



Profits and Gains of business (or) profession <Chapter IV D of Income tax Act>

Learning objectives:

* understanding the terms

- Profit
- Gain
- Business
- Profession

* Analysis on charging section for chapter IV - D : section 28.

* Rent, repairs, insurance on building + plant & machinery

* Depreciation

- Sec 32 Basic analysis
- Balancing charge concept
- Block of Assets concept
- Depreciation on block
- Capital gains on depreciable assets.
- Additional depreciation.
- Miscellaneous

* Expenditure on scientific research

* Investment linked deductions.

* General deductions U/s 36.

* Specific deductions U/s 37.

* Allowable + Non - allowable deductions.

* Presumptive tax regime.

* Deemed Income

* Actual cost assessment.

* Books of accounts

* Tax audit + Audit report

* miscellaneous.



Koushik's
paathashala

1. Scope of Chapter IV - D

The scope of chp IV - D is given in its charging section as follows — Sec 28(i)

28. The following income shall be chargeable to income-tax under the head "Profits and gains of business or profession",— S. 2(24) S. 2(13)

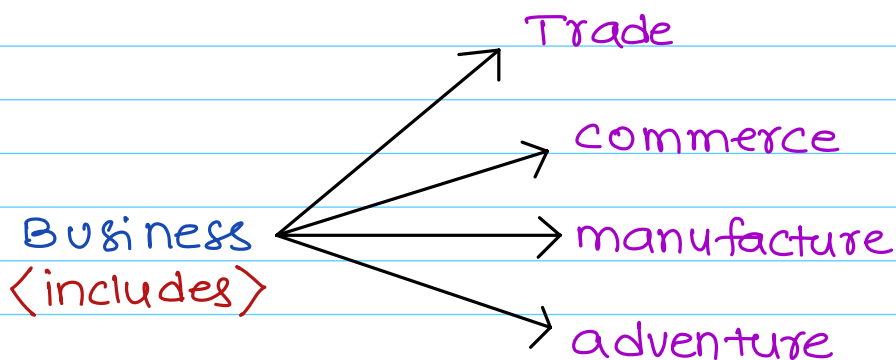
S. 2(36) (i) the profits and gains of any business or profession which was carried on by the assessee at any time during the previous year ;

meaning/defn of —

- * Income
- * Profit
- * Gain
- * Business
- * Profession.

a) Defn of income [sec. 2(24)]
covered in basic concepts.

b) Defn of Business [sec. 2(13)]



(or)

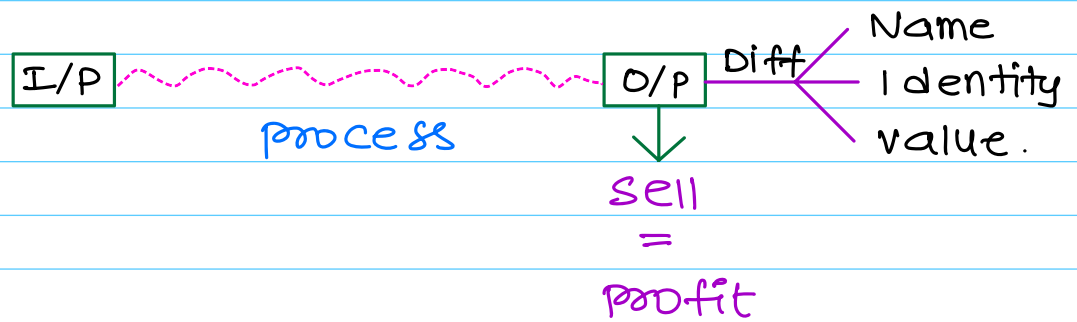
any concern in the nature of Trade, commerce / manufacture.

(i) Trade = Buying + selling on repetitive basis
(of goods)

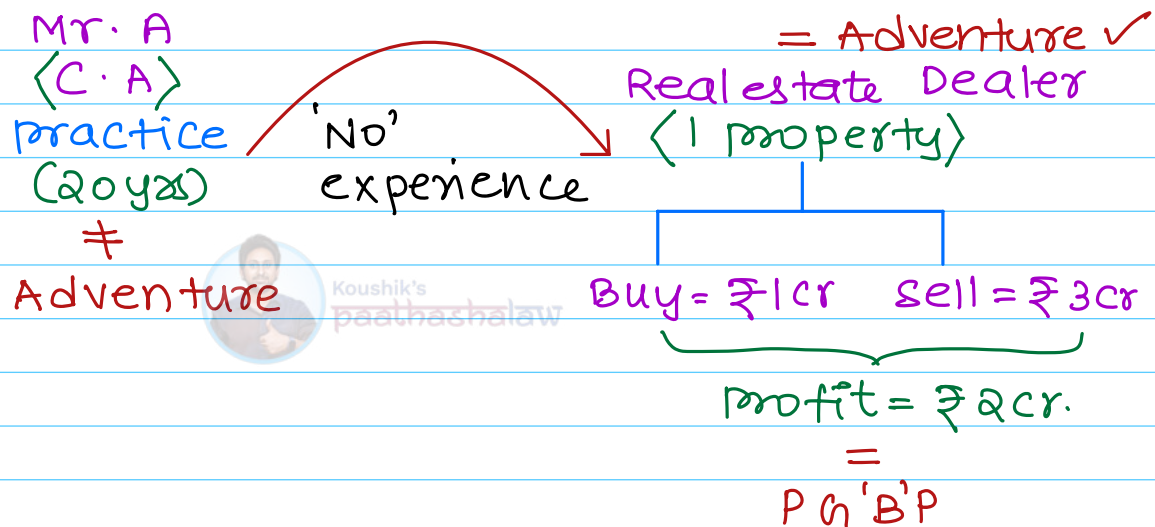
(ii) Commerce = Any other commercial activity not being a trade.

