

BUSINESS OR PROFESSION

Meaning of business or profession: It includes trade, commerce or manufacture. Profession means the activities of earning livelihood which require intellectual skills or manual skills. Profession includes vocation where vocation means activities which are performed in order to earn livelihood e.g. music, dancing etc.

The profit and gains of business or profession include the following: (i) Revenue profits, (ii) amount due or received as compensation for termination of management or agency or modification of its terms and conditions, (iii) profit on sale of import license, (iv) cash assistance received from the government for exports, (v) income from speculative transactions.

Important Rules: (i) The assessee carries on the business or profession, (ii) tax is levied on the aggregate income from all businesses or professions, (iii) losses of speculative business cannot be set off against profit of any other business, (iv) the business or profession is carried on at any time during the previous year, (v) only legal ownership is necessary and no tax is payable on anticipatory profits, (vi) revenue expenses relating to the business or profession for relevant previous year are allowable as deduction, (vii) sums deducted in an earlier year as loss and recovered during the current previous year is taxable, (viii) if benefit of an expenditure extends beyond the relevant previous year, it will not be spread over several years but will be allowed in the same previous year.

Computation of Profits: The taxable profit is determined by deducting admissible expenses from the gross receipts or gross incomes of the business or profession. If certain expenses charged in profit and loss account are disallowed, they

are added back in the net profit as per profit and loss account. Similarly there are certain incomes which are not taxable under this head but have been credited to the profit and loss account then such incomes are deducted from the net profit as per profit and loss account. After making these corrections, corrected profit and loss is ascertained for income tax purpose.

Maintenance and audit of accounts: If total income of three years immediately proceeding the current previous year is more than Rs. 1.5 lakh, then it is essential to maintain the specified books of accounts and if it is less than 1.5 lakh then it is not necessary to maintain such accounts. Specified professions include profession of technical advisors, engineers, Lawyers, doctors, company secretaries etc. Businessman whose total income of three years immediately preceding the current previous year is less than Rs. 1.2 lakh and total sales is not more than Rs. 10 lakh are called non- specified professionals. It is mandatory to get the accounts audited from chartered accountant if gross receipts or total sales are more than Rs 1 crore in the previous year in case of business and Rs. 50 lakh in case of profession.

Expenses expressly allowed: Expenditure in respect of business premises its rent, repair, insurance, depreciation or local tax. Deduction in respect of deposit for tea, coffee or rubber development, expenditure on scientific research, expenditure on patent and copyrights, expenditure to obtain license to operate telecommunication services, Expenses for amalgamation, expenditure on voluntary retirement, amortization of preliminary expenses, expenditure on family planning etc.

Expenses expressly disallowed: (i) Payment outside India without TDS, (ii) salary, interest, bonus, commission or remuneration paid to members of an association of persons or body of individuals, (iii) payment in cash over and above Rs. 20000, etc.

2.0 Terms to Remember

1. **Business:** It includes business, profession and vocation. Manufacture or sale-purchase of goods with the objective of earning profit is called business.
2. **Vocation:** Any activity undertaken to earn one's livelihood.
3. **Profession:** Activities requiring intellectual skills, application and ability of mind with usually some specialized knowledge.

4. **Capital expenses:** These are the expenses which are non-recurring in nature and the benefit of such expenses is derived over a number of years.
5. **Depreciation:**
6. **Resulting Company:** It is that company which has got the undertaking of demerged company under the scheme of demerger.
7. **Allowed expense:** These are the expenses which are related to the business and have to be debited in profit and loss account while calculating the income of business/profession.
8. **Disallowed expenses:** These are the expenses which are not related to the business and cannot be debited in profit and loss account while calculating the income of business/profession
9. **Preliminary expenses:** These are the expenses which are incurred prior to the commencement of business.

2.1 Answer to check your progress

I. 1. False, 2. False, 3. True, 4. False, 5. True, 6. True, 7. True

II. (1) - 50% (2) 32 (3) Income from business or profession (4) 180 (5)30

2.2 Exercise

Short Answer Questions

1. Which types of activities are included in Business and profession?
2. Explain the amount of deduction in case of preliminary expenses.
3. When is the audit of accounts of a business assessee compulsory? Explain in brief.
4. Explain the amount of deduction in case of patent and copyrights expenses.
5. Explain the amount of deduction in case of Technical Know-how expenses.

Long Answer Questions

1. Describe expressly allowed deduction at the time of calculating profit of business or profession.

2. Explain the deductions that are expressly disallowed in computing the income from business or profession.
3. Explain the incomes that are chargeable under the head business or profession.
4. What is the procedure of calculating the profit in case of business/profession? Give a Performa of corrected profit and loss account.
5. Write notes on the following:
 - (i) Expenditure on Scientific research
 - (ii) Tea development account
 - (iii) Capital expenditure of Telecommunication services.

