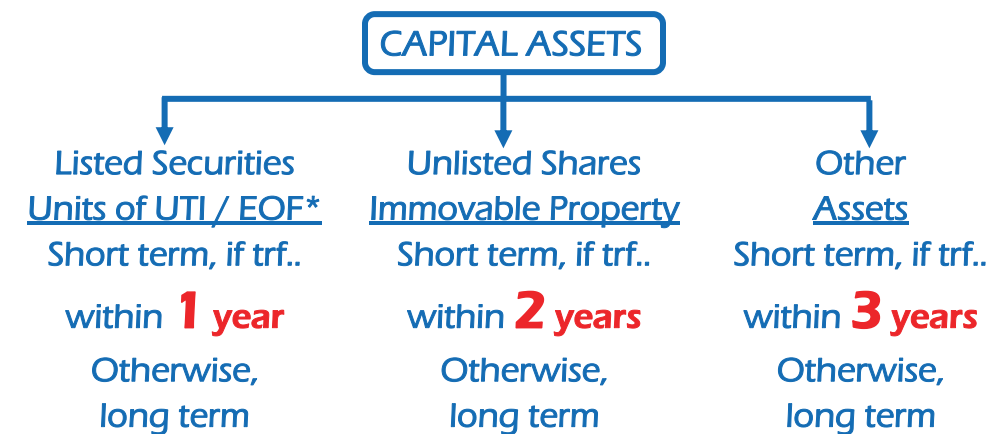
**R**elinquishment of capital asset

**E**xtinguishment of "Rights" in capital assets

**C**ompulsory acquisition of capital asset by Government.

**C**onversion of capital asset into stock in trade

### **Note 3: TYPES OF CAPITAL GAINS:**



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\*EOF – Equity oriented fund is a mutual fund which invests:  
Minimum **65%** in listed **equity** shares of domestic companies

**\* With effect from 23/7/2024, period of holding for all these capital assets is **reduced to 2 years****

**Note 4: INDEXED COST OF ACQUISITION:**

$$= \text{Cost of Acquisition} \times \frac{\text{Index (Year of **Transfer**)}}{\text{Index (Year of **Purchase**)}}$$

**Note 5: INDEXED COST OF IMPROVEMENT:**

$$= \text{Cost of Improvement} \times \frac{\text{Index (Year of **Transfer**)}}{\text{Index (Year of **Improvement**)}}$$

**Indexation - Not Allowed, if transfer is on or after 23/7/24.**

**Note 6: PURCHASE BEFORE 1/4/2001:**

In such case, cost of acquisition will be:

- ↑ 1. Actual Cost  
2. Fair Market Value [FMV] as on 1.4.2001 \*

\* in case of immovable prop., lower of FMV or SDV as on 1/4/01

**Note 7: IMPROVEMENT BEFORE 1/4/2001**

IGNORE

**Note 8: COST INFLATION INDEX:**

Year	Index	Year	Index	Year	Index
2001-02	100	2009-10	148	2017-18	272
2002-03	105	2010-11	167	2018-19	280
2003-04	109	2011-12	184	2019-20	289
2004-05	113	2012-13	200	2020-21	301
2005-06	117	2013-14	220	2021-22	317
2006-07	122	2014-15	240	2022-23	331
2007-08	129	2015-16	254	2023-24	348
2008-09	137	2016-17	264	<b>2024-25</b>	<b>363</b>

**PART -II**

**SECTION WISE**

**Sec. 45 (1):**

**BASIS OF CHARGE:**

The basis [conditions] for charging capital gains to tax is as follows:

- There must be a **Capital Asset**
- There must be **Transfer** of such capital asset

$$\text{Capital Asset} + \text{Transfer} = \text{Capital Gains}$$

As per this section, the year of charging capital gains is the **year of transfer** i.e. on accrual basis (not on receipt basis).

$$\text{Year of Tax} = \text{Year of Transfer}$$

However, there are **4 exceptions** to this rule [discussed later]

**Sec. 45 (1A):**

**DESTRUCTION OF CAPITAL ASSET:**

**Normally,**

Capital gains is computed only if there is a “transfer”. In case of destruction, there is **no transfer** because in the process of transfer, the asset must exist. The definition of transfer includes extinguishment of “Rights” in a capital asset but in case of destruction, the capital asset itself is extinguished. Hence, destruction is not a transfer [therefore, **no capital gains**].

**However,**

After the introduction of section 45(1A), capital gains will be **computed** even in case of destruction **provided** the destruction is due to the following reasons: **(NRFE)**

- Natural calamities
- Riots or civil disturbance
- Accidental Fire or explosion
- Enemy attack

Notes:

- 1) If the destruction is due to **other reasons**, then capital gains is **not computed**.
- 2) Normally,  
Year of Tax = Year of Transfer  
However, in case of destruction,  
Year of Tax = Year of **Receipt** of Insurance Claim
- 3) FVOC = Amt. of Insurance claim

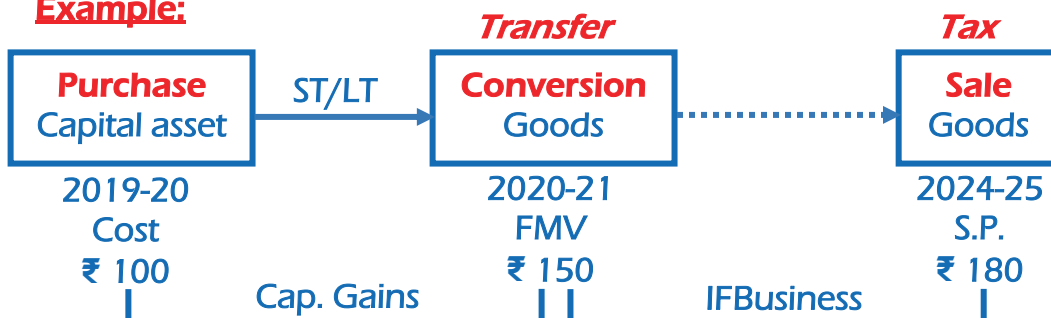


**Sec. 45 (2): CONVERSION OF CA INTO STOCK IN TRADE:**

If Capital Asset is sold – Income is Capital Gains

If Stock-in-trade is sold – Income is Business Income

If CA is converted in to SIT and then sold – Partly CG...Partly IFB

**Example:**

In the above eg., the assessee purchased jewellery during 2018-19 as investment. During 2020-21, the assessee started the business of jewellery & the jewellery which was held as investment was transferred to his jewellery shop. This amounts to conversion of capital asset into stock in trade. In such case, 2 calculations are done in the year when the jewellery is sold [i.e. 2024-25].

**→ First Calculation [Income From Business]:**

S.P. of stock in trade	Xxx
Less: FMV on the date of conversion	-xxx
Income From Business	Xxx

**→ Second Calculation [Capital Gains]:**

FVOC ( <b>FMV on the date of conversion</b> )	xxx
Less: Transfer Expenses	-xxx
Net Consideration	xxx
Less: COA / Indexed COA	-xxx
Less: COI / Indexed COI	-xxx
STCG / LTCG	xxx

**Note:**

Normally, Year of Tax = Year of Transfer

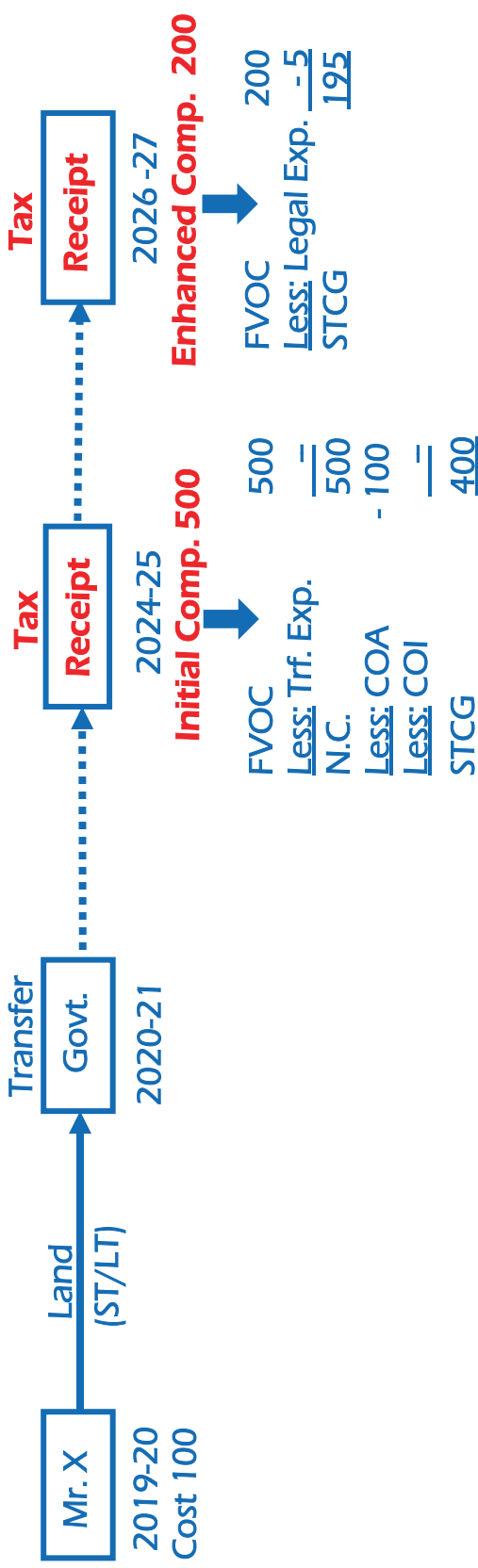
However, in case of conversion,

Year of Tax = Year of **sale of stock in trade**

**Sec. 45 (5):**

**COMPULSORY ACQUISITION BY GOVT.:**

**Example:**



**Notes:**

- 1) Normally, Year of Tax = Year of Transfer  
However, in case of compulsory acquisition, Year of Tax = Year of **Receipt** of Compensation
- 2) If **initial** compensation is received in **instalments**, then the **entire** compensation will be taxable in the year of receipt of **first installment**.  
If **enhanced** compensation is received in **instalments**, then it is taxable **as & when received**.
- 3) If assessee receives **interest** for the delay in initial/ enhanced compensation then such interest is taxable as **IFOS**.  
→ Taxable Amt. = Total Interest – **50 % standard deduction**