- * Banking
- * Insurance
- * Transportation
- * other services.

(iii) manufacture =



(iv) Adventure = isolated + sporadic activity without experience.

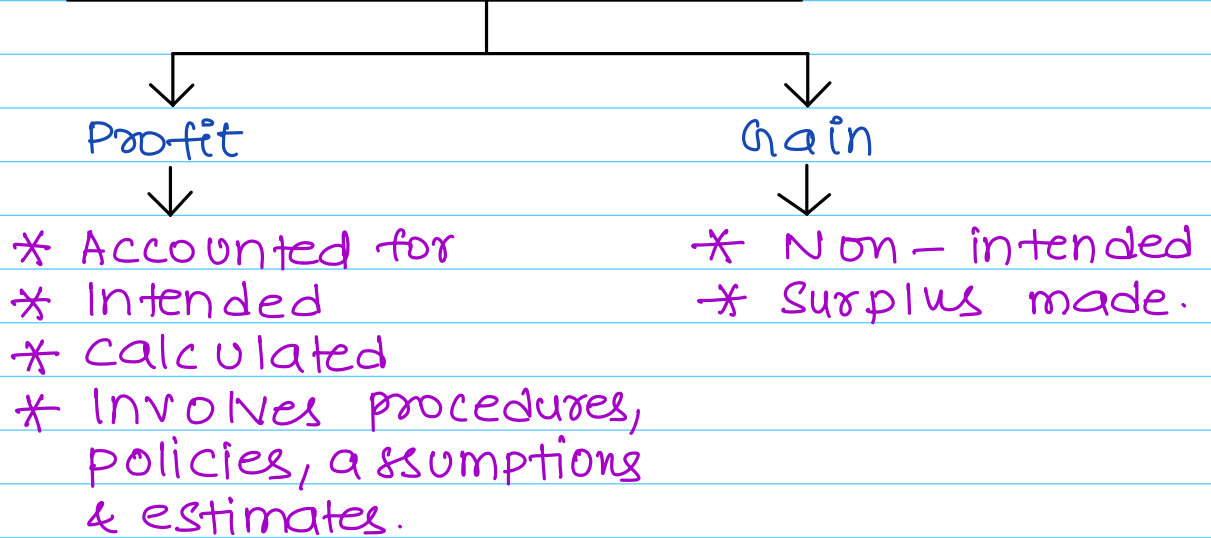


c. Profession [sec 2(36)]