Illustration 1) Mr. Ramesh is a leading advocate at Pune. Following is the summary of cash book for the year ended 31/03/2023. Compute his income from profession.

Receipts	Rs.	Payments	Rs.
Opening Balance	50,000	Salary to Assistance	2,50,000
Professional Fees	15,00,000	Rent of Chamber	1,80,000
Arbitration Fees	3,00,000	House Hold Expenses	8,00,000
Gifts	2,00,000	Membership Fees	60,000
Policy amount received on maturity of policy	20,00,000	Books For Profession (Annual Publication)	1,00,000
Interest on Bank Deposit	1,50,000	Fixed Deposits in Banks	20,00,000
		Car Expenses	2,00,000
		Advance Income Tax	50,000
		Bonus and Gifts to Staff	2,00,000
		Computer Purchase	1,00,000
		Telephone Expenses	1,30,000
		Closing Balance	1,30,000
	42,00,000		42,00,000

Additional Information:

- 1) Gifts included Rs. 70,000 received from friends & relatives on family function and balance from clients.
- 2) Depreciation allowable on assets as per rules amounted to Rs. 1,60,000 including Rs. 50,000 on car but excluding books purchased.
- 3) One fifth of car expenses are related to personal use.
- 4) Membership fees included Rs. 20,000 to bar council and balance to private club.

Solution:

Computation of Income from Profession of Mr. Ramesh for A.Y. 2023-2024.

Particular	Amount Rs.	Amount Rs.
Allowed Income :		
Professional Fees	15,00,000	
Arbitration Fees	3,00,000	
Gifts	1,30,000	19,30,000
Less: Allowed Expenses :		
Salary to Assistance	2,50,000	
Rent of Chamber	1,80,000	
Membership Fees	20,000	
Car Expenses (2,00,000x4/5)	1,60,000	
Telephone Expenses	1,30,000	
Depreciation :		
On other assets (1,60,000-50000)	1,10,000	
On Car (50,000x4/5)	40,000	
Books Annual Publication (1,00,000 x 40%)	40,000	9,30,000
Income from Profession		10,00,000

Illustrations 2) Dr. Suresh is a renowned medical practitioner who maintains books of account on cash basis, furnishes his Receipts and Payments Account for the financial year 2022-2023.

Receipts	Rs.	Payments	Rs.
Balance b/d	2,80,000	Rent of Clinic	1,20,000
Consultation Fees	4,00,000	Electricity and Water	40,000
Visiting Fees	6,00,000	Purchase of Professional Books	80,000
Loan from Bank (For Profession)	5,00,000	Household Expenses	1,58,000
Pathological Tests	2,00,000	Motor Car Purchased	6,00,000
Receipts from Indoor Patient	10,00,000	Surgical Equipments	96,000
Gifts and Presents	1,00,000	Income Tax	2,00,000
Interest on Bank Deposits	4,60,000	Salary to Staff	3,00,000
		Life Insurance Premium	4,00,000
		Interest on Loan	40,000
		Car Expenses	3,00,000
		Purchase of Medicines	8,00,000
		Balance c/d.	4,06,000
	35,40,000		35,40,000

Additional Information:

- 1) 1/3rd of the car related to his personal use.
- 2) Depreciation on motor car allowable is 15%, on books 40%, and on surgical equipments 40%.
- 3) Gifts and present include Rs. 60,000 from patients and Rs. 40,000 received on birthday.
- 4) Closing stock of medicines amounted Rs. 1,10,000.
- 5) All fixed assets are purchased before 30/09/2020 Compute taxable income from profession for A.Y. 2023-2024.

Solution: Computation of Income from Profession of Mr. Suresh for A.Y. 2023-2024.

Particular	Amount Rs.	Amount Rs.
Allowed Income :		
Consultation Fees	4,00,000	
Visiting Fees	6,00,000	
Pathological Tests	2,00,000	
Receipts from Indoor Patient	10,00,000	

Gifts and Presents (1,00,000-40,000)	60,000	22,60,000
Less: Allowed Expenses :		
Rent of Clinic	1,20,000	
Electricity and Water	40,000	
Salary to Staff	3,00,000	
Interest on Loan	40,000	
Purchase of Medicines (8,00,000-1,10,000)	6,90,000	
Car Expenses (3,00,000x2/3) Professional purpose	2,00,000	
Depreciation :-		
On Car (6,00,000 x15%)=90000x2/3	60,000	
On Surgical equipments (96,000x40%)	38,400	
On Books (80,000x40%)	32,000	15,20,400
		7,39,600