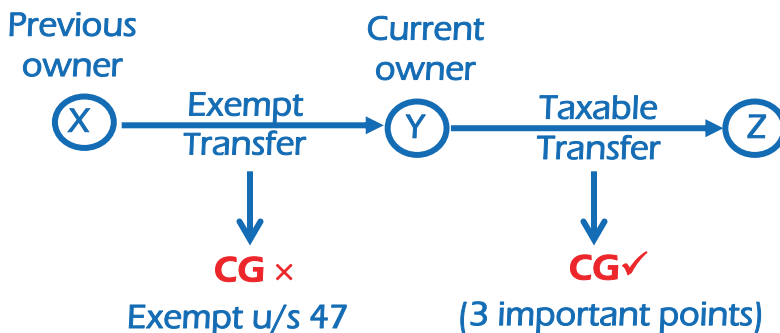
**Sec. 47:**

**EXEMPT TRANSFERS:**

In following cases, there is a capital asset and there is transfer of such capital asset but the transfer is exempt u/s 47:

$$\begin{array}{ccccc}
 \text{Capital asset} & + & \text{Transfer} & = & \text{Capital Gains} \\
 \checkmark & & \checkmark & & \checkmark \\
 & & & & \text{But, Exempt u/s 47}
 \end{array}$$

1. Transfer by way of **Gift/Will/Inheritance**.
2. Transfer by HUF to its individual members at the time of **partition**.
3. **Conversion** of self acquired property of an individual member into the common property of HUF.
4. Transfer between a **holding** company and its **100% subsidiary** company.
5. **Exchange** [by a shareholder] of shares in amalgamating company for shares of amalgamated company in the scheme of amalgamation.
6. **Exchange** of convertible debentures for shares on Conversion of convertible debentures into shares.  
**etc.....**

**Sec. 49(1):****CAPITAL GAINS AFTER EXEMPT TRANSFERS:**

In the above example, transfer by “X” to “Y” is exempt u/s 47. Hence, capital gains is not computed. But later, when “Y” transfers the asset to “Z”, capital gains will be computed and in such computation, following 3 points should be noted:

- 1) **Cost** of Acq... for “Y” = Cost to the **previous owner** “X”.
- 2) To decide Short term/Long term, **period** should be calculated from date of purchase by **previous owner** “X” up to the date of transfer to “Z”.
- 3) Indexed COA =  $\text{Cost of Acquisition} \times \frac{\text{Index (Year of Transfer)}}{\text{Index (Yr. of Previous owner)}}$

In short,

<b>COST</b>	<b>PERIOD</b>	<b>INDEX</b>
Previous Owner	Previous Owner	Previous Owner

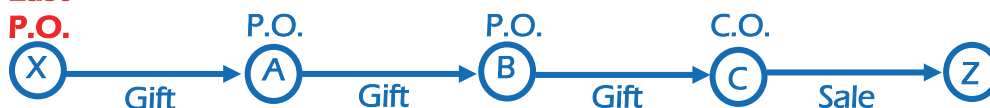
**Note 1:**

The logic behind taking the cost of previous owner is that the Govt. wants to **withdraw the exemption u/s 47 in the previous transfer.**

**Note 2:**

Previous owner means the **last previous owner.**

**Last  
P.O.**



**Note 3:**

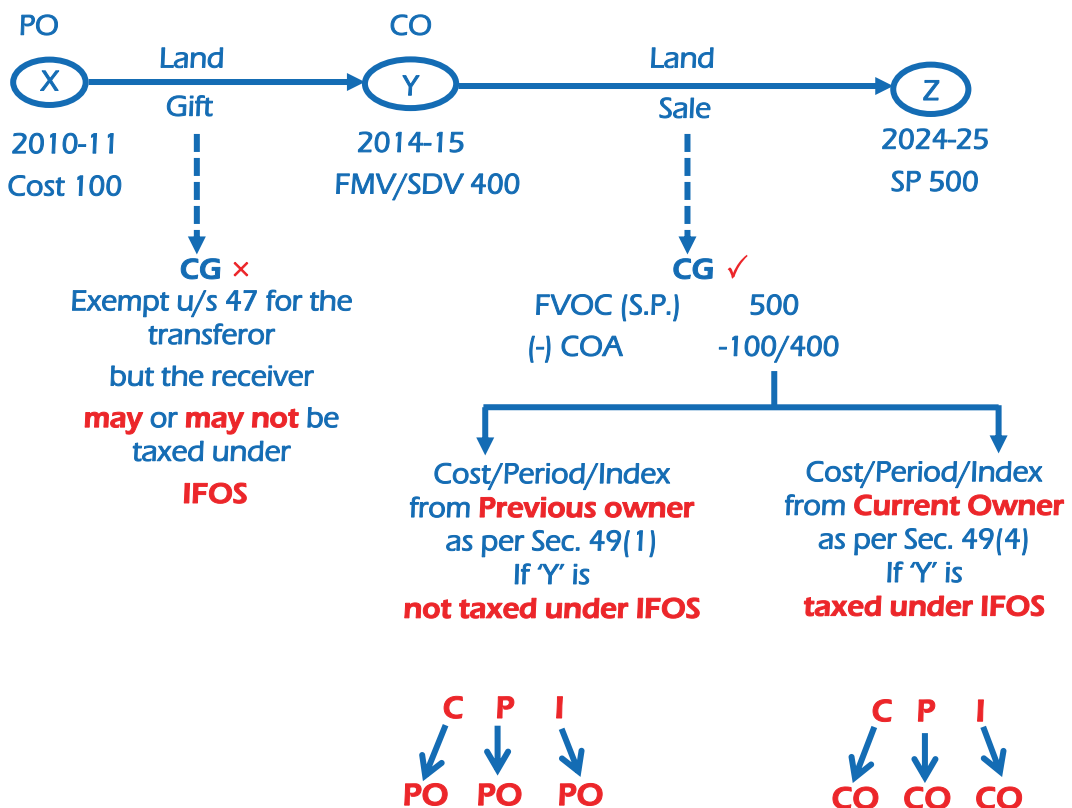
While deducting cost of **improvement**, consider improvement done by **previous** owner **as well as current** owner.

**Sec. 49(4): COST OF ASSET ACQUIRED BY WAY OF GIFT:**

If the receiver of the gift has already been taxed u/s 56 on the FMV or SDV of gifted asset [under the head IFOS] then cost of such asset will be such FMV or SDV.

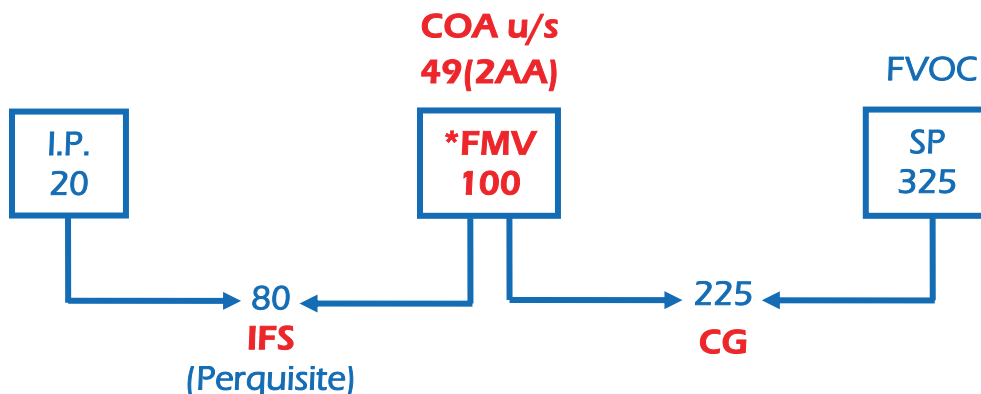
FMV [Fair Market Value] – in case of Movable property and  
SDV [Stamp Duty Value] – in case of Immovable property.

