

Income from Business / Profession

2.0 Introduction

In case assessee carried on any business or profession by him or his behalf then income from such activities are taxable under the head Income from business and profession. The income under the head “profits and gains of business and profession” includes “profits” and “gains” of “Business” and “Profession” including their different types and forms viz. vocation, trade, commerce, manufacture and any adventure in the nature of trade or profession.

As we know that a person's income can be divided under five heads like Salary, House property, Capital gains, income from other sources and Profits and gains of Business or Profession. Out of these heads ‘Profits and gains of Business or Profession’ are most important and largest head. The income from business to which a person is chargeable under this head represents not the gross receipts from the business but the profits and gains derived from there. For instance, in the case of a businessman, the gross sale proceeds would not be the basis for levying tax but it is net profit or the profit or gain as determined in accordance with sections 28 to 44DB.

The chargeability to tax under Section 28 is based primarily upon the condition that the assessee must have carried on a business or profession at any time during the accounting year, though not necessarily throughout the accounting year. There are two parts of this head one is business and second is profession.

2.1 Presentation of subject matter

2.1.1 Income from Business / Profession

Meaning of Business: The meaning of the Business has been defined in Section 2(13) of the Income-tax Act. According to this definition, business includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture. The concept of business presupposes the carrying on of any activity for profit, the definition of business given in the Act does not make it essential for any taxpayer to carry on his activities constituting business for a considerable length of time.

Example: If a person purchases a piece of land, gets it surveyed, lays down a scheme of development, divides it into a number of building plots and sells some of the plots from time to time, he would be chargeable to tax not only on the notion

profits made on individual sale of plots but also on the surplus, if any, remaining after the sale of all plots and after the venture had come to an end.

Buisenss : The term business defined in section 2(13) to "includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture." The definition of "business" is an inclusive one. It includes "business" in its general commercial sense but also several other activities, namely- trade, commerce, manufacture and any adventure in the nature of trade, commerce or manufacture. Business, trade and commerce refer to buying and selling of goods or services for profit and other incidental activities.

Manufacturing means producing new goods or articles.

Thus business is any activity carried out with the intention to earn profit, whether such an activity is continuous or temporary is immaterial.

Meaning of Profession: The term Profession has been defined in Section 2(36) of the Act to include any vocation. In the case of a profession, the definition given in the Act is very much inadequate since it does not clearly specify what activities constitute profession and what activities do not. Profession involves the concept of an occupation requiring either intellectual skill or manual skill controlled and directed by the intellectual skill of the operator. For example an auditor carrying on his practice, the lawyer or a doctor, a painter, an actor, an architect or sculptor, would be persons carrying on a profession and not a business. The common feature in the case of both profession as well as business is that the object of carrying them out is to derive income or to make profit. The process of making the profit would be the main area of difference between the two while the ultimate object is common to both.

Profession : The term profession has been not defined in the Act. It means an occupation requiring to some degree of learning. Profession requires intellectual skill or manual skill or both. The examples are doctor, advocate, chartered accountant, engineers etc The term profession include vocations as well.[Section 2(36)] "Profession" in common parlance means rendering of skilled services like as those of doctors, architects, lawyers, chartered accountants or other professionals. In short "Profession" may be defined as a vocation, or a job requiring some thought, skill and special knowledge like that of C.A., Lawyer, Doctor, Engineer, Architect etc. So profession refers to those activities where the livelihood is earned by the persons through their intellectual or manual skill.

2.1.2 Features of Income from Business / Profession

1. Business or Profession carried on by assessee: It is must that business or profession must be carried out by assessee himself during the previous year.
2. Business or profession should have been carried on the previous year.
3. Aggregate income of different businesses is assessed to tax.
4. Profits from speculation business are also taxed under the head income from business.
5. Income from previous year should be taxed for the current assessment year.
6. The real profit i.e. the profit received or receivable during the previous year are taxed.

Basis of charge: Section 28:

Following are the income chargeable to tax under the head Profits or Gains from Business or profession: -

- 1) **Profit and Gains of any business or profession** that is carried on by the assessee at any time during the previous year.
- 2) Any **compensation or other payment** due to or received by an assessee for loss of agency due to termination or modification of terms.
- 3) **Income derived by a trade, professional** or a similar association for specific services performed for its members.
- 4) **Any profit on sale of a license** granted under Imports (controls) Order 1955 made under Imports & Exports (control) Act of 1947.
- 5) **Any cash assistance** (by whatever name called) received or receivable against exports under any scheme of Government of India.
- 6) **Any duty of customs or excise** repaid or repayable as drawback to any person against exports under the Customs and Central Excise Duty's Drawback Rules 1971.
- 7) **Any profit on the transfer of** the Duty entitlement pass book scheme under export import policy.

- 8) Any profit on the transfer of the **Duty free replenishment certificate** under export import policy.
- 9) The value of any **benefit or perquisite** whether convertible into money or not arising from business or exercise of a profession e.g. A gift received by the lawyer from his client.
- 10) Any **interest, salary, bonus, commission or remuneration** due to or received by partner of a firm from such firm.
- 11) Sum received or receivable in **cash or in kind under an agreement for not carrying** out any activity in relation to any business or not sharing any know how, patent, copyright, trade mark, license franchise or any other business or commercial right of similar nature or information or technique likely to assist the manufacture or processing of goods or provision of services.
- 12) Any sum received including bonus under Key man Insurance Policy.
- 13) Any sum received (or receivable) in cash or kind, on account of any capital asset
(Other than land or goodwill or financial instrument) being demolished, destroyed, Discarded or transferred, if the whole of the expenditure on such capital asset has been allowed as a deduction under section 35AD.
- 14) Income from a speculative business.

Method of computing taxable income :

A) Gross Sales or Gross fees as the case may be are to be taken as the base if Receipt and Payment A/c or cash Book is given. From this Gross income expenses which are specifically allowed by the income tax act are deducted to arrive at taxable income.

B) If profit & loss a/c or income & expenditure a/c is given Net Profit or (Surplus) is Taken as the base and then following adjustments are made:

i) Expenses, which are debited, to profit & loss a/c, but disallowed by the income tax Act and either fully or partially are added back

ii) Expenses, which are not debited, to profit & loss a/c but which are allowed by the Income Tax Act are deducted.

iii) Income that is credited to profit & loss a/c but not taxable at all or taxable under Some different head is to be deducted.

iv) Income that is not credited to profit & loss a/c, but which is chargeable to tax as business income is to be added.

Computation of business income –Section-29:

As per section 29, income under the head profits and gains of business or profession shall be computed in as per the provisions of sections 30 to 43D. On a collective the provisions of the two sections, following points emerge out:

1. Income under this head is the aggregate of all income:
 - (i) from different sources specified in Sec 28 ;
 - (ii) in respect of a business or profession ;
 - (iii) carried on by the assessee.
 - (iv) Any time during the previous year;
2. From the aggregate income, deduction will be allowed in respect of expenses
 - (i) incurred by the assessee;
 - (ii) during the previous year;
 - (iii) for earning such income
3. The deduction of expenses incurred is subject to the following principles or conditions:-
 - (i) Expenses will not be deducted, if the business or profession is closed down during the previous year.
 - (ii) Expenses incurred before setting of the business will not be allowed except where specifically provided by law.
 - (iii) Some expenses are fully deductible, while others are deductible only partially;
 - (iv) Similarly, some deductions are assessee-specific i.e. allowable to some classes of assessees e.g. a company or a firm but not to others;

- (v) Some deductions are without conditions, while others are subject to fulfillment of conditions attached with the deduction.