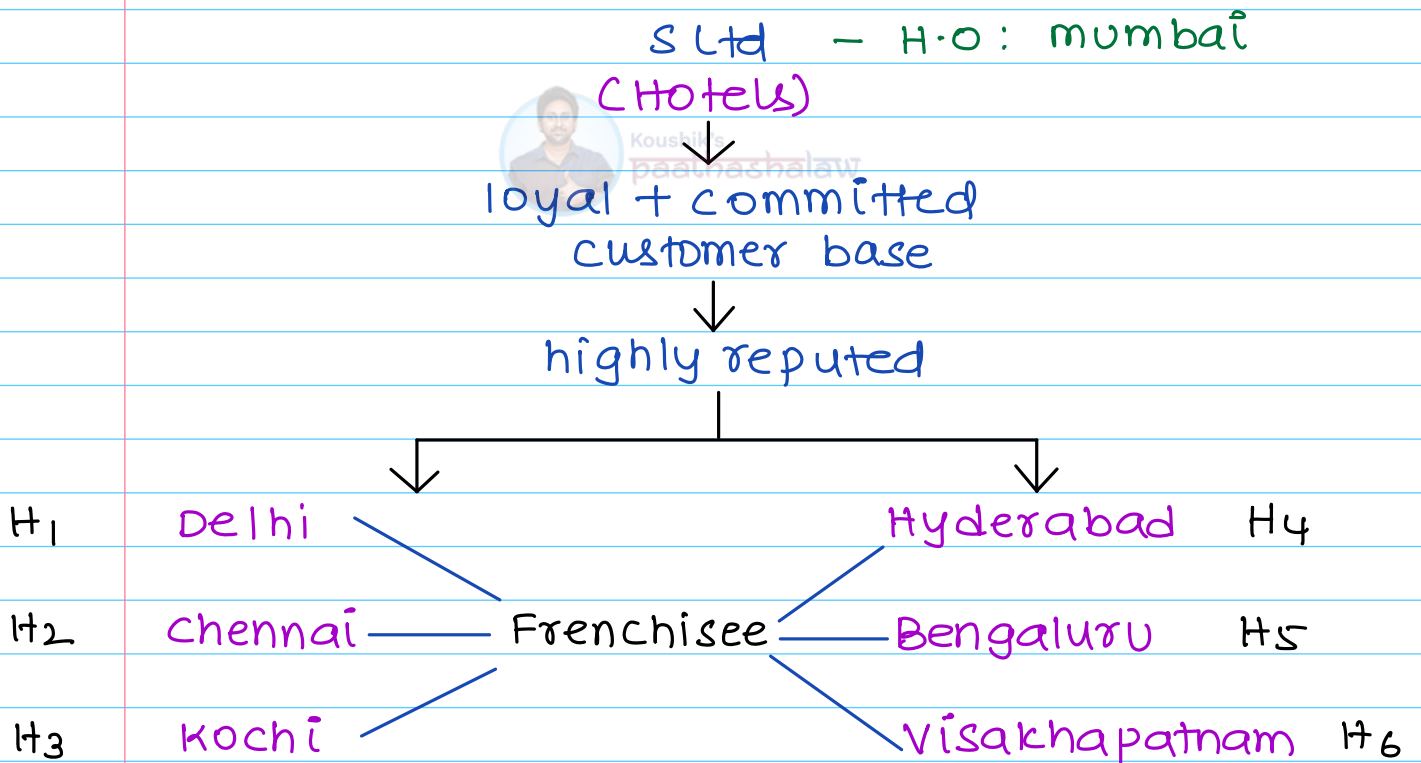
profession includes vocation

- | | |
|------------------|------------------------|
| * CA * CMA | * Astrologer |
| * CS * Architect | * Water diviners |
| * Engg * Doctor | * Sooth sayers |
| etc. | * Priests + Preachers. |
| | * Beggars |
| | etc. |

d. Profit vis-a-vis Gain



e. Significance of 'carried on



Fees made good business = profits

conclusion:

" Net profits earned by H₁ - H₆ are taxed in their hands only as business is actually carried on by them"