**Example:**



**Sec.49(2AA): COST OF SHARES ALLOTTED UNDER ESOPS:**

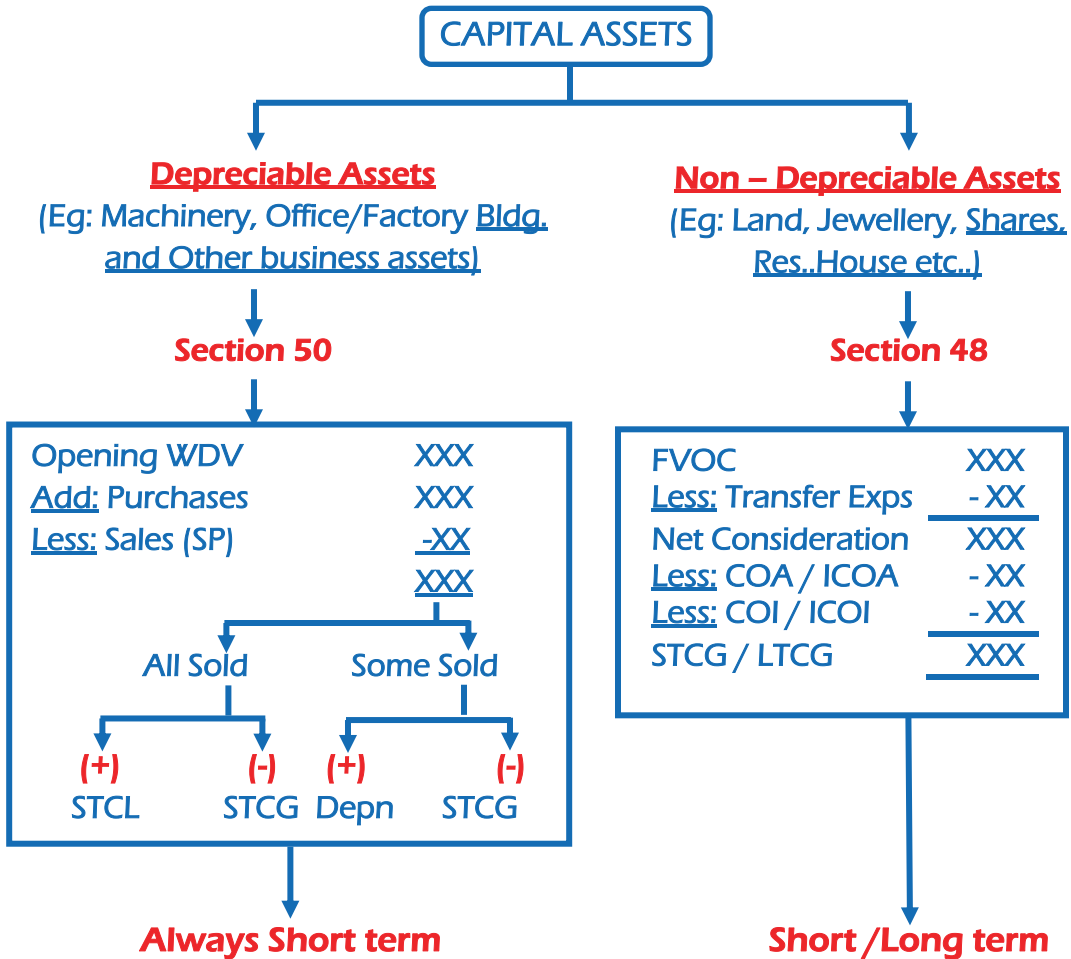
Under Employees Stock Option Scheme, an employee is allotted shares/securities at **concessional price**. This **benefit** is taxable under the head "**Income from Salaries**". When such shares are sold, capital gains is computed as follows:



\*FMV should be as on the **date of exercising the option**.

**Sec. 48/50:**

**MODE OF COMPUTATION:**





**Sec. 50B:****SLUMP SALE:**

As per Section 2(42C), slump sale means sale of an “undertaking” for **lumpsum price**. Price is fixed for the whole undertaking **without assigning values to individual assets and liabilities**.

Since price of each asset is not known individually, it is not possible to compute capital gains for each asset separately. Hence, **single computation** is done as follows (assuming the entire undertaking as a single capital asset):

**COMPUTATION OF CG**(Sale of “**Undertaking**”)

Full value of consideration [Higher of following]	xxx
↑ <b>Actual consideration or</b>	
<b>FMV of the undertaking as per Rule 11 UAE</b>	
<u>Less:</u> Transfer Exps.	(xx)
Net Consideration	xxx
<u>Less:</u> Cost of Undertaking [ <b>Net Worth</b> – Note.3]	(xx)
STCG/LTCG	xxx

**Note 1:**

To decide short term/long term, period should be calculated from the **date of commencement of undertaking** upto the date of slump sale.

**Note 2:**

Indexation is **not allowed**.

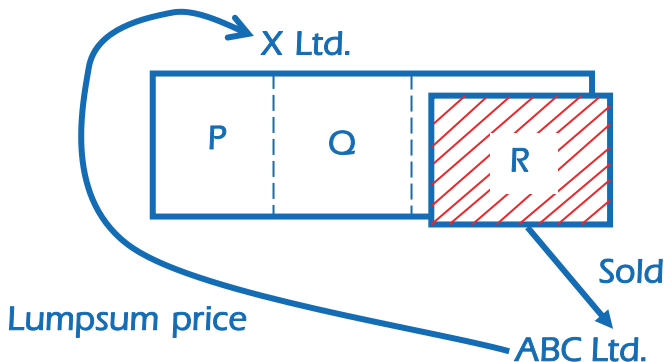
**Note 3: Net Worth:**

WDV of depreciable assets (as per I.Tax)	XXX
<u>Add:</u> Book Value of other assets	+ XX
<u>Less:</u> Book Value of outside liabilities	- XX
Net Worth	<u>XXX</u>

In short, **all** the assets and liabilities of the undertaking shall be considered **except share capital, reserves and misc. exp.**

**Note 4:**

If Balance sheet values are revalued figures then **remove the effect of revaluation**. In case of sec. 35AD assets and self generated Goodwill, consider the value as Nil.

**Sec. 50C:****FVOC FOR IMMOVABLE PROPERTY:**

In case of Immovable Property (Land/Building):

FVOC =  $\uparrow$  1) Declared consideration (Actual Sale Price)  
 2) Stamp Duty Value (SDV)

Stamp Duty Value is like market value. It is the value adopted by Stamp Valuation Authority [State Govt] for stamp duty purpose.

If the Assessee disputes the Stamp Duty Value and if the matter goes to the Valuation Officer [V.O.] then:

FVOC =  $\uparrow$  1) Declared consideration (Actual Sale Price)  
 2) SDV or Value as per VO (whichever is less)

**Note 1:**

If SDV [on agreement date] is different from SDV [on registration date] then consider **SDV [on agreement date]** provided part or whole of the consideration is **received** by way of account payee **cheque/bank draft/ECS [on or before the agreement date]**

**Example:**

SDV [on agreement date]	120
SDV [on registration date]	130
Actual sale price	100

Assuming part or whole of the consideration is received in cheque on or before the agreement date, FVOC = 120 or 100 [whichever is high i.e. 120]

**Note 2:**

The above provisions are also applicable under the head '**Income From Business**' in case of immovable property held as **stock in trade** but these provisions are contained in **section 43CA**

Hence,

Sec.50C [for immovable property – Capital asset – CG] = Sec.43CA [for immovable property – Stock in trade – IFB]

**Note 3:**

Under sec. 50C and sec. 43CA, if the SDV exceeds the actual sale price and if the **difference is only upto 10% of actual sale price** then **SDV is ignored** (and income from business/capital gains shall be computed on the basis of actual sale price).

**Sec. 51: FORFEITURE OF ADVANCE MONEY RECEIVED:**

This means, assessee had negotiated for sale of a capital asset and **took advance** from the buyer but the sale **did not materialise** and assessee forfeited the advance money received i.e. the assessee **did not return** the money.

In such cases,

- ⇒ If advance money is forfeited **before 01.04.2014** then it should be **deducted from the cost** of Asset.
- ⇒ If advance money is forfeited **on or after 01.04.2014** then it is taxable as **IFOS** (in the year in which such advance is forfeited).

**Example:**

Mr. X was supposed to sell his property to Mr. Y for which he took an advance of Rs.50,000. However, the sale did not materialise because Mr.Y backed out. Hence, Mr. X **forfeited** advance of **Rs. 50,000** on **4<sup>th</sup> June, 2010**.

During 2015-16, Mr. X negotiated with Mr. A for the sale of same property and took advance of Rs.25,000. Even this sale did not materialise and the advance of **Rs.25,000** was **forfeited** by Mr. X on **8<sup>th</sup> September 2015**.

The property was finally sold to Mr. Z on 10<sup>th</sup> April, 2024 for Rs. 90 lakhs.

Compute the amount of capital gains assuming the property was purchased by Mr. X for Rs. 26 lakhs during 2004-05.

**COMPUTATION OF CAPITAL GAINS**

FVOC [Sale price]	90,00,000
<u>Less: Trf. Exp.</u>	<u>          —</u>
N.C.	90,00,000
<u>Less: ICOA (26 L – 50,000) X 363/113</u>	<u>- 81,91,593</u>
LTCG	<u>8,08,407</u>

**Note:** Advance money of **Rs.25,000** forfeited on 8<sup>th</sup> Sept., 2015 [i.e. on/after 1/4/2014] shall be taxable as **IFOS** in PY 2015-16.