Basic Scheme of computation –Sec 28- 44D

From the above, scheme for computation of income under the head profits and gains of business and profession may be summarised as under:-

- (a) Sec. 28 is the charging section. It defines what constitutes income under the head profits and gains of business or profession.
- (b) Sec. 29 provides mode of computation of taxable income under this head viz. by deducting expenses from income.
- (c) Sec. 30 to 35 provide expressly for deduction of expenses in some cases
- (d) Sec 36 and 37 provide for general deductions.
- (e) Sec. 40, 40A and 43B provide for non- deduction in certain circumstances; of expenses, which are otherwise deductible.
- (f) Section 44A to 44D provide for computation of income on presumptive basis in case of smaller assessee like, insurance agents retailers, construction contractors, transporters etc.

2.1.3 Permissible Deductions of Business / Profession

Deductions for expenses specifically allowed under section 30 to 43D:-

Following deductions are expressly allowed as deductions while computing income from business and profession.

1. Rent, rates, taxes, repairs and insurance of building (Section 30):

- a) If assessee has occupied the premises as a tenant, rent of the premises and if he has agreed to bear cost of repairs, such cost is allowed as deduction, provided it is not in capital nature
- b) If assessee has occupied premises as the owner; repairs, land revenue, local taxes, insurance premium etc. are allowed as deduction. However, no expenditure in form of capital expenditure is allowed.

2. Repairs & Insurance of machinery, Plant & Furniture (Sec.31):

Amount paid on account of repairs and insurance premium against risk of damage in respect of machinery, plant & furniture are allowed as deduction provided they are not of capital nature.

3. Depreciation u/s 32:

Under Section 32 depreciation on assets is allowed as deduction while computing income from business or profession. To claim this deduction following Conditions should be satisfied:

- 1) Assessee should be owner of the asset.
- 2) Asset must be used for the business.
- 3) Such use must be in the previous year.

Depreciation is allowed not on individual asset items, but on block of assets. The block of assets mean a group of assets within a class of assets in respect of which the same percentage of depreciation is prescribed. The block of assets are as under :

- 1) Building
- 2) Plant and Machinery
- 3) Furniture
- 4) Intangible Assets acquired after March 31, 1998 such as know-how, Patents, Trademarks, licenses, franchises or any other business or commercial rights of similar nature.

The term plant includes ships, vehicles, books, scientific apparatus and surgical equipment's used for the business but exclude tea bushes or livestock. If any asset falling in block of assets is acquired during the year and **put to use** during the previous year for **less than 180 days** depreciation on such asset shall be restricted to **50% of the normal depreciation**.

Additional depreciation:

It can be claimed on new plant & machinery acquired after 31st March 2005 by an assessee. In the previous year in which it begins manufacturing or producing or power generation and distribution.

Rate of additional depreciation: 20% of actual cost

Where an assessee, sets up an undertaking or enterprise for manufacture or production of any article or thing, on or after the 1st day of April, 2015 in any backward area notified by the Central Government in this behalf, in the State of Andhra Pradesh or in the State of Bihar or in the State of Telangana or in the State of West Bengal, and acquires and installs any new asset for the purposes of the said undertaking or enterprise during the period beginning on the 1st day of April, 2015 and ending before the 31/03/2020 in the said backward area, then, there shall be allowed a deduction of 15% and higher depreciation @35% (instated of 20 %) of the actual cost of such new asset for the assessment year relevant to the previous year in which such new asset is installed.

Therefore, if new plant and machinery acquired and installed in notified backward areas on or After 1-4-2020, deduction under section 32 AD is not allowable. Further additional depreciation is not allowable at higher rate of 35%. Additional depreciation allowable at 20%, .

Unabsorbed Depreciation:

If profit for the year is not sufficient to absorb depreciation either fully or partially, unabsorbed depreciation can be deducted from any other head of income. If it still remains unabsorbed it can be carried forward to subsequent assessment years to be adjusted against future taxable income. It can be carried forward for unlimited period.

Rate of Depreciation :

All assets are divided into four main categories and rate of depreciation as prescribed by rule 5(1) are as under :

A. TANGIBLE ASSETS		
I	Buildings	Rate of dep,
Block 1.	Residential buildings other than hotels and boarding houses	5%
Block 2.	Office, factory, godown or building which not mainly used for residential purpose (cover hotels & boarding houses & not covered in block1 & 3	10%

Block 3.	Buildings acquired on or after the 1st day of September, 2002 for installing machinery and plant forming part of water supply project or water treatment system and which is put to use for the purpose of business of providing infrastructure facilities	40%
Block 4.	Purely temporary erections such as wooden structures	40%
2	Furniture & Fittings	
Block 1.	Furniture and fittings including electrical fittings	10%
3.	Plant & Machinery	
Block 1	i) Motor car other than those used in the business of running them on hire , purchased on or after 23.08. 2019 but before the 1 April 2020 and is put to use before 1.4. 2020 ii) Motor car other than those used in a business of running them on hire, aquired or put to use on or after 1.4.1990 (other than motor cars mentioned in (i) above .	30% 15%
Block 2.	i) Motor Taxis, Moto Lorries, Motor Buses used in a business of running them on hire, purchased on or after 23.08. 2019 but before the 31.03.2020 and is put to use before 31.03. 2020 ii) Buses, lorries and taxies used in the business of running them on hire (other than mentioned in (i) above).	45% 30%
Block 3.	Moulds used in rubber and plastic goods factoreis	30%
Block 4	Aeroplanes , Aeroegines	40%
Block 5.	Specified air Pollution control equipment, Water pollution control equipments, solid waste control equipment and solid wate recycling and resocue recovery system .	40%
Block 6.	Plant and machienry used in semi- consuter industry covering all integrated circuiys.	30%
Block 7	Life saving medical equipments	40%

Block 8	Machinery and plants purchased and installed on or after the 01.09.2002 in a water supply project or a water treatment system and which is put to use for the purpose of business of providing infrastructure facility .	40%
Block 9	Oil wells	15%
Block 10	Renewable Energy Saving Devices (as specified)	40%
	i) Windmills and any specially designed devices which run on wind-mills installed on or before 31.03.2014. And any special devices including electric generators and pumps running on wind energy installed on or before 31.03.2014. ii) Windmills and any specially designed devices which run on wind-mills installed on or after 1.04.2014.	
Block 11	Computers including computer software	40%
Block 12	Books (annual publications or other than annual publications) owned by assessee carrying on a profession	40%
Block 13	Books owned by assessee carrying on business running lending libraries	40%
Block 14	Plants & Machinery (General rate)	15%
4	Ships	
Block 1	Ocean –going ships	20%
Block 2.	Vessels ordinarily operating on inland waters not covered by block 3 below.	20%
Block 3	Speed boats operating on inland water	20%
	PART B. INTANGIBLE ASSETS	
	Know-how, patents, copyrights, trademarks, licenses, franchises or any other business or commercial rights of similar nature	25%

4) Expenditure on Scientific Research [U/S 35]:

Scientific Research means any activities for the expansion of knowledge in the fields of natural or applied science including agriculture, animal husbandry or fisheries. The following expenditure on scientific research is allowed as deduction:

- a) Revenue expenditure incurred for scientific research related to assessee's business. Will be fully allowed. This may be the payment of any salary to the persons engaged in scientific research or purchase of materials for use in such scientific research.
- b) Capital expenditure incurred on scientific research related to assessee's business, will be allowed in full, however purchase of land is not allowed. No depreciation is allowed u/s 32 in respect of such asset during the previous year and subsequent year.
- c) Contribution made to approve scientific research association or college or university or other approved institutions for scientific research and to approve university, college or institution for the use of scientific research is allowed. Above may or may not be related to assessee's business & a sum equal to amounts paid is allowed as a deduction.
- d) Contribution made to approved university, college or institution for research in social science or statistical research is allowed. Above may or may not be related to assessee's business & a sum equal to amounts paid is allowed as a deduction.
- e) Any sum paid to a "National laboratory" or I.I.T. or a university or a specified person approved by prescribed authority, to be used for scientific research under an approved program, will be allowed deduction of the amount so paid [Sec. 35(2AA)]
- f) Company engaged in business of bio-technology or manufacturing of article or things. Not being an article or thing specified in the list of the eleventh schedule. A deduction of a sum equal to the expenditure will be allowed. Such expenditure should not be in the nature of cost of any land or building. For entitle to take deduction company require to enters into agreement with prescribed authority for cooperation in such research and development.

5) Investment linked tax incentives for specified business: (Section 35AD) :

This section provides for investment linked tax deduction in respect of following specified business:

- a) Setting of and operating cold storage, transport facility for agriculture produce, meat and meal, poultry, marine and dairy products.
- b) Setting up or operating warehousing facility for agricultural produce.
- c) Laying and operating a cross country natural gas pipeline.
- d) Building or operating a hotel of two star or above category, anywhere in India.
- e) Building and operating a hospital anywhere in India, at least 100 beds for patients.
- f) Developing and building a housing project under a notified scheme for affordable housing formed by the central government or state government.
- g) Production of fertilizers in India.

Amount of deductions; 100% of capital expenditure excluding land, goodwill and financial instruments.

6) Amortization of certain preliminary expenses under section 35 D:

Amortizations of preliminary expenses section 35D an Indian company or a resident non-corporate taxpayer can claim deduction under section 35D in respect of preliminary expenses. Such expenditure may be incurred before commencement of the business or after commencement of the business in connection with extension of an undertaking or in connection with setting up a new unit.

Amount of deduction: **1/5th** of the total eligible preliminary expense is allowed in **5 equal annual** installments starting from the year in which the business commences or unit expanded or the new unit commences production or operation.

Maximum amount eligible for deduction: In case non corporate resident assessee at a 5% of the cost of project. In case of Indian company 5 % of the cost of the project or capital employed whichever is higher.

7) Specific deductions: [Section36]:

i) Insurance: Section 36(1) (i)- Premium paid to cover the risk of damage or destruction of stocks, stores, cattle and on health of employees under the approved scheme.

ii) Insurance Premium paid by Federal milk co-op. society on the lives of cattle owned by the members of a Primary Milk Co-op, Society affiliated to it. Section 36(1) (ia)

iii) Premium for insurance on health of employees in accordance with scheme framed by GIC & approved by Central Government or any other insurer & approved by the Insurance Regulatory & Development Authority (only if paid by cheque) Section 36(1) (ib).

iv) Bonus or commission paid to Employees: Section 36(1) (ii): It is allowed as deduction So far as they are paid as profit or dividend.

v) Interest on borrowed capital: Section 36(1) (iii): - It is allowed as deduction.

However, interest paid by firm to its partners is allowed subject to provisions of Sections 40(b).

vi) Discount on zero coupon bonds is deductible by issuing Company on pro rata Basis Sec.36(1)(iia)

vii) Contribution to recognized Provident fund or an approved super annuation fund:

Section 36(1)(iv). Any sum paid by the assessee as an employer by way of contribution Towards pension scheme.

viii) Contribution to Pension Scheme: Section 36(1)(iv a) Any contribution by an employer By way of contribution towards pension scheme referred to a section 80CCD for an employee up to 10% of salary shall be allowed as deduction.

ix) Contribution to approved Gratuity Fund Section 36(1)(v): - Amount contributed to the fund which is for the exclusive benefit of the employees will be allowed as deduction.

x) Contributions received from employees (when deposited) Section 36(1)(va): - Any contribution received from employees towards any funds for the welfare of the employees e.g. P.F. will be allowed as deduction when such contribution is credited to employees a/c on or before the due date. It is allowed as deduction not because it is an expenditure of the assessee. In fact, it is not at all an expenditure of the assessee. But when this amount is deducted from salary of

employees, it is treated as an income under section 2(24)(x). Therefore, deduction is allowed when payment is made by the due date.

xi) Animals used for the business: Section 36 (1) (vi): - Deduction is allowed when animals have died or have become permanently useless. Amount of deduction will be difference between actual cost of the animals and amount realised if any in respect of carcasses of the animals. Deduction is allowed only if animals are used for the purpose of business but not as stock in trade.

xii) Bad debts: Section 36(1)(vii) and Section 36(2): - Deduction is allowed on this account of debts have arisen out of business transaction. It is the responsibility of the assessee to prove to the satisfaction of income tax officer that such debts are irrecoverable.

xiii) Expenditure for promoting family planning: Section 36(1)(ix): - Only a company can claim this deduction. Any expenditure incurred by a company to promote family planning among its employees is allowed as deduction fully, provided it is revenue expenditure. Any capital expenditure on this account is allowed as deduction in 5 equal installments. If profit is not sufficient to absorb this expenditure it can be carried forward to be set off in future. No depreciation can be claimed under section 32 on capital assets used for promoting family planning and allowed as deduction under section 36(1)(ix).

xiv) Any amount of security transaction tax paid during the year. 36(1)(xv)

8) **Residuary Expenses: [Section 37]:**

Any other expenditure not covered by section 30 to 36 which is of revenue nature will be allowed as deduction provided it is incurred exclusively for the purpose of business or profession. e. g.

1. Embezzlement of cash.
2. Expenses on local festival such as Diwali, Muhurta etc.
3. Cash shortage found in the business at the end of the day.
4. Entertainment Expenses
5. Advertisement Expenses
6. Travelling Expenses

7. Guest House Expenses.
8. Lawful expenses related to illegal business.
9. Premium on redemption of debentures
10. Discount on issue of debentures (on pro rata basis)

Expenses Not Deductible under Section 37

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|--|------------------------------------|
| 1. Donations | 2. Charities |
| 3. Gifts to relatives | 4. Income tax |
| 5. Wealth tax | 6. Advance income tax |
| 7. Fines and penalties for breach of any laws. | |
| 8. Personal Drawings | 9. Salary to owner |
| 10. Interest on proprietor's capital | 11. Capital expenditure |
| 12. Purchase of an assets | 13. Extension of building |
| 14. Personal expenditure | 15. Household expenses. |
| 16. Drawings | 17. Education expenses of children |
| 18. Residential telephone bill | 19. Residential electricity bill |
| 20. Residential maintenance | 21. Amount transferred to reserve |
| 22. Personal Hotel expenses | |
| 23. R.D.D. But deduction is allowed for actual bad debts | |
| 24. Personal motor expenses | 25. L.I.C. on own life. |
| 26. Any Investments | |
| 27. Any expenses related to let out house property. | |
28. Expenditure on Advertisement (Section 37(2B)): It is allowed as deduction. However, as per Section 37 (2B), any expenditure incurred by an assessee on the advertisement in any souvenir, brochure, and pamphlet etc. published by a political party will not be allowed as deduction.
29. In case of all assessee Section 40(a): Interest, royalty, fees for technical services or any other sum chargeable to tax payable outside India without deducting

tax at source & where there is no person to be treated as an agent of person receiving this amount.