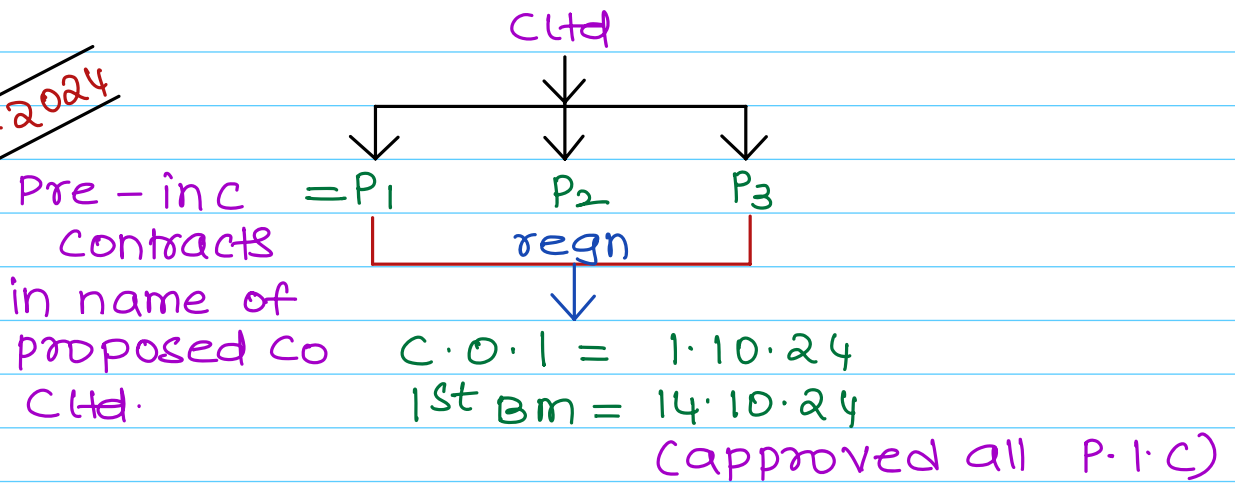
S Ltd % self %

< sinclair hotels (P) Ltd v/s CIT >

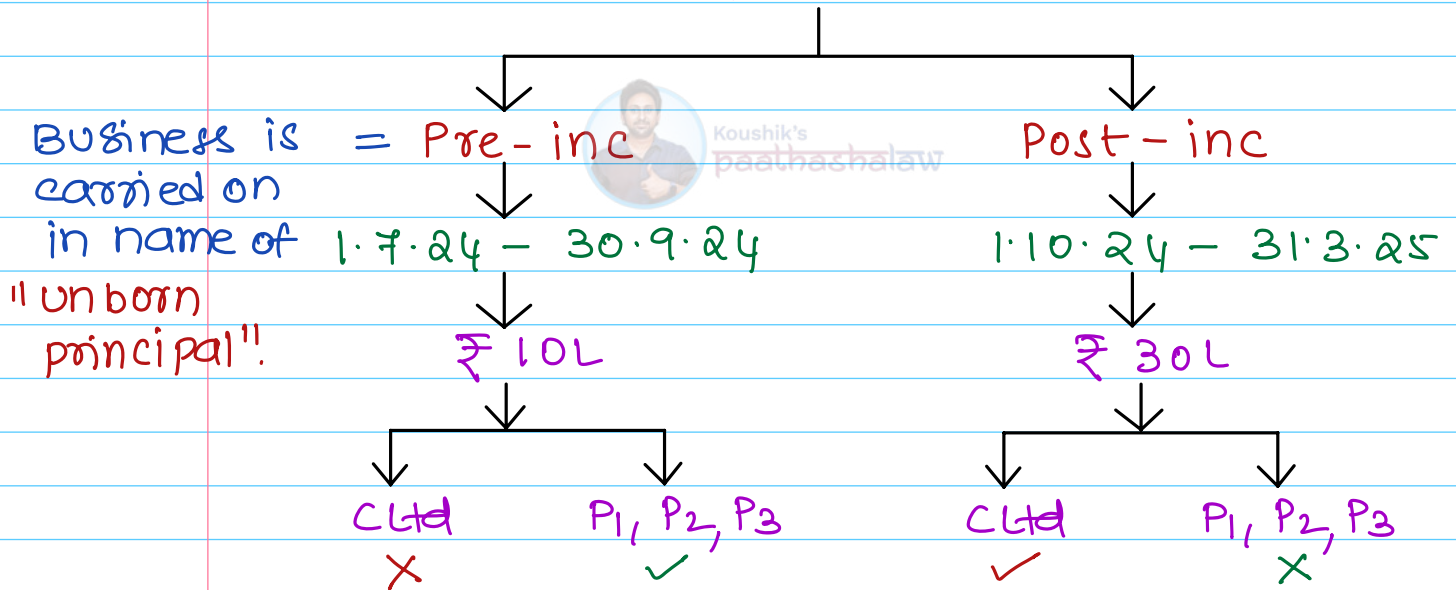
≠ ownership

f. Significance of 'by the assessee.....'

01.07.2024



Summary of profits




conclusion:

It was held that pfts related to P.I.P is taxed not in the hands of CLtd as section 28(i) used the words 'by the assessee.....'.
 <city mills distributors v/s CIT> (SC)

3. significance of 'at any time during PY'

case - 1:

Mr. A
(Lawyer)
↓
good practice
for 30 years
+
Discontinued the
profession during
PY 23-24.
< fee due = ₹100L >