**Sec. 55:****COST IN DIFFERENT SITUATIONS:**

SITUATION	COST
<b>Purchase before 1.4.2001</b>	Cost = Actual cost ↑ FMV on 1.4.2001
<b>Improvement before 1.4.2001</b>	Ignore
<b><u>Bonus Shares:</u></b> → Alloted on/after 1.4.2001 → Alloted before 1.4.2001	Cost = Nil Cost = Actual cost ↑ FMV [1.4.2001] Nil xxx
<b><u>Right "Shares":</u></b> → For existing shareholder → For outsider	Cost = Issue price Cost = Issue price + Amt. paid to the renouncer
<b>Rights "offer"</b>	Cost = Nil
<b>Self generated asset</b> E.g. Goodwill, trademark, brand name etc. → If self generated → If purchased	Cost = Nil Cost = Purchase price

**Sec. 45(5A): JOINT DEVELOPMENT AGREEMENT (JDA):**

JDA = Agreement between the **owner of a Land/Building** and a **builder/developer** where the owner **transfers his land/bldg..** to the builder/developer for construction of building in consideration of **share in the new building** [in the form of one or more flats in the new building]. Since the agreement involves transfer of a capital asset [land/bldg.], capital gains will be computed by the owner of land/bldg. as follows:

<b>Monetary consideration</b>	<b>xxx</b>
<b>SDV of his share as on the date of issue of CC</b>	<b>+ xxx</b>
FVOC	xxx
<u>Less:</u> Transfer Expenses	-xxx
Net Consideration	xxx
<u>Less:</u> COA / Indexed COA [ <b>Cost of Land/Bldg trf<sup>ed</sup>.</b> ]	-xxx
<u>Less:</u> COI / Indexed COI	-xxx
STCG / LTCG	xxx

Normally,

Year of Tax = Year of Transfer [i.e. the yr. when land/Blgd is trf<sup>ed</sup>.]

However, in case of joint development agreement,

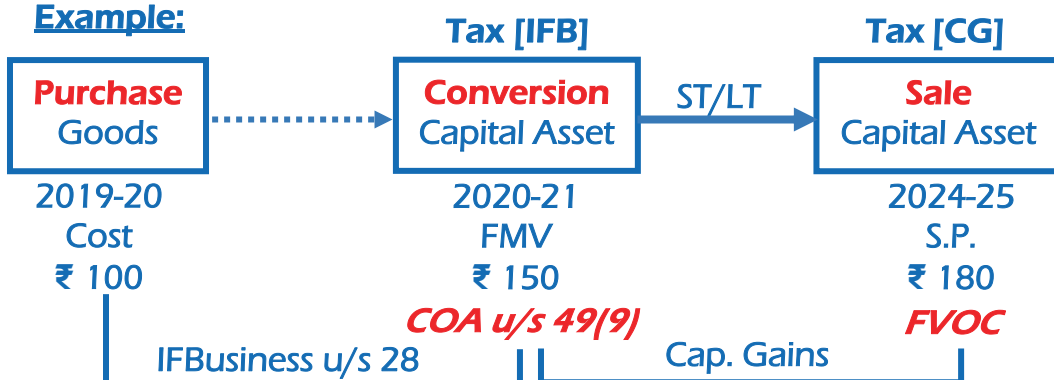
Year of Tax = Year in which **CC** for the new bldg.. is **issued**  
 CC = Certificate of Completion

**Note 1:**

Monetary consideration is subject to TDS u/s 194 IC @ 10%

**Sec. 49 (9): CONVERSION OF STOCK IN TRADE INTO CA:**

**Example:**



## EXEMPTIONS

Sec.	Asset transferred	Asset to be purchased	Time limit	Scheme of deposit <b>Note. 1</b>	Amt. Of Exemption <b>Note. 2</b>	Lock in period <b>Note. 3</b>	Eligible assessee
LT	54	<b>Residential house</b> [except SOP(B)]	Residential house [except SOP(B)]	1B 2A 3A	Same	3 years	Ind./HUF
LT/ST	54B	<b>Urban Ag. land</b> (used for ag. purpose for atleast 2 yrs by assessee or his parents)	<b>Any</b> agricultural land (Rural/Urban)	2A	Same	3 years	Ind./HUF
LT/ST	54D <b>Comp. Acq*</b>	<b>Industrial Land &amp; Bldg.</b> (used for ind. purpose for atleast 2 yrs by assessee)	Industrial Land & Bldg.	3A	Same	3 years	All
LT	54EC	<b>Any LTCA</b> being immovable property	<b>Notified Bonds</b> (NHAI/RECL/PFCL IRFCL and Others)	6 months	Same <b>N.A.</b>	5 years	All
LT	54F	<b>Any LTCA</b> (except Res. House)	<b>Residential house</b> (except SOP(B))	1B 2A 3A	<b>Different</b>	3 years	Ind./HUF

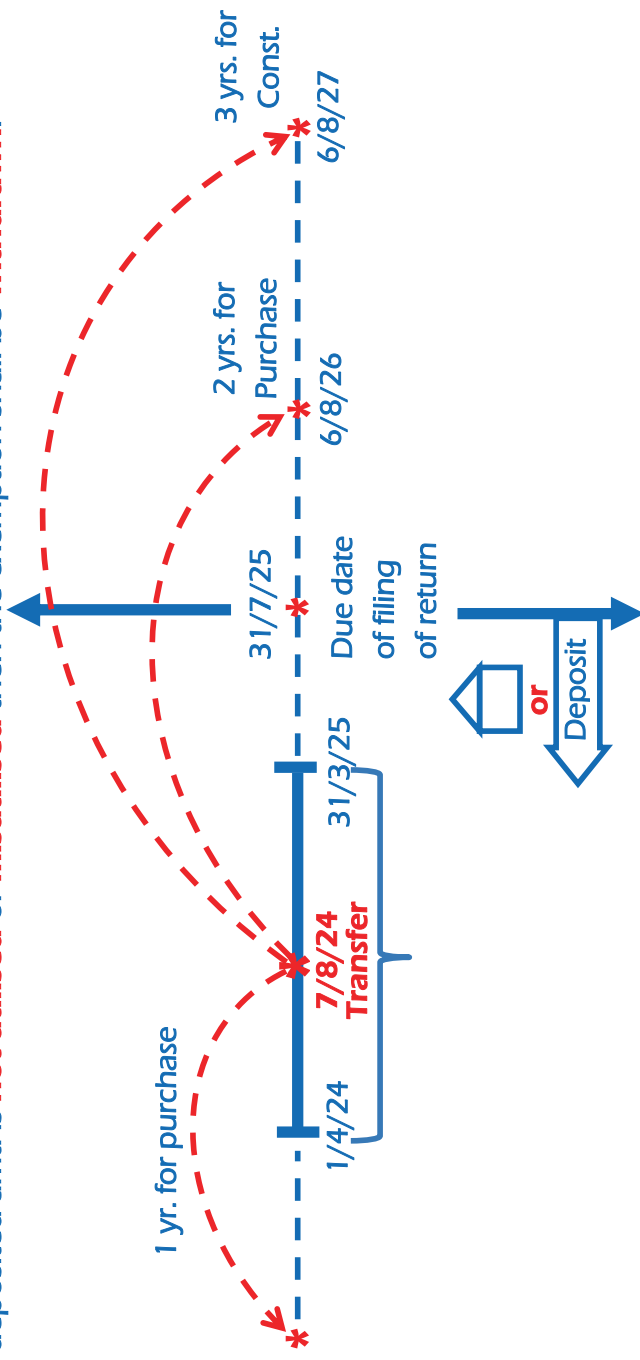
SOP(B) = Self occupied property for Business

\*Exemption u/s **54D** is only in case of **compulsory acquisition**



**Note 1: SCHEME OF DEPOSIT**

- If the new asset is **not acquired upto the due date** of filing return then the assessee should **deposit** the desired amount in **CGAS** (Capital Gains Account Scheme – special a/c opened in bank) (Deposit should be made on or before the due date of filing return).
- The deposited amt. should be **utilized** for the acquisition of **new asset** within the prescribed time.
- If the deposited amt. is **not utilised** or **misutilised** then the exemption shall be **withdrawn**.



**Note 2: AMOUNT OF EXEMPTION:**

→ **Under All sections (except 54F):**

- ↓ 1) Amt. of Capital Gains
- ↓ 2) Cost of New Asset (CNA) / Amt. of Deposit

→ **Under Sec. 54F:**

If the net consideration is **fully utilised** then the capital gains is **fully exempt**.

If the net consideration is **partly utilised** then the capital gains is **partly exempt** as follows:

$$\text{Amt. of Exemption} = \text{Gross LTCG} \times \frac{\text{CNA/Deposit}}{\text{Net Consideration}}$$

**Note 3: LOCK-IN-PERIOD**

The new asset should not be transferred within **3 years from the date of its acquisition**. If the new asset is transferred within 3 years then the **exemption** allowed earlier shall be **withdrawn** as follows:

→ **Under all sections (Except Sec. 54EC/F):****COMPUTATION OF CG**

(on transfer of new asset within 3 years)

FVOC (SP of new asset)	xxx
<u>Less:</u> Transfer Exps.	(xx)
Net Consideration	xxx
<u>Less:</u> <b>Reduced</b> COA/ICOA (CNA – <b>Exemption claimed</b> earlier)	(xx)
<u>Less:</u> COI/ICOI	(xx)
STCG/LTCG	xxx

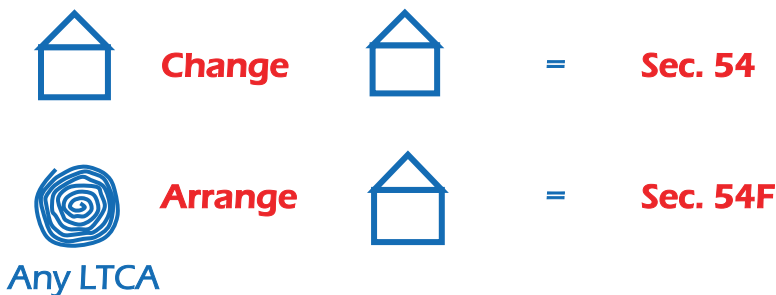
→ **Under Sections 54EC/F:****COMPUTATION OF CG**

(on transfer of new asset within 3 years)

FVOC (SP of new asset)	xxx
<u>Less:</u> Transfer Exps.	(xx)
Net Consideration	xxx
<u>Less:</u> <b>Full</b> COA/ICOA	(xx)
<u>Less:</u> COI/ICOI	(xx)
STCG/LTCG of New asset	xxx
<b>Add:</b> <b>LTCG exemption</b> [of old asset] <b>withdrawn</b>	+xx
	xxx

**Note 4: Note for Section 54 and 54F:**

Under section **54**, the assessee is **changing** the house and under section **54F**, the assessee is **arranging** a house but under both the sections, the assessee should purchase/construct **Only One Residential House (in India)**.