30. Salary paid outside India without deducting tax at source

31. Any contribution to PF or any other Fund, if there is no arrangement for TDS from any payment to be made from such Fund if it is taxable under the head Salaries.

Expenditure Expressly Disallowed : [Section 40]:

The following amounts are not deductible from business or profession income :

In case of any assessee u/s 40(a):

i) Interest, royalties, fees for technical services or any other other expenses chargeable to tax payable outside India, or in India to a non-resident on which no tax has been paid or deducted at source. Interest, commission, brokerage, professional fee, payments to contractors payable to resident also will not be allowed as a deduction if income tax has not been deducted and paid before the due date of filing of return.

ii) Income tax :Any tax levied on profits and gains on business or profession.

iii) Tax on perquisites paid by employer u/s 10 (10cc) is not deductible

iv) Section 40 (a) (iib): (a) royalty, license fee, service fee, privilege fee, service charge or any other name whatever called if such royalty etc., is exclusively levied on a State Government undertaking by the State Government; or

(b) any amount which is appropriated directly or indirectly from a State Government undertaking by the state government.

v) Section 40 (a) (iii): Salaries paid outside India or to a non-resident are not allowed unless income tax has been paid or deducted at source.

vi) Section 40 (a) (iv) : Any contribution to a provident fund, if no arrangement is being made for deduction of tax at source .

In case of firm u/s 40 (b): Payment of salary, bonus, commission or remuneration to working partner of the firm, by the firm is allowed as deduction only to the following extent:

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1. Loss or profit up to Rs. 3,00,000	-	1,50,000 or 90% of book profit whichever is more
2. On the balance of book profit	-	60% of book profit

Book profit means the net profit as shown in profit and loss account computed in the manner laid down in chapter (IV –D) without considering the deduction for remuneration as calculated above.

Interest to any partner in excess of 12 % p.a. : Interest on capital of partners is allowed as deduction provided it is authorized by the partnership deed & rate of interest does not exceed 12% p.a.

• **Expenses or payments not deductible in certain circumstances (Section 40A):**

i) Payment to relatives and associates: Section 40A(2)

Payments made by assessee to following persons: -

- (a) Who is relative of assessee, if assessee is an individual i.e. spouse, brother, sister or a lineal ascendant & descendant
- (b) Who is director, partner, member or their relatives, if assessee is a company or a firm or AOP or HUF?
- (c) Any person who is having substantial interest in business or profession of the assessee. i.e. a person who is beneficial owner of at least 20% of equity capital or entitled to 20% profit. If any payment is made by assessee on any account to above mentioned persons & if in the opinion of assessing officer such payment is excessive or unreasonable then to the extent it is unreasonable will be disallowed.

ii) Payments exceeding Rs. 10,000 made otherwise than by a crossed cheque or a draft Section 40A (3) & 40A (4):-

If assessee incurs any expenditure exceeding Rs. 10,000 otherwise than by a crossed cheque or a draft or electronic mode it shall be disallowed to the extent of 100% where the assessee incurs any expenditure in respect of which a payment or

Aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or account payee bank draft, exceeds ten thousand rupees, no deduction shall be allowed in respect of such expenditure.

The monetary limit of Rs. 35,000 in the case of payment made transport operator.

iii) Provision made for payment of gratuity under section 40 A (7):

No deduction shall be allowed in respect of any provision for payment of gratuity to employees, by whatever name called.

However, the deduction shall be allowed in respect of following:

Provision made by the assessee for the purpose of payment of a sum by way of any contribution towards an approved gratuity fund, or for the purpose of payment of any gratuity, that has become payable during the previous year.

iv) Contributions made by employer to non-statutory funds 40A (9):

No deduction shall be allowed to an assess for contribution made as an employer to any fund other than recognized provident fund, approved superannuation fund or approved gratuity fund.

2.1.4 Expenses not taxable under the head “profits and gains of business”

Business expenses not taxable under the head “profits and gains of business”:

1. Advertisement expenses incurred by an assessee on advertisement in any souvenir, magazine, pamphlet published by political party.
2. Interest, royalty, fees paid outside India without TDS shall be disallowed
3. Any amount of income tax, Arrears of income Tax or Advance income tax paid is disallowed
4. Wealth tax paid on the wealth of an assessee
5. Payment of provident fund paid outside India without TDS
6. Payment to a relative by way of salary, provident fund, or Interest
7. Any Expenditure paid in cash or through bearer cheque exceeding Rs. 20,000 will be disallowed
8. Capital expenditures

9. All types of provisions, reserves and fund
10. Drawing of proprietor
11. Personal expenses of proprietor
12. Fines and penalties
13. Past losses and provisions for losses
14. Charity and Donation
15. Registration expenses of business assets
16. Legal expenses related to capital assets
17. Life insurance premium on the life of proprietor
18. Expenditures on raising capital
19. Expenditure on shifting registered office
20. Gifts made on personal consideration

- **Deemed Income from Business or profession: Section 41**

- i) Recovery against any Allowance or Deduction Allowed earlier:

The amount received by the assessee in respect of a loss or expenditure allowed as deduction in the earlier years, is deemed to be profit of the previous year in which it is received by the assessee, whether the business or profession in respect of which the deduction has been made is in existence in the year or not.

- ii) Remission or censure of liability: The amount of liability which was allowed as deduction in the earlier years if waived or ceased is deemed to be profit of previous years during which it is waived by the creditor.

- iii) Profit on sale of asset used for scientific research:

Where any capital asset used in scientific research is sold without having been used for other purposes and the sale proceeds, together with the amount of deduction allowed under section 35, exceed the amount of the capital expenditure incurred on purchase of such asset, such surplus (i.e., sale price) or the amount of deduction allowed, whichever is less, is chargeable to tax as business income in the year in which the sale took place.

iv) **Bad debts recovered:**

Where any bad debt has been allowed as deduction under section 36(1)(vii) and the amount subsequently recovered on such debt is greater than the difference between the debt and the deduction so allowed, the excess realization is chargeable to tax as business income of the year in which the debt is recovered.

1) Disallowance of unpaid statutory liability (Section 43B): - This section is applicable only if books are maintained on accrual basis. In the following cases, deduction otherwise allowable under the Income-tax Act will not be allowed unless the amounts are actually paid by the due date for filing return of income. If these liabilities are disallowed under section 43B in the year of provision, they will be allowed in succeeding year or year when actually paid: -

- 1) Tax, duty, cess or fees, under any law (e.g. Sales-tax, Excise duty, etc.)
- 2) Employer's contribution to provident fund or super annuation fund or gratuity fund or any other fund for the welfare of the employees.
- 3) Bonus or commission for services rendered payable to employees referred to in section (1) (ii) & sum due in lieu of leave balance.
- 4) Interest on any loan or borrowing from any public financial institutions or a State Financial Corporation or a State Industrial Investment Corporation, in accordance with the terms and conditions of loan/borrowing agreement.
- 5) Interest on any term loan from a scheduled bank in accordance with the terms and conditions of the agreement governing such loan. It should be noted that these payments will not be allowed as deduction on accrual basis if not paid by the due date of filing return of income even if books are kept on mercantile basis

2.1.5 Specific provision of income from business / Profession:

1. Maintenance of accounts by certain Assesseees under section 44AA (1):

a) Every person carrying on legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or any other profession as is notified by the Board in the Official Gazette shall keep and maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of this Act.

i) If their gross receipts in the profession exceed Rs. 1,50,000 in all the 3 years immediately preceding the previous year; or

ii) If profession newly set up in the previous year, his gross receipts are likely to exceed Rs. 1, 50,000 in that year.

b) Every person carrying on business or profession [not being a profession referred to in sub-section (1) above: section 44AA (2):

i) In case Individual or HUF:

Existing business or profession: In case where the income from the existing business or profession exceeds Rs. 2,50,000 or the total sales or gross receipts exceeds Rs. 25,00,000 any one of three year immediately preceding the accounting year.