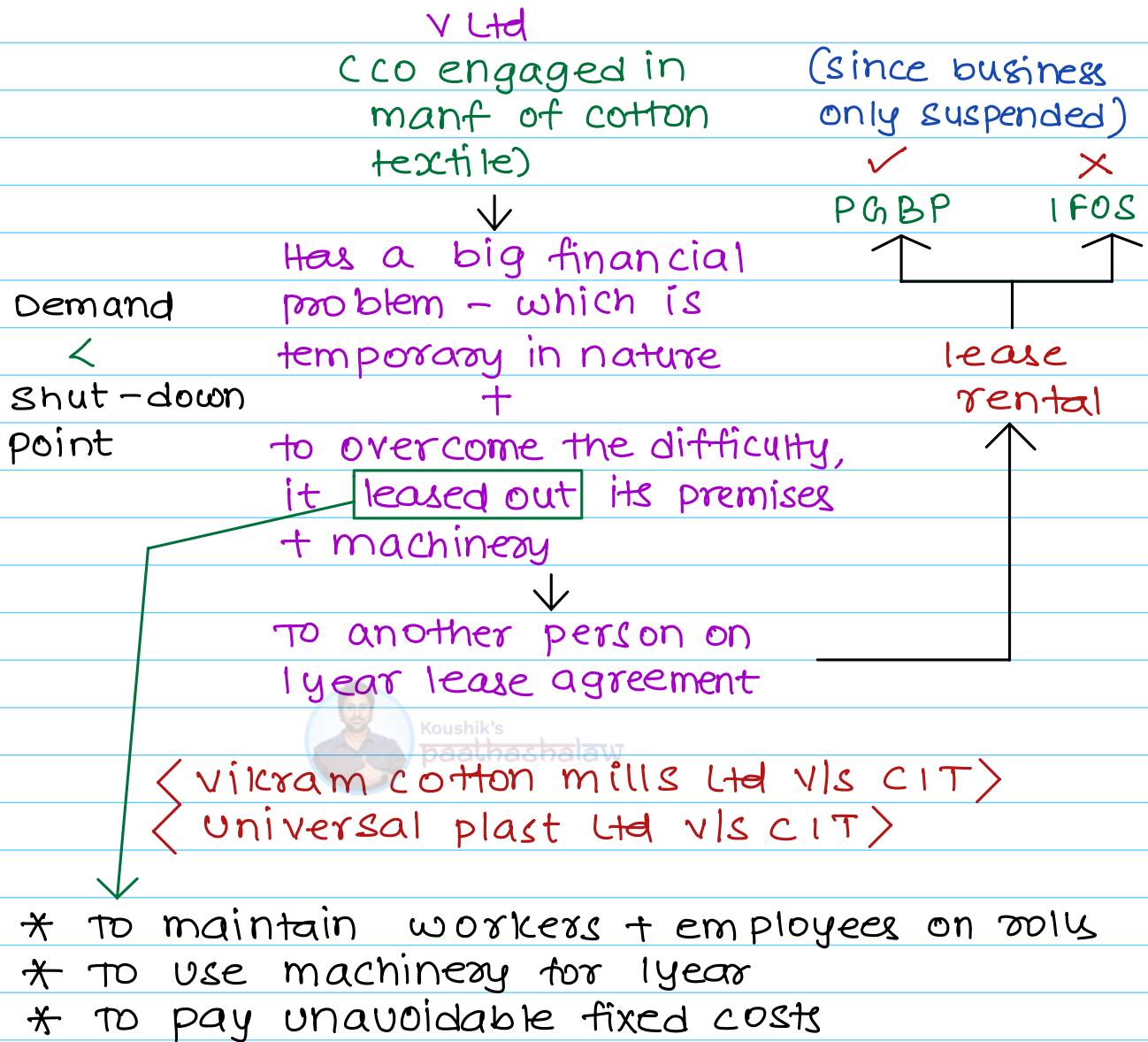
In PY 24-25
↓
 clients made due
pys
↓
recovered
= ₹100L

conclusion:

The recovered sum of ₹100L is not taxable U/H PGBP but U/H IFOs U/s 176.

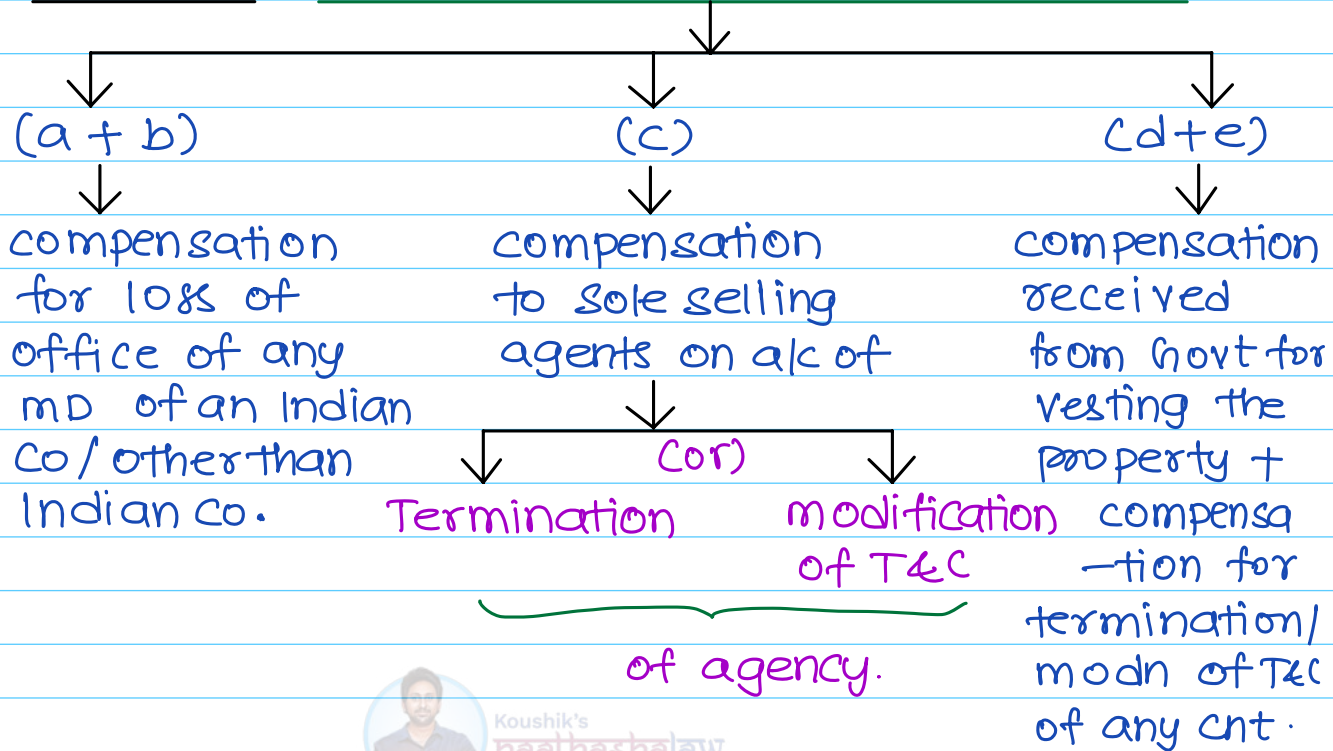
This is so because, to charge U/H PGBP, there should be a business that is carried on atleast for a day during the P.Y.