Under **Sec. 54**,

→ If the assessee acquires **2 or more** houses then exemption is allowed only for cost of 1 house [the **one whose cost is higher**]. However, in case of an assessee having LTCG upto **Rs. 2 crores**, exemption can be claimed for **2 houses** [but **only once** in his life time].

BUT

Under **Sec 54F**,

**One house means only one** house i.e.

→ If assessee acquires **2 or more** houses **at the time of filing** the return then exemption is **not allowed** [i.e. exemption milega hi nahi b'coz ameerī dikh gayī – garībī dikhānī padegī]

AND

→ If he acquires only **one** house **at the time of filing** the return then exemption is **allowed** but then such exemption will be **withdrawn in future** [if he purchases another house within 2 years or constructs another house within 3 years].

**Important:** Under section 54 and 54F, the **cost of new house should not be more than Rs. 10 crores**.

**Note 5: Note for Section 54F:**

For claiming exemption u/s 54F, the assessee should **not own more than one** residential house (he should have only 1 house or no house)

Existing House	New House
0	Only 1
1	Only 1

↓ Only for 54F      ↓ For 54 as well 54F

In all **other sections** [other than 54/54F], there is **no restriction** on the **number** of assets already owned and the number of assets to be purchased.

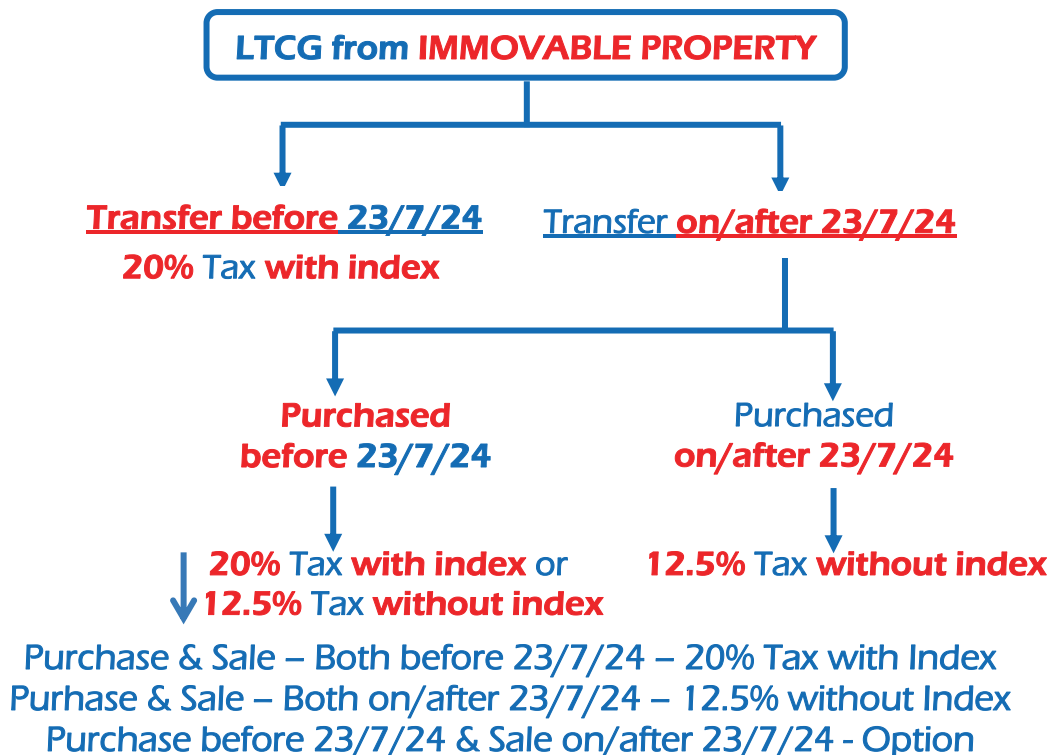
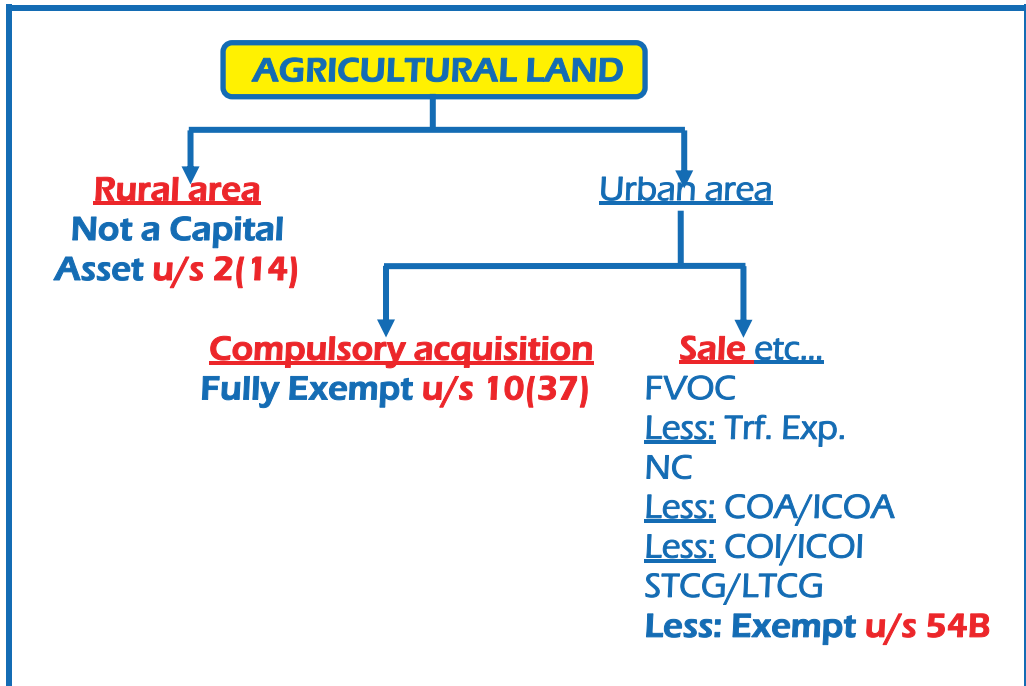
**Note 6: Exemption Limit for Section 54EC:**

→ For exemption u/s 54EC, the assessee is required to invest in Bonds of **NHAI** [National Highways Authority of India] or **RECL** [Rural Electrification Corporation Limited] or **PFCL** [Power Finance Corporation Ltd.] or **IRFCL** (Indian Railway Finance Corporation Ltd.) any **other notified bonds**.

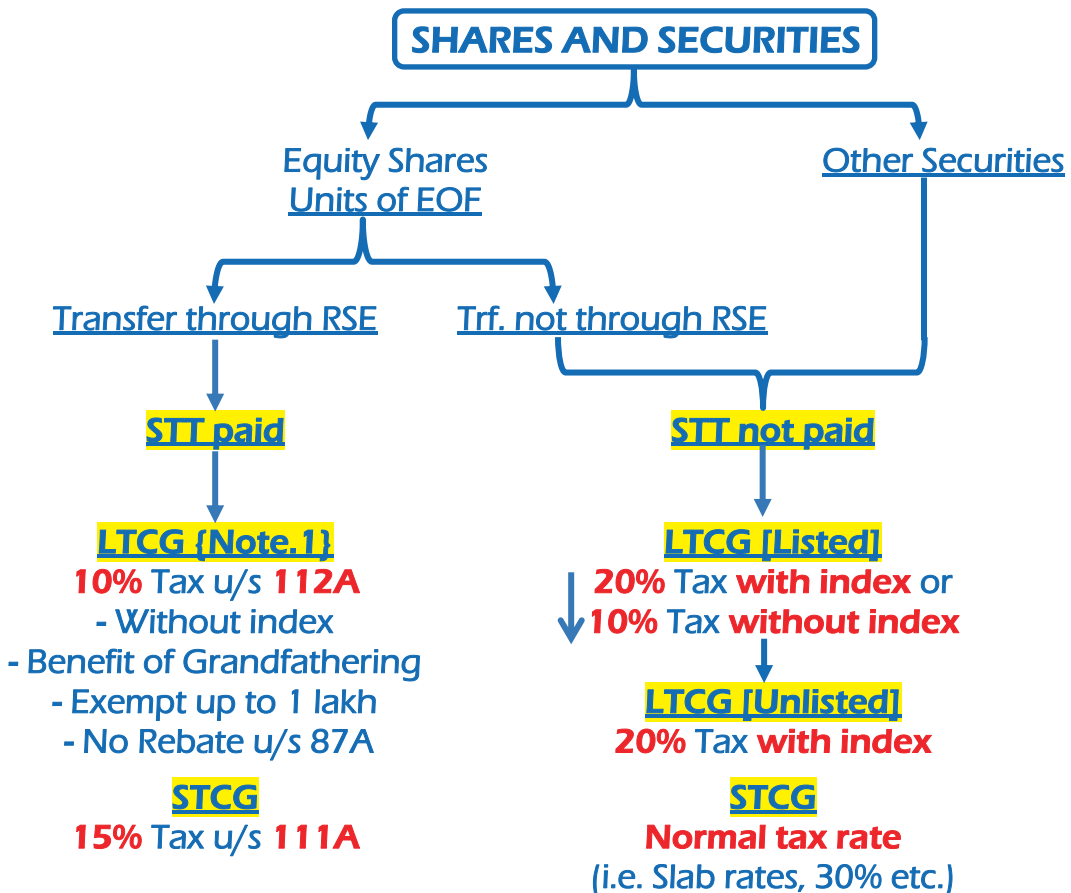
→ However, the amount of exemption under section 54EC should not exceed **Rs. 50,00,000**