For Newly set up business: If his income from business or profession is likely to exceed Rs. 2,50,000 or his total sales or receipts are likely to exceeds Rs. 25,00,000.

ii) Person other than individual and HUF:

Existing business or profession: In case where the income from the existing business or profession exceeds Rs. 1,20,000 or the total sales or gross receipts exceeds Rs. 10,00,000 any one of three year immediately preceding the accounting year.

For newly set up business: If his income from business or profession is likely to exceed Rs. 1, 20,000 or his total sales or receipts are likely to exceeds Rs. 10, 00,000.

c) Where the profits and gains from the business are deemed to be the profits and gains of the assessee under section 44AE or section 44BB or section 44BBB, as the case may be, and the assessee has claimed his income to be lower than the profits or gains so deemed to be the profits and gains of his business, as the case may be, during such previous year; or

• **Audit of accounts of certain persons carrying on business or profession (Section 44AB):**

The Finance Act 2020 has made amendment in the threshold limit of tax audit under section 44AB. The tax audit limit under section 44AB is as under:

- Where the person is carrying on business shall and his total sales, turnover or gross receipts, as the case may be, in business exceed or exceeds Rs. 1 crore in any previous year is liable for tax audit.
- As per amendment made by Finance Act 2020, where the person is carrying on business and fulfills below conditions then threshold limit for tax audit shall be increased to Rs. 5 Crores:
 - (i) aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, in cash, does not exceed five per cent of the said amount; and
 - (ii) Aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed five per cent of the said payment.
 - (c) In case the person is carrying on profession then he shall be liable for tax audit if his gross receipts in profession exceed Rs. 50 lakh in any previous year.

- **Estimated income scheme of assessment :**

Where the person is carrying on the business shall and is opting for presumptive taxation scheme under the following provisions:

- i) **Section 44AD: Presumptive taxation in case of business:**

Under Section 44AD of presumptive taxation, small taxpayers with less than Rs. 2 crore of turnovers can opt for presumptive tax scheme to declare profit of 8% of their turnover. For availing benefit under this scheme, profits where income is credited digitally or through the bank will be considered as 6% as against 8% for cash receipts. If a taxpayer opts for presumptive taxation, he will not be allowed deduction for expenses u/s 30 to 38

- ii) **Section 44ADA: Presumptive taxation in case of Profession:**

Presumptive income of profession shall be 50% of gross receipt (if gross receipt of assessee does not exceed Rs. 50 lakh).

- iii) **Section 44AE: Presumptive taxation in case of business of plying, hiring or leasing goods carriages. For Heavy Goods Vehicle:**

Rs. 1,000 per ton of gross vehicle weight for every month or part of a month during which the heavy goods vehicle is owned by assessee.

For Other Goods Vehicle:

Rs. 7,500 for every month or part of a month during which the goods carriage is owned by assessee.

Check your progress-I

State whether the following statements are true or false:

- (i) Objective of business is to earn profit only
- (ii) Household expense is allowable expenses
- (iii) Preliminary expenses are written off in 5 equal annual installments.
- (iv) Expenses incurred on technical know-how on or after 1.4.1998 shall be allowed in 6 equal installments.
- (v) Gift taken by a doctor from his patient is an income of profession.
- (vi) Interest payable on the owner's capital is disallowed expenses.
- (vii) Expenses incurred on Patent and Copyrights before 1.4.1998 shall be allowed in 14 equal annual installments.

New Tax Regime

Deductions are not allowed against business income under the new regime

Deductions and exemptions not allowed against business income:

- Additional depreciation under section 32
- Investment allowance under section 32 AD
- Sector-specific business deductions under section 33AB and 33ABA
- Expenditure on scientific research under section 35
- Capital expenditure under section 35 AD
- Exemption under section 10AA for SEZ units

Unabsorbed depreciation and business loss under the new tax regime

In the case of a business income, an individual or HUF cannot claim set-off of the brought forward business loss or unabsorbed depreciation.

The deductions are not available under the new regime to the extent they relate to deductions/exemptions withdrawn.

2.1.6 Determination of Taxable Income from Business / Profession

- **Computation of the profit and gains of business and profession :**

a) **When profit and loss account or Income and expenditure is given:**

Computation of Income from business or profession

Legal Status:

Previous year:

Residential Status:

Assessment year:

Particular	Rs.	Rs.
Net profit/ loss as per P& L A/c. or I/E. A/c.		xxx
Add: Disallowed expenses :		
Household Expenses, Personal Expenses, Capital expenses	XX	
Expenditure on L I. C., Donation, Provisions & Reserve Provisions for various funds & reserve	XX	
Proprietor Salary, Interest on capital, Drawing Losses of earlier years	XX	
Expenses related with other heads	XX	
Preliminary expenses in excess of provision u/s 35D	XX	
100% payments in excess of Rs. 10,000 not made by crossed cheque or draft	XX	
Income tax, wealth tax, STT	XX	
Depreciation debited to P& L not as per the income tax rule	XX	
		xxx
		xxx
Less: Income credited to P& L A/c. or I/E A/c		
Not taxable under this head or exempt		
Income from house property	XX	
Income from other source like Interest, dividend	XX	
Salary	XX	
Income tax refund	XX	
Capital gain	XX	
Bad debts recovered (previously disallowed as deduction)	XX	

Income exempt u/s 10	XX	
		XXX
Less: Depreciation as per IT rule		XXX
Income from Business or profession		XXX

B) When Receipts and payment account is given:

Computation of Income from business or profession

Legal Status:

Previous year:

Residential Status:

Assessment year:

Particular	Rs.	Rs.
Professional Receipts (Income)		
Consultation fees	XX	
Professional fees	XX	
Visiting fees	XX	
Sale proceeds of medicines etc (doctor)	XX	
Gifts from patients or client	XX	
Other professional receipts	XX	
Examiner's fee	XX	XX
Less: Allowable professional expenses		
Production expenses	XX	
Office & administrative expenses	XX	
Postage, telegram, stipend Finance charges	XX	
Subscription or membership fees for profession Car expenses relating to business or profession	XX	
Medicines, printing and stationery Depreciation as per IT rule	XX	
Books and journal annual publication	XX	
Staff salary	XX	XXX
Income from business or profession		XXX

- **Illustrations :**

Illustration 1) Mr. Shaha has prepared following profit and loss account:

Profit and Loss Account for the year ended 31/03/2023

Particular's	Amount	Particular's	Amount
Salaries	80,000	Gross profit b/d	5,03,000
Advertisement	40,000	Winning from TV show	18,500
Sundry Expenses	45,000	Interest on securities	2,000
Interest on own capital	20,000	Dividend from co-operative society	4,000
Fire Insurance	3,000		
Income Tax	7,000		
Household Expenses	25,000		
Bad Debts	10,000		
Provision for Doubtful Debts	5,000		
Repairs	4,600		
Life Insurance Premium own life	6,000		
Donations	4,000		
Depreciation	37,000		
Net profit	2,40,900		
	5,27,500		5,27,500

Additional information:

- Salary includes Rs. 16,000 paid to proprietor's son, studying in 8th standard.
- Sundry expenses include Rs. 150 towards charity and Rs. 2,500 towards school fees of the son.
- Repairs include Rs. 1,500 for repairs carried out at the residence of Mr. Shaha
- Depreciation as per income tax rule Rs. 35,000.