Case - 2:



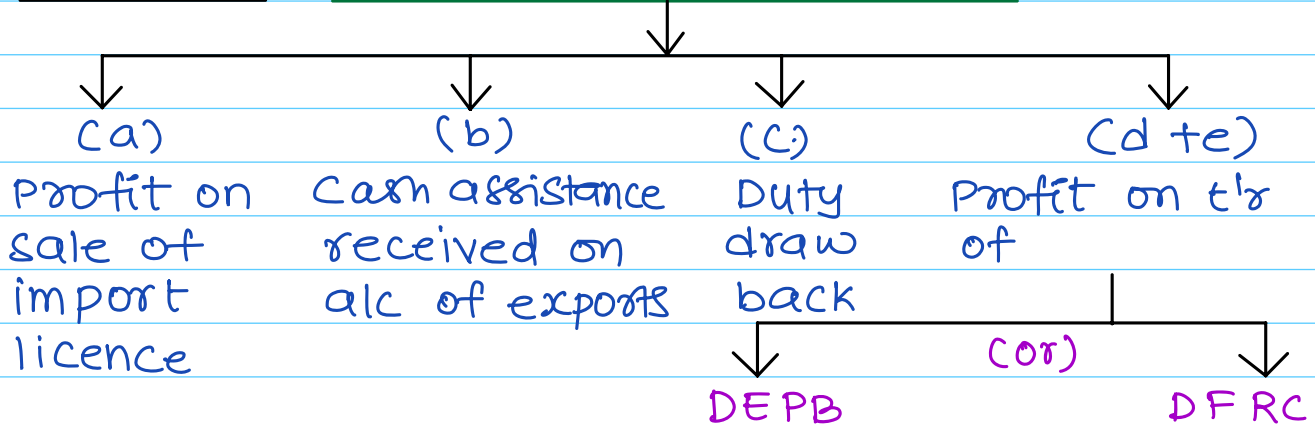
2. Summary analysis on charging section

clause ii: compensations on various kinds



Koushik's paathashala

clause iii: Import export benefits



clause iii (Part-2):

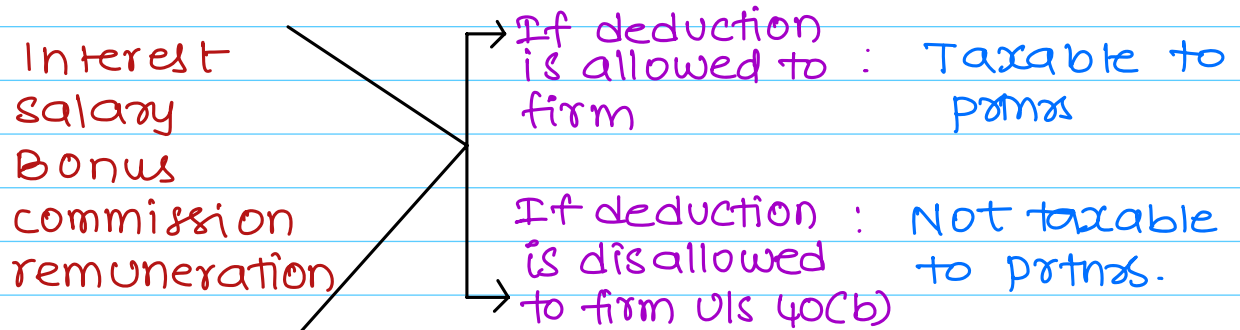
Any income earned by any association w.r.t specific services performed to its members.

clause iv (Amendment w.e.f 1.4.24)