**DEBENTURES AND BONDS**

In case of debentures and bonds, **indexation** is **not allowed** [whether transfer is before 23/7/24 or after 23/7/24].  
 However, in case of **CAPITAL INDEXED BONDS** issued by Govt. and **SOVEREIGN GOLD BONDS** issued by RBI, indexation is **allowed if transfer is before 23/7/24**



## CAPITAL GAINS ON SHARES AND SECURITIES



**If transfer is on or after 23/7/24 then:**

**STCG u/s 111A – 20% Tax**

**Exemption u/s 112A is up to ₹ 1,25,000**

**LTCGs [u/s 112A and others] – 12.5% Tax without Index**

### Note 1:

Benefit of concessional tax u/s 112A/111A is applicable only if **STT is paid** by the assessee [in case of **units** – at the **time of sale** but in case of **equity shares** - at the time of **purchase as well as sale**].

→ Exception – If equity shares were unlisted at the time of purchase or were purchased in Public Issue, Rights Issue, Bonus Issue, ESOPs, etc. then STT should be paid only at the time of sale.

### Note 2:

Benefit of **Grand fathering** is applicable i.e. if the equity shares/units are purchased **on/before 31/1/2018** then gains upto 31/1/2018 are exempt. Hence, cost of acquisition will be computed as follows:

↑ Actual Cost  
 ↑ FMV as on 31/1/2018 **or** SP [whichever is **less**]

Example on Equity shares purchased on/before 31/1/2018:

	Eg.1	Eg.2	Eg.3
FVOC (SP)			
Less: COA*			
LTCG			
*COA			
↓ FMV	150	150	90
↓ SP	180	140	70
↑ Lower			
↑ Actual Cost	100	100	100
Higher (COA)			

### Note 3: FMV as on 31.1.18

→ If **equity shares/units** were **listed** as on 31.1.18:  
 FMV as on 31.1.18 = **Highest Trading Price** as on 31.1.18.

If the equity shares were not traded on 31/1/18 then consider highest trading price of the immediately preceding date when the shares were traded.

→ If the **units** were **not listed** as on 31.1.18:  
 FMV as on 31.1.18 = **Net Assets Value** as on 31.1.18



**COMPUTATION OF CAPITAL GAINS (Summary)**

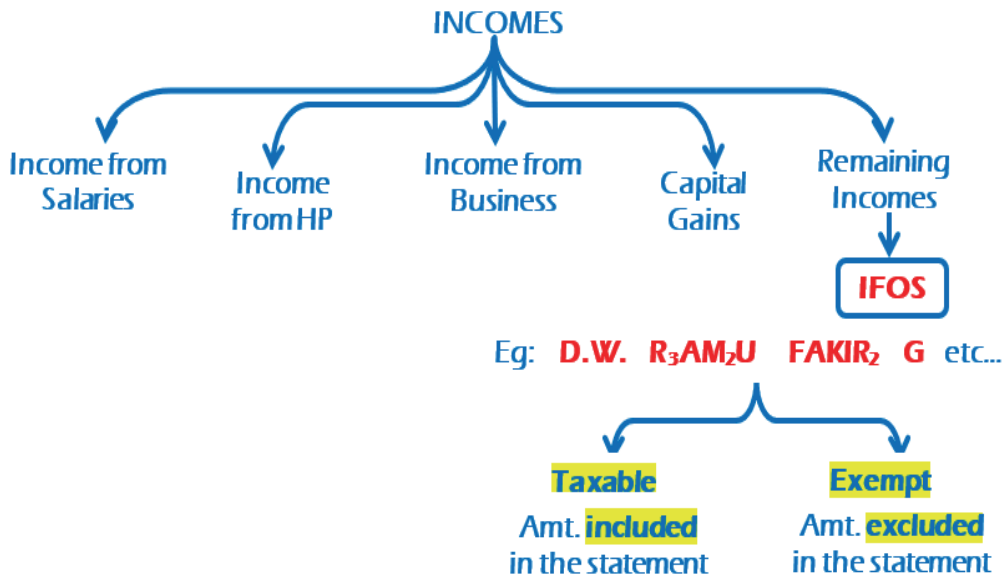
<b>FULL VALUE OF CONSIDERATION</b>		<b>Sections</b>
—In Sale	Sale price	
—Destruction	Insurance claim	<b>45(1A)</b>
—Conversion of CA into SIT	FMV on conversion dt.	<b>45(2)</b>
—Compulsory Acquisition	Initial/Enhanced comp	<b>45(5)</b>
—Joint Development Agreement	Money + SDV of his share	<b>45(5A)</b>
—Immovable Property	Hgher of Actual SP/SDV	<b>50C</b>
<b>LESS: COST OF ACQUISITION</b>		
—When Previous trf is exempt	Cost to Previous Owner	<b>49(1)</b>
—Gifted Asset (Taxed under IFOS)	Cost to Current Owner [FMV/SDV]	<b>49(4)</b>
—Shares allotted under ESOPS	FMV on the dt of exercising option	<b>49(2AA)</b>
—Slump Sale (No Indexation)	Net Worth {WDV of Dep assets as per I.T. + BV of Other Assets – o/s liab.}	<b>50B</b>
—Asset acquired before 1/4/2001	Actual Cost or FMV [1/4/2001] (higher)	<b>55</b>
—Improvement before 1/4/2001	Ignore	<b>55</b>
—Bonus shares before 1/4/01	FMV on 1/4/2001	<b>55</b>
—Bonus shares on/after 1/4/01	Zero	<b>55</b>
—Right shares (for existing s/h)	Issue Price	<b>55</b>
—Right shares (for outsider)	Issue Price + Amt paid to renouncer	<b>55</b>
—Rights “Offer”	Zero	<b>55</b>
—Self generated assets like G/W etc	Zero (if self) or Pur.Price (if purchased)	<b>55</b>
<b>LESS: EXEMPTIONS:</b>		
RH to RH	CG or CNA/Deposit (whichever is less)	<b>54</b>
Urban Ag Land to Any Ag Land	“ ”	<b>54B</b>
Ind. L&B to Ind. L&B {Comp. acq.}	“ ”	<b>54D</b>
LTCA [Imm..Prop..] to Bonds	“ ” (Max 50 Lakhs)	<b>54EC</b>
LTCA to RH	CG x CNA /Deposit ÷NC	<b>54F</b>
<b>SHORT/LONG TERM CAPITAL GAINS</b>		

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## COMPUTATION OF CAPITAL GAINS (Summary)

| FULL VALUE OF CONSIDERATION              |                                                                            | Sections |
|------------------------------------------|----------------------------------------------------------------------------|----------|
| —In Sale                                 | Sale price                                                                 |          |
| —Destruction                             | Insurance claim                                                            | 45(1A)   |
| —Conversion of CA into SIT               | FMV on conversion dt.                                                      | 45(2)    |
| —Compulsory Acquisition                  | Initial/Enhanced comp                                                      | 45(5)    |
| —Joint Development Agreement             | Money + SDV of his share                                                   | 45(5A)   |
| —Immovable Property                      | Actual SP or SDV (whichever is high)                                       | 50C      |
| <b>LESS: COST OF ACQUISITION</b>         |                                                                            |          |
| —When Previous trf is exempt u/s 47      | Cost to Previous Owner                                                     | 49(1)    |
| —Gifted Asset (Taxed under IFOS)         | Cost to Current Owner [FMV/SDV]                                            | 49(4)    |
| —Shares allotted under ESOPS             | FMV on the dt of exercising option                                         | 49(2AA)  |
| —Slump Sale (No Indexation)              | Net Worth {WDV of Dep assets as per I.T. + BV of Other Assets – o/s liab.} | 50B      |
| —Asset acquired before 1/4/2001          | Actual Cost or FMV [1/4/2001] (higher)                                     | 55       |
| —Improvement before 1/4/2001             | Ignore                                                                     | 55       |
| —Bonus shares allotted before 1/4/01     | FMV on 1/4/2001                                                            | 55       |
| —Bonus shares on/after 1/4/01            | Zero                                                                       | 55       |
| —Right shares (for existing s/h)         | Issue Price                                                                | 55       |
| —Right shares (for outsider)             | Issue Price + Amt paid to renouncer                                        | 55       |
| —Rights “Offer”                          | Zero                                                                       | 55       |
| —Self generated assets like G/W etc      | Zero (if self) or Pur.Price (if purchased)                                 | 55       |
| <b>LESS: EXEMPTIONS:</b>                 |                                                                            |          |
| —RH to RH                                | CG or CNA/Deposit (whichever is less)                                      | 54       |
| —Urban Ag Land to Any Ag Land            | “ “ “                                                                      | 54B      |
| —Ind. L & B to Ind. L & B {Comp.. acq..} | “ “ “                                                                      | 54D      |
| —LTCA [Imm..Prop..] to Notified Bonds    | “ “ “ (Max 50 Lakhs)                                                       | 54EC     |
| —LTCA to RH                              | CG x CNA/Deposit ÷ NC                                                      | 54F      |
| <b>SHORT/LONG TERM CAPITAL GAINS</b>     |                                                                            |          |