Compute his income from business for the year ending 31st March 2023 for A.Y. 2023-2024.

Solution:

Computation of income from business of Mr. Shaha for A.Y. 2023-2024

Particular	Amount	Amount
Profit as per profit and loss account		2,40,900
Add: Expenses disallowed :		
Salary to proprietors son studying in 8 th standard	16,000	
Sundry expenses for charity	150	
Sundry expenses for school fee of the son	2,500	
Interest on own capital	20,000	
Income tax	7,000	
Household expenses	25,000	
Provisions for doubtful debts	5,000	
Repairs	1,500	
Life insurance premium	6,000	
Donation	4,000	
Depreciation	37,000	
		1,24,150
		3,65,050
Less :Income chargeable under other head		
Winning from TV show	18,500	
Interest on securities	2,000	
Dividend from co-op. Society	4,000	24,500
		3,40,550
Less: Depreciation as per income tax rule		35,000
Income from business		3,05,550

Illustrations: 2) From the following Income expenditure account of a Dr. Pallavi Kulkarni, Kolhapur, Compute the taxable income for the assessment year 2023-2024.

Income & Expenditure Account for the year ended 31/03/2023

Particular	Rs.	Particular	Rs.
To Salaries to Staff	3,00,000	By consultation Fees	9,50,000

To Office Expenses	1,00,000	By Visiting Fees	4,50,000
To OPD Rent	2,40,000	By Salary as a Visiting lecturer	9,00,000
To Subscription	30,000	Examiner's Fees	20,000
To Books for Profession (Annual Publication)	60,000	Dividend from cooperative society	30,000
To Car Expenses	1,00,000	By Rent from let out house property	3,60,000
To Purchase Of Computers (10-12-2020)	4,50,000	By Presents from Patients	1,40,000
To Advance Tax	2,50,000	By Prize received from lion club as best member of the year	1,00,000
To Donations	1,00,000	By Received a share from H.U.F. income	2,50,000
To Personal Drawings	8,00,000		
To Expenses of let out house	65,000		
To Life Insurance Premium	1,00,000		
To Depreciation	50,000		
To Surplus	5,55,000		
	32,00,000		32,00,000

Following further information is given:

1. Half of the car expenses were related to private purpose.
2. Depreciation allowable as per Income Tax rules amounted to Rs. 1, 20,000 excluding cost of computer but including depreciation on car Rs. 48,000.
3. Donation is given to Prime Minister's Earthquake Relief Fund.

Solution:**Computation of Income from Profession of Dr. Pallavi Kulakarni for A. Y.2023-2024**

Particular	Amount	Amount
Surplus as per Income & Expenditure Account		5,55,000
Add: Expenses disallowed :		
Car expenses (Personal expenses $1,00,000 \times 1/2$)	50,000	
Purchase of computers	4,50,000	
Advance Income Tax	2,50,000	
Donations	1,00,000	
Personal Drawings	8,00,000	
Let out house expenses	65,000	
Life Insurance Premium	1,00,000	
Books	60,000	
Depreciation	50,000	
		19,25,000
		24,80,000
Less: Income not taxable under profession head and tax free incomes		
Salary	9,00,000	
Dividend from cooperative society	30,000	
Examiner's fees	20,000	
Prize received from lions club	1,00,000	
Received a share from H. U. F.	2,50,000	
Rent from let out house	3,60,000	16,60,000
		8,20,000
Less: Depreciation as per I. T. Rules:		
Car ($48,000/2$)	24,000	
Computer ($4,50,000 \times 40\% \times 1/2$)	90,000	
Other Assets ($1,20,000-48,000$)	72,000	1,86,000
Income from Profession		6,34,000

Notes: 1) Purchase of computers is capital expenditure and hence not allowable.

1) Depreciation on computer @40 % p.a. charge for half year as computer used for less than 180 days in year.

Illustration 3): Profit and Loss Account of M/S Ravi & Son's, Mumbai for the financial year ended 31st March 2023.

Profit and Loss Account

Particular	Rs.	Particular	Rs.
To Salary	2,00,000	By Gross Profit	16,00,000
To Advertise	40,000	By Interest on Securities	40,000
To General Expenses	80,000	By Rent From House Property	60,000
To Entertainment Expense	30,000	By Bad Debts Recovered (Previously allowed)	10,000
To Bad Debts	5,000	By Commission	60,000
To Travelling Exp.	45,000		
To G.S.T.	10,000		
To Interest on Capital	20,000		
To Repairs	5,000		
To Depreciation	30,000		
To Car Purchased	3,00,000		
To Car Expenses	30,000		
To Donations	20,000		
To Provisions For Bad Debts	20,000		
To Municipal Tax on House	10,000		
To Wealth Tax	15,000		
To Income Tax	25,000		
To Net Profit	8,85,000		
	17,70,000		17,70,000

Adjustments:

- 1) Half of the repairs were on house property let out.
- 2) Depreciation as per Income Tax Rule Rs. 40,000
- 3) Advertisement includes Rs. 10, 000 were spent on Permanent signboard fixed on the premises.
- 4) Donations paid to Prime Minister's National Relief Fund.

Compute his Income from Business for the year ending 31/03/2023 for A.Y. 2023- 24.

Solution:**Computation of Income from Business of M/S Ravi & Son's for A. Y. 2023-2024**

Particular	Amount	Amount
Profit as per profit and loss account		8,85,000
Add: Expenses disallowed :		
Advertisement	10,000	
Interest on capital	20,000	
Repairs	2,500	
Car purchased	3,00,000	
Donation	20,000	
Provision for bad debts	20,000	
Municipal Taxes of house	10,000	
Wealth Tax	15,000	
Income Tax	25,000	
Depreciation	30,000	4,52,500
		13,37,500
Less : Income chargeable under other head		
Interest on Securities	40,000	
Rent From House Property	60,000	1,00,000
		12,37,500
Less: Depreciation as per I.T. Rule		40,000
Income from Business		11,97,500

Illustration 4) 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 (2,00,00x4/5)	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 5) 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 x 15%)=90000x2/3	60,000	
On Surgical equipments (96,000x40%)	38,400	
On Books (80,000x40%)	32,000	15,20,400
		7,39,600

Illustrations 6) Sujay gives you the following particulars for the year ended 31/3/2023.