- * value of any benefit (cor) perquisite.
- * Arising from B/P.
- * which is received either in cash/ in kind/ partly both. (whether convertible/not)

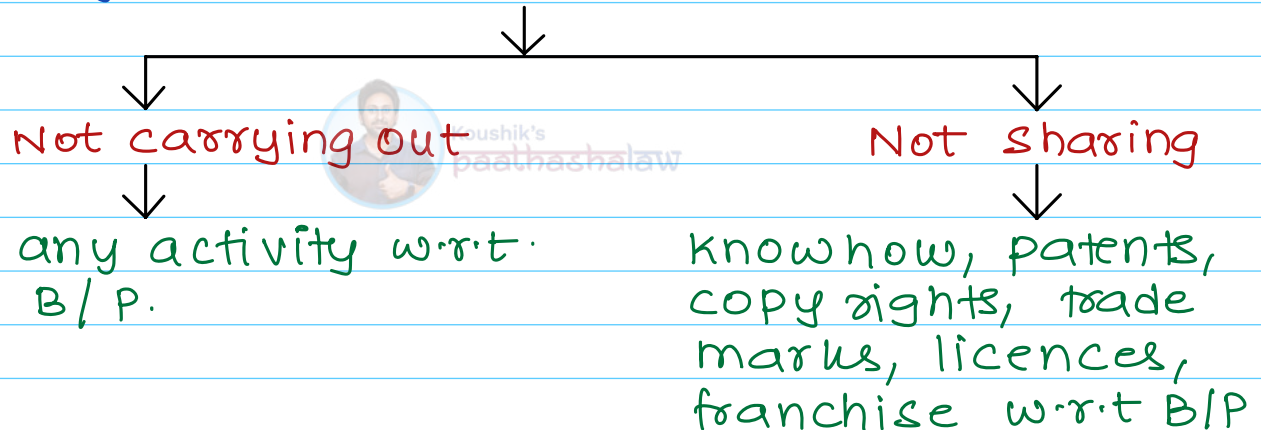
Clause V: Receipts by partners

Receipts in the nature of _____



Clause (Va): Non-compete agreements

Any sum received for



Clause VI:

Any amount received on KMIP.

Clause VIa:

FMV of stock = Business income, if stock is converted into Capital asset.
(Refer S. 43CA)

Clause VII:

Sum received (cash/kind) on a/c of destruction, demolition/ t/r of CA u/s 35AD on which full deduction is availed.

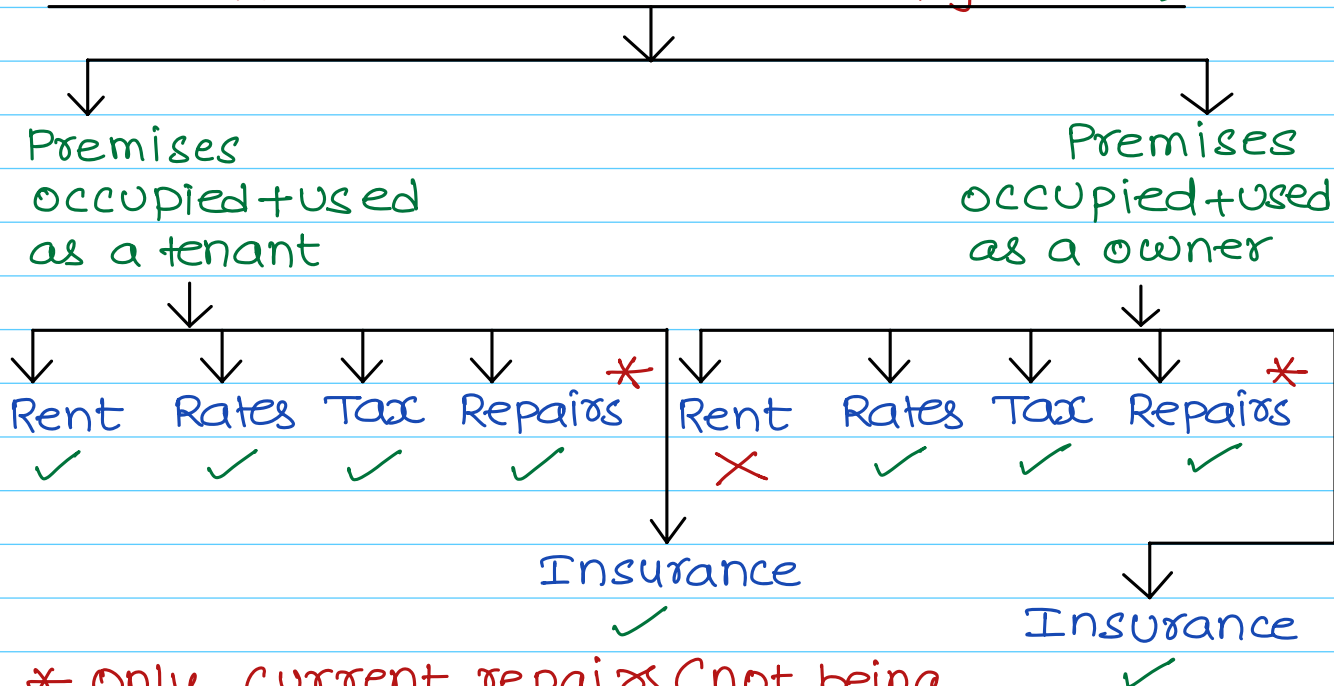
3. Income from PGBP - How computed? (Sec. 29)