# INCOME FROM OTHER SOURCES



**STATEMENT OF INCOME FROM OTHER SOURCES**

|                      |                                                                                      |     |
|----------------------|--------------------------------------------------------------------------------------|-----|
| <b>D</b>             | Dividend income                                                                      | XXX |
| <b>W</b>             | Winnings from lottery, races, gameshows etc.                                         | XXX |
| <b>R<sub>3</sub></b> | Rent Income                                                                          |     |
|                      | 1. Rent from Other Assets (other than HP)                                            | XXX |
|                      | 2. Rent from Sub-letting of house property                                           | XXX |
|                      | 3. Composite rent of (Bldg. + Other Assets)                                          | XXX |
| <b>A</b>             | Agricultural Income                                                                  |     |
|                      | → In India [ <b>Exempt u/s 10(1)</b> ]                                               | —   |
|                      | → In Foreign [Taxable]                                                               | XXX |
| <b>M<sub>1</sub></b> | Receipts as MP/MLA                                                                   |     |
|                      | → Salary [Taxable]                                                                   | XXX |
|                      | → Daily allowance [ <b>Exempt u/s 10(17)</b> ]                                       | —   |
| <b>M<sub>2</sub></b> | Income of minor children                                                             | XXX |
|                      | <b>Exempt up to Rs.1500 per minor child u/s 10(32)</b>                               |     |
| <b>U</b>             | Income from 'units' of UTI/Mutual fund                                               | XXX |
| <b>F</b>             | Family pension received after the death of employee                                  | XXX |
|                      | [Fully <b>exempt u/s 10(19)</b> if received after the death of <b>Army</b> employee] |     |
| <b>A</b>             | Award                                                                                |     |
|                      | → From Government [ <b>Exempt u/s 10(17A)</b> ]                                      | —   |
|                      | → From Others [Taxable]                                                              | XXX |
| <b>K</b>             | Amount receipt from Keyman Insurance Policy                                          | XXX |
|                      | <u>Note:</u> Amt. received from Life Insurance Policy is <b>Exempt u/s 10(10D)</b>   |     |
| <b>I</b>             | Interest Incomes ( <b>Note 1</b> )                                                   |     |
|                      | → GP <sub>2</sub> S [ <b>Exempt 10(15), (11), (11A)</b> ]                            | —   |
|                      | → Remaining Interest Incomes [Taxable]                                               | XXX |
| <b>R</b>             | Royalty Income                                                                       | XXX |
| <b>G</b>             | Gifts from friends, relatives etc..                                                  | XXX |
|                      | ( <b>Discussed in separate topic</b> )                                               |     |
|                      | <b>Etc.....</b>                                                                      |     |
|                      | Taxable IFOS                                                                         | XXX |

**Note 1:**

G – Gold Bonds issued under Gold Deposit Scheme, 1999 & Gold Monetization Scheme, 2015 [**Exempt u/s 10(15)**]

P – Post Office Savings Bank Account (POSBA)

[**Exempt u/s 10(15) upto ₹ 3,500** – In case of joint a/c, **exempt upto ₹ 7,000**]

P – Public Provident Fund A/c (PPF) [**Exempt u/s 10(11)**]

S – Sukanya Samriddhi Account Scheme [**Ex.. u/s 10(11A)**]

**Note 2: DEDUCTIONS u/s 57:**

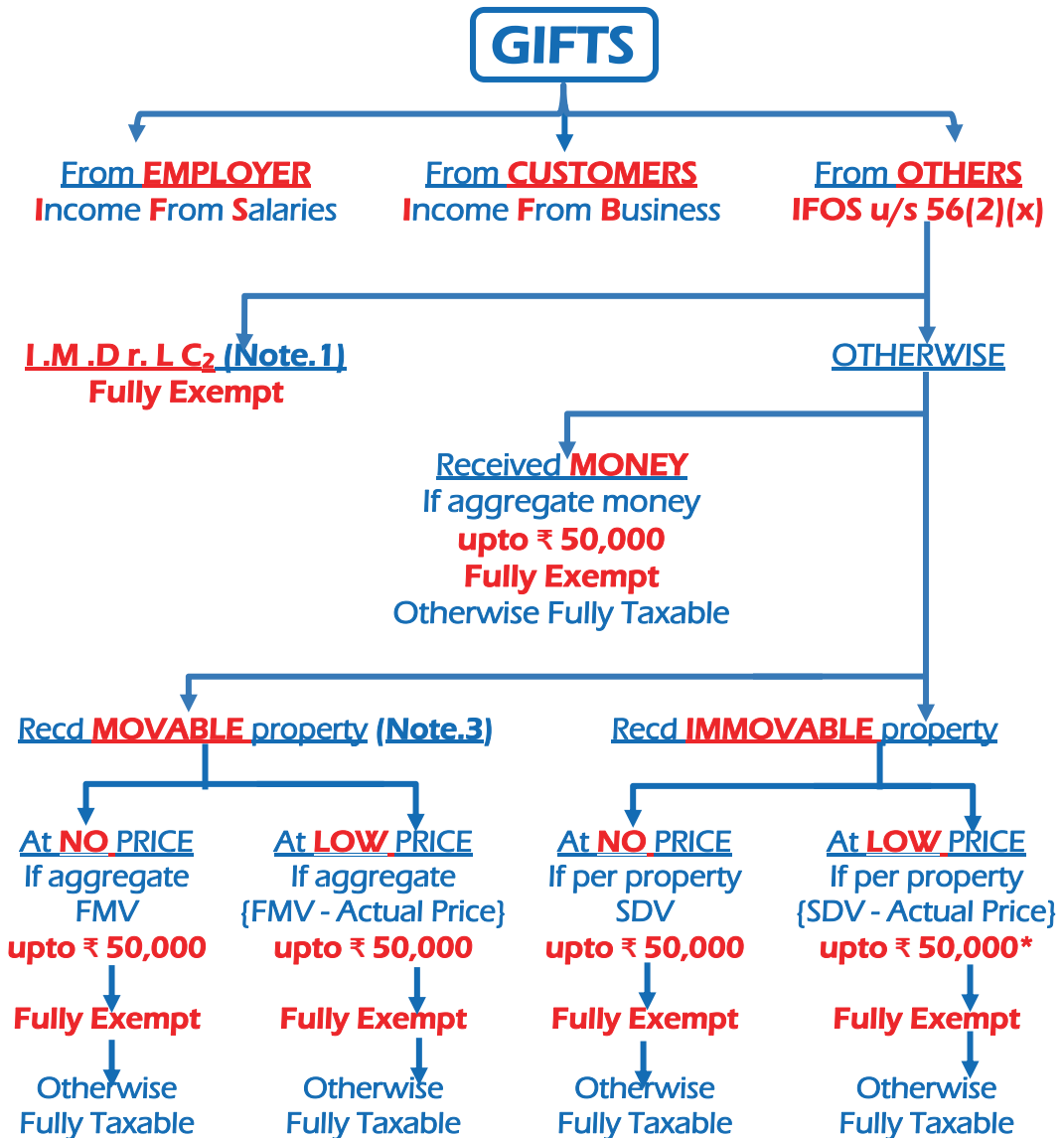
Deduction is for EXPENSES.