Particulars	Rs
Net Profit as per Profit and Loss Account (Without allowing the following items)	520000
Capital expenditure on family planning	70000
Lump sum consideration for purchase of technical know how developed in government laboratory	120000
Entertainment Expenditure	40000
Expenditure on acquisition of patent right	80000
Expenditure on advertisement paid in cash	25000
Provision for GST	60000
He paid rs 30000 on 27/6/2023 and Rs. 12000 on 1/11/2023	
Due date of filing of return is 31/7/2023	
Amount paid to Delhi University a notified institution for an approved research programme in the field of social sciences not connected with his business	60000

Compute the Income from Business for the A. Y. 2023-2024. Assume

- a) Does not opt to be taxed under section 115 BAA
b) Opts to be taxed under section 115 BAA

Solution-

Computation of Income from Business of Sujay for the A. Y. 2023-2024

Particular	Does not opt to be taxed u/s 115BAA		Opts to be taxed u/s 115BAA	
	Rs	Rs	Rs	Rs
Net Profit as per Profit and Loss Account		520000		520000
Less : Allowed Expenses				
Capital Expenditure on Family Planning (allowed only to companies)	Nil		Nil	
Depreciation on technical know and patents acquired during				
the year assuming put to use or 180 days or more	50000		50000	
Entertainment Expenditure Allowed	40000		40000	
Advertisement Expenditure in cash - disallowed 100%	Nil		Nil	
Amount paid to Delhi University for social science research (Rs. 60000 x 100%)	60000		Nil	
Payment of GST before due date of filing of return	30000	180000	30000	120000
Taxable Income from Business (Profit)		340000		400000
Working Note				
Block of intangible asset				
Opening WDV		Nil		Nil
Addition during the year		120000		120000
Technical Known How Patent		80000		80000
		200000		200000
Less Depreciation 25%		50000		50000
WDV		150000		150000

Illustrations 7

Sahadev who is carrying on a business, whose accounts have been subject to tax audit regularly, submits his profit and loss account for the year ending 31/3/2023.

Particulars	Rs.	Particulars	Rs.
Office Expenses	25600	Gross Profit	523,600
Audit Fees	32000	Sundry Receipt	11,000
Legal Expenses	18000	Customs duties recovered from the government (earlier not allowed deduction)	22,000
Depreciation on machinery	24000	Bad Debts recovered (Earlier allowed as deduction)	6,000
Bonus to staff	45000	Gift from son	30000
Salary to Staff	84000		
Contribution to an approved gratuity fund	24000		
Outstanding liability in respect of GST	24000		
Rent Payable to railways	120000		
General Expenses	36000		
Net Profit	160000		
	592600		592600

Other Relevant Information

1. Bonus payable to employees according to the payment of Bonus Act, 1965, comes to Rs. 40000.
2. Depreciation on machinery shown in the profit and loss account is calculated according to the income- tax provisions.
3. General expenses include payment of Rs. 12000 to an approved and notified education institute for the purpose of carrying on research in social sciences. The research is, however, not related to the business of the assessee.
4. During the previous year 2022-23 Sahadev also makes a capital expenditure of Rs. 25000 for the purpose of carrying on a scientific research related to his

business. This expenditure is, however, not recorded in the profit and loss account.

5. Outstanding liabilities in respect of GST is paid as follows : Rs. 5000 on 11/4/23, Rs. 3000 on 5/5/2023, Rs.6000 on 30/6/23 and balance on 10/11/23.
6. Audit fee of Rs. 32000 was credited on 31/3/2023. No tax has been deducted at source.
7. Outstanding liability in respect of rent payable to railways is paid as follows: Rs. 90000 on 15/6/23 and balance on 14/12/23.

Compute his income from business for the assessment year 2023-2024. Assume the due date of filing return of income is 31 October. Assume Sahadev.

- a) Does not opt to be taxed under section 115BAC
- b) Opts to be taxed under section 115bac

Solution-

Computation of Income from Business of Sahadev for the A. Y. 2023-2024.

Particular	Does not opt to be taxed u/s 115BAA		Opts to be taxed u/s 115BAA	
	Rs	Rs	Rs	Rs
Net Profit		160000		160000
Less : Item credited to Profit and Loss A/C but not treated as income				
i) Customs duties recovered	22000		22000	
ii) Gift from son	30000	52000	30000	52000
		108000		108000
Add : 1) Expenses disallowed : Outstanding liability for GST not paid before filing the return (31/10/2023) disallowed u/s 43B (24000-14000)	10000		10000	
2) Outstanding liability of rent payable to railway not paid before filing the return is. 31/10/2023 disallowed u/s 43B	30000		30000	
3) 30% Audit fee as tax has not been deducted at source [Section 40(a)(ia)]	9600		9600	

4) Payment to notified education institute		49600	12000	61600
		157600		169600
Less : Capital expenditure incurred on scientific research related to business but not debited to Profit and Loss Account		25000		25000
Business income being total Income		132600		144600

Notes

- 1) Bonus paid to staff is fully deductible
- 2) Capital expenditure on scientific research related to business is fully deductible u/s 35.

Illustrations 8)

Following is the Receipt and Payments Account of Mr. Rajiv Shukla a practicing Chartered Accountant in Kolhapur for the year ended 31/3/2023.

Receipts	Rs
Audit Fees	5680000
Consultation Fees	40000
Appellate Tribunal Appearance	25000
Miscellaneous receipt	20000
Interest on Government Securities (Gross)	8000
Rent Received for House No.1	24000
Presents from clients	10000
Payments	
Stipend to article clerks	512000
Office Expenses	224000
Office Rent	318000
Salaries and Wages	2020500
Printing and Stationery	4000
Subscription to C.A. Institute	1500
Purchase of Books for professional purposes	15000
Travelling Expenses	5000
Interest on Bank Loan	12000
Donation to National Defense Fund	5000

Other Information

- Loan from bank was taken for the construction of the second house in which he lives. Municipal value of this house is Rs. 18000 and the local taxes Rs. 1800 p.a. 1/4th the travelling expenses are not allowable.

Compute professional income and income from house property for the assessment year 2023-2024 assuming 50% of the books which were annual publication were purchased in August 2022 and balance 50% in February 2023 Mr. Rajiv Shukla.

- If he does not opt for section 115BAC
- If he opts for section 115BAC

Solution-

Computation of Income from Profession of Mr. Rajiv Shukla for the A.Y. 2023-2024

Particular	Does not opt to be taxed u/s 115BAA		Opts to be taxed u/s 115BAA	
	Rs	Rs	Rs	Rs
Gross Receipts				
Audit Fee	5680000		5680000	
Consultation fee	40000		40000	
Appellate Tribunal Appearance	25000		25000	
Miscellaneous receipts	20000		20000	
Presents from clients	10000	5775000	10000	5775000
Payments				
Stipend	512000		512000	
Office Expenses	224000		224000	
Office Rent	318000		318000	
Salary and Wages	2020500		2020500	
Printing and Stationary	4000		4000	
Subscription to C.A.Institute	1500		1500	
Depreciation on Books on Rs.7500 @ 40%	3000		3000	

Depreciation on Books on Rs.7500 @ 20%	1500		1500	
Travelling Expenses	3750	3088250	3750	3088250
Income from Profession		2686750		2686750
Income from House Property -I				
Rent Received	24000		24000	
Less Standard Deduction @ 30%	7200	16800	7200	16800
Loss from self-occupied (House-II)		(-) 12000		Nil
Income From House Property		4800		16800

Illustrations 9)

Monohar & Hari LLP is engaged in multiple business activities. The following information is furnished for the year ended 31.03.2023:

- (i) Net profit as per Profit and Loss Account Rs. 52 lakhs.
- (ii) Working partner salary debited to profit and loss account Rs.40, 20,000 as authorized by the LLP agreement.
- (iii) Interest on capital paid to partners @ 15% Rs.15,75,000. This is authorized by the LLP agreement.
- (iv) Depreciation debited to profit and loss account Rs. 8,10,000.
- (v) Eligible depreciation under section 32 Rs. 10,35,000.
- (vi) The Net Profit includes profit from under taking located in SEZ (4th year) Rs. 20 lakhs. The total turnover is Rs. 200 lakhs and the export turnover is Rs. 150 lakhs.
- (vii) The unit has earned income from generation of power and the eligible deduction under section 80-IA amounts to Rs. 8 lakhs.