Expenses given in the question should be treated as follows:

| Income                                                        | Deduction u/s 57                                                                                                      |
|---------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| Taxable Incomes                                               | <b>DEDUCT</b> all expenses.                                                                                           |
| Exempt Incomes                                                | <b>IGNORE</b> all expenses.                                                                                           |
| Winnings                                                      | <b>IGNORE</b> all expenses.                                                                                           |
| Dividend and Income from units of UTI/Mutual fund             | <b>DEDUCT</b> only <b>one expense</b> i.e. <b>interest</b> on borrowings [ <b>max. 20%</b> of Dividend/units' income] |
| Family Pension                                                | <b>STANDARD</b> Deduction<br>↓<br>$\frac{1}{3} \times \text{Actual amt. received}$<br>↓<br><b>₹ 15,000</b>            |
| Interest on compensation on account of compulsory acquisition | <b>STANDARD</b> Deduction<br><b>50%</b> of Amount received                                                            |

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# TAXATION OF GIFTS

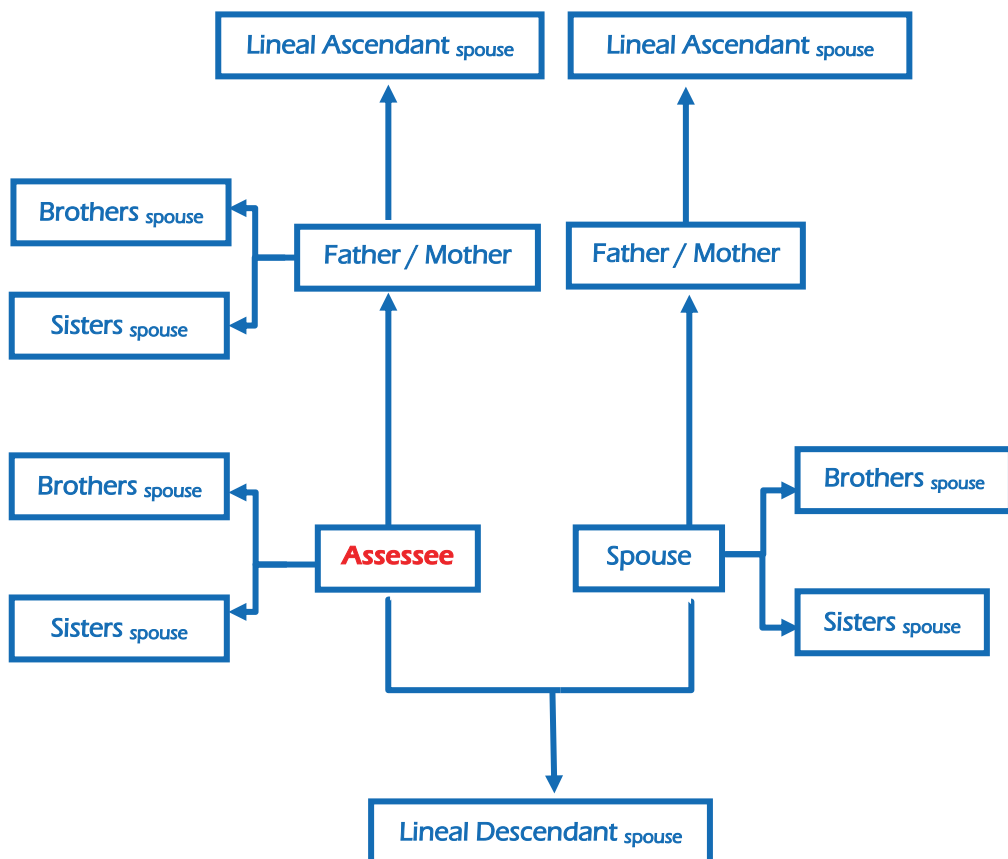


**\*or up to 10% of Actual Price [Whichever is high]**

**NOTE 1: GIFTS FULLY EXEMPT = I.M.D r. L C<sub>2</sub>**

- I** – Gift by way of **Inheritance** or Will
  - M** – Gift on **Marriage**
  - D** – Gift in Contemplation of **Death**
  - r** – Gift from **Relatives**
  - L** – Gift from **Local Authority**
  - C<sub>1</sub>** – Gift from or to **Charitable/Religious trust**
  - C<sub>2</sub>** – Any sum received by an individual for his or family\* member's **COVID treatment** or  
Any sum **up to ₹10 lakhs** received by family\* member of individual who **died due to COVID** [provided to the amount is recd **within 12 mnths** from the date of death]
- \*Family = Spouse, Children, Dependent [Parents/Brothers/Sisters]

**NOTE 2: MEANING OF RELATIVE:**



**NOTE 3: MOVABLE PROPERTY:**

Gift of only following movable properties is taxable: [JAS-V]

- **J**ewellery [including bullions]
- **A**rtistic work [DPSA] and Archaeological collections
- **S**hares and Securities
- **V**irtual Digital Assets

\*any property [whether movable or immovable] held as **stock in trade** received as gift [either for no price or low price] **shall not be taxable.**

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# TAXATION OF DIVIDEND

## DEEMED DIVIDEND

For taxation of dividend, dividend includes normal dividend as well as deemed dividend. As per section 2(22), following distributions by a company to its shareholders are deemed as dividend (to the extent of accumulated profits).

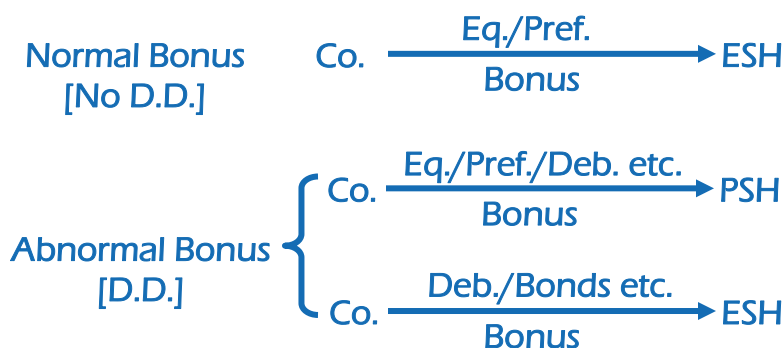
### Sec 2(22)(a): Release of Company's Asset:

Any distribution by a company which leads to release of company's asset is deemed as dividend (to the extent of accumulated profits).

### Sec 2(22)(b): Bonus:

Any distribution of **Equity or Debt** item by way of bonus to **Preference shareholders** is deemed as dividend to the extent of accumulated profits.

Any distribution of **Debt** item by way of Bonus to **Equity Shareholders** is deemed as dividend to the extent of accumulated profits (whether capitalised or not).



**Sec 2(22)(c): Liquidation [Closure] of Company:**

Any distribution by a company to its shareholders at the time of liquidation is deemed as dividend (to the extent of accumulated profits).

**Example:**

Balance Sheet of A Ltd.

|                            |          |        |          |
|----------------------------|----------|--------|----------|
| ESC [Incl. ₹ 70,000 Bonus] | 3,00,000 | Assets | 5,00,000 |
| Reserves                   | 2,00,000 |        |          |
|                            | 5,00,000 |        | 5,00,000 |

On liquidation, the company distributes Rs. 5,00,000 to its shareholders out of which Rs. 2,70,000 [i.e. the amount of reserves whether capitalised or not] will be deemed as dividend u/s 2(22)(c)

**Sec 2(22)(d): ReDuction of Share Capital:**

Any distribution by a company to its shareholders at the time of reduction of share capital is deemed as dividend (to the extent of accumulated profits).

**Example:**

Balance Sheet of A Ltd.

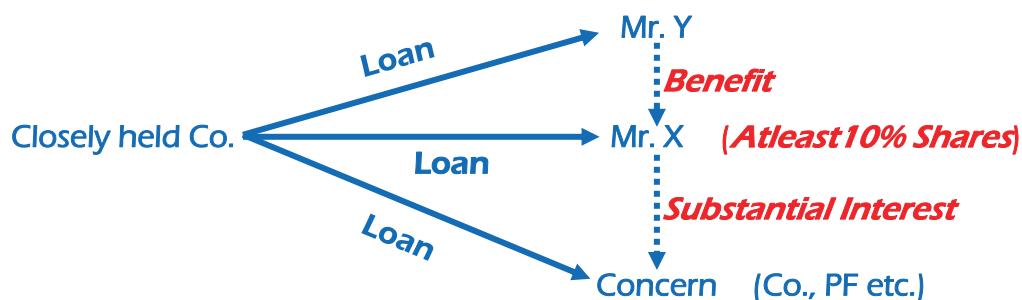
|                          |          |        |          |
|--------------------------|----------|--------|----------|
| ESC (30,000 shares x 10) | 3,00,000 | Assets | 5,00,000 |
| Reserves                 | 2,00,000 |        |          |
|                          | 5,00,000 |        | 5,00,000 |

The company reduces its share capital from ₹ 10 to ₹ 2 per share by returning ₹ 8 per share. Hence, the company distributes Rs. 2,40,000 [30,000 x 8 per share] to shareholders out of which Rs. 2,00,000 [i.e. the amount of reserves] will be deemed as dividend u/s 2(22)(d).

**Sec 2(22)(e): Loan by Closely held Co...: [Exception]**

In the following cases, any loan or advance given by a closely held company is deemed as dividend (to the extent of accumulated profits).

- Loan given to a **shareholder** having minimum **10%** shares
- Loan given to **any concern** in which such shareholder has a **substantial interest** (minimum 20% stake)
- Loan given to **any person** for the **benefit of such shareholder**.



**Note:** Any Loan/Advance given in the **ordinary course** of its business of money lending **shall not be deemed as dividend** u/s 2(22)(e).

**Sec 2(22)(f): Buy back of shares:**

**With effect from 1/10/2024**, any amount received by a shareholder on **buy back** of shares [in accordance with the provisions of sec. 68 of the Companies Act, 2013] is **deemed as dividend**.

**Note:** **Cost of shares** bought back is allowed as **capital loss**.

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# About the Author



After qualifying as a Chartered Accountant in 1997 with an All India Rank of 42, CA Shirish Vyas, turned to the Education Industry to transform his passion into a profession. With a vast experience of over 27 years, he is an eminent Professor, Mentor, Motivator and Guide to many CA Students. To instill the same passion and motivation into his students, he founded the Prime Vision Professional Education and is currently a leading faculty and mentor of this prominent Institute.

He is the pioneer of colour coded notes & his comprehensive book is a saviour for last minute revision and preparation of this vast DT subject. People call him "TEACHER" of teachers.

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