You are required to compute the total income of the firm for the assessment year 2023-24.

Solution-**Manohar & Hari LLP**

Computation of the Total Income for the Asst. Year 2023-24

Particulars	Rs.	Rs.
Net Profit as per Profit and Loss Account		52,00,000
Add:		
Working partner salary debited to Profit and loss account		40,20,000
Interest on capital in excess of 12% disallowed		3,15,000
Depreciation debited to P&L account		8,10,000
		1,03,45,000
Less:		
Eligible depreciation under section 32		10,35,000
Book Profit		93,10,000
Less: Deduction U/s.40(b)		
On first ` 3 lakhs @ 90%	2,70,000	
On the balance ` 90% @ 60%	54,06,000	56,76,000
Restricted to the amount authorized by LLP Agreement		40,20,000
Gross Total Income		52,90,000
Deduction U/s. 10AA in respect of unit in SEZ		
` 20,00,000 × 150 /200	15,00,000	
Deduction U/s. 80-IA	8,00,000	23,00,000
Total Income		29,90,000
Tax there on @ 30%	(A)	8,97,000
Computation of adjusted total income U/s.115 JC		

Total income as per normal provisions		29,90,000
Add: Deduction under section 80-IA		8,00,000
Deduction U/s. 10AA		15,00,000
Adjusted total income		52,90,000
Tax thereon @ 18.5%	(B)	9,78,650
Computation of final tax liability		
Higher of (A) or (B) shall be the tax payable		9,78,650
Add: Education cess @ 3%		29,360
Total Tax Payable		10,08,010

Illustrations 10) PQR Co. Ltd. engaged in manufacturing activity reports a Net Profit of Rs. 15 lakhs for the year ended 31.03.2023. The below said items are debited/credited to statement of profit and loss.

- (i) CSR expenditure incurred during the year Rs. 5 lakhs.
- (ii) Non-compete fee paid to DEF Ltd for not marketing their products in North Eastern States Rs. 10 lakhs. The non-complete agreement bars DEF Ltd for a period of 5 years ending 31.03.2023. No tax was deducted at source on the said payment.
- (iii) A building was constructed on the leasehold land for Rs. 30 lakhs and it was completed on 30.11.2023. The lease agreement is for 3 years and after the lease period, the building must be handed over to the lessor.
- (iv) The company during the year paid donation of Rs. 1 lakh to Dalmia Research Centre Ltd. which is engaged in approved scientific research.
- (v) The company introduced VRS scheme during the financial year 2014-15 and paid Rs. 60 lakhs as VRS compensation. The company transferred the entire unamortized amount of Rs. 24 lakhs to statement of profit and loss.
- (vi) Paid Rs. 2 lakhs to Registrar of Companies as fee for issue of bonus shares.
- (vii) It incurred Rs. 25 lakhs towards feasibility study for new product manufacture which eventually was aborted.

- (viii) Cost of EPABX and mobile phones acquired on 01.06.2017 for use by executives Rs. 10 lakhs. Depreciation @ 60% was charged in the books.
- (ix) Compounding fee paid for violation of municipal laws in construction of buildings Rs. 1,20,000.
- (x) Depreciation debited Rs. 24,60,000.
- (xi) Royalty from patent developed by the company credited to Statement of profit and loss Rs. 22 lakhs.
- (xii) Dividend received from foreign company in which the assessee company holds 26% shares Rs. 8 lakhs.

Additional Information:

Eligible depreciation Rs. 32,30,000 under section 32 without considering item (iii) and (viii) given above.

You are required to compute the total income and income tax liability of PQR Ltd for the assessment year 2023-24.

Solution:

PQR Co. Ltd

Computation of Total Income for the Asst. Year 2023-24.

Particulars	Rs.
Net Profit as per statement of profit and loss	15,00,000
Add:	
CSR expenditure debited, not deductible in view of Explanation 2 to section 37	5,00,000
Non-compete fee on which tax was not deducted at source as per section 194J and hence @ 30% to be disallowed as per section 40(a)(ia)	3,00,000
Building on leasehold land debited to Statement of profit and loss is eligible for depreciation only. Hence disallowed	30,00,000
VRS Compensation to be amortised in 5 annual installments as per section 35DDA. The	12,00,000

unamortized amount is Rs.24 lakhs of which Rs.12 lakhs is deductible in assessment year 2018-19 and balance Rs.12 lakhs in assessment year 2019-20. As the full amount has been debited to Statement and profit and loss, the excess Rs.12 lakh is added back.		
Expenditure towards feasibility study for examining new line of activity has no connection to the present business and hence it is a capital expenditure to be disallowed.		25,00,000
Depreciation on the cost of EPABX and mobile phones debited to Statement of profit and loss @ 60% disallowed		6,00,000
Compounding fee paid for violation of local laws in construction is a expenditure for violation of law hence not deductible (Millenia Developers v. DCIT (2010) 322 ITR 401(Ker).		1,20,000
Depreciation debited in the books		24,60,000
		1,21,80,000
Less: Depreciation on leasehold building on Rs.30 lakhs @5% (since the building was put to use for less than 180 days)	1,50,000	
Donation to scientific research company eligible for deduction @ 100% only. As the amount is already debited no adjustment is required. [Section 35(1)(ia)]	Nil	
Amount paid to ROC as fee for issue of bonus shares is deductible expenditure as the payment does not create any asset or increase in capital base	Nil	
Depreciation on EPABX and mobile phones @ 15% on Rs.10 lakhs	1,50,000	

Royalty from patent credited to P&L considered separately	22,00,000	
Dividend from foreign companies – considered separately	8,00,000	
Depreciation eligible under section 32	32,30,000	
		65,30,000
Income from Business or Profession		56,50,000
Royalty from patent developed by the company		22,00,000
Dividend from foreign companies		8,00,000
Total Income		86,50,000
Computation of Tax liability		
On Rs.56,50,000 @ 30%		16,95,000
Royalty from patent Rs.22 lakhs @ 10%		2,20,000
Dividend from foreign companies Rs.8 lakhs @ 15%		1,20,000
		20,35,000
Add: Cess @ 3%		61,050
Total tax liability		20,96,050

• **Check your progress-II**

1) **Fill in the blanks .**

- i) In case of a person adopting the provisions of section 44ADA, income will be computed on Presumptive basis, i.e., @ _____ of gross receipts of the specified profession.
- ii) Section _____ deals with the provisions relating to depreciation allowance while computing income chargeable to tax under the head “Profits and Gains of business or pofession”.

- iii) Any interest, salary, bonus, commission or remuneration due to or received by partner of a firm is taxable under the head -----
- iv) If the asset is acquired during the previous year by the taxpayer and the same is put to business use for less than ___ days during that year, then taxpayer can claim depreciation at 50% of normal depreciation
- v) Section _____ deals with the deductibility of expenditure incurred by the assessee in respect of rent, rates, taxes, repairs and insurance for building under the head “Profits and Gains of business or profession”.