Income u/H PGBP shall be computed with in accordance with sections 30 to 43D.

Format u/H PGBP

Particulars	Amount(₹)
Net profit as per P&L ac (As per Books)	X X X
(+) Expenses shown in P&L ac but not allowed	X X X
(-) Expenses not shown in P&L ac but to be shown	(X X X)
(+) Incomes not shown in P&L ac but to be shown	X X X
(-) Incomes shown in P&L ac but not to be shown	(X X X)
= Net profit u/H PGBP	<u>X X X</u>

4. Deductions allowable on Building (S. 30)

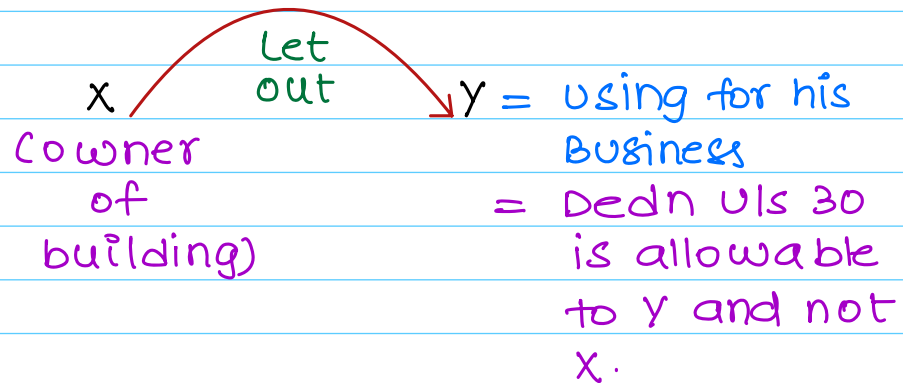


* Only current repairs (not being Capex is allowed)

Notes:

* Deduction is allowed only to that a/c who USE the premises for purpose of B/P.

<ownership is not the criteria>

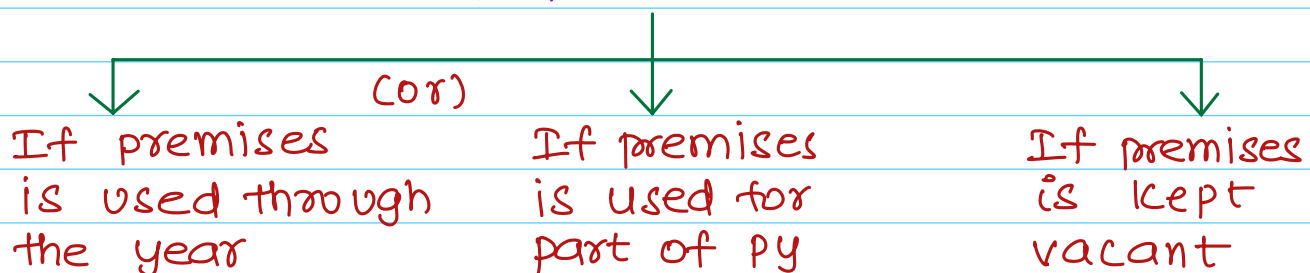


* Significance of words 'for purpose of ...'

To avail dedn Uls 30, it is not required that premises must be used actively in the PY. It is enough if we can prove that it is held for purpose of USING in B/P.

conclusion

Rent, repairs, rates, tax & insurance is allowed as a deduction



But purpose of premises is to use for B/P.

* Payment of arrears of rent of previous tenant - Allowed as a deduction u/s 30?
If a lessee takes premises on rent & agrees to pay arrears of previous tenant, that arrears paid is 'not deductible'.

Section 30 uses the words 'occupied by the lessee ...'

< CIT v/s Maharajadhiraja Kameshwar Singh of Darbhanga >

* Rent payable by firm to its partner - Deductible u/s 30?

POV of Firm

Deductible u/s 30.

< Heastie v/s Veitech & Co >

POV of partner

Income received as rent is taxable

U/H IFHP
as s.22 & w
s.23

< Heastie v/s
Veitech & Co >

U/H PGBP
& not U/H
IFHP

< Rasiklal Bala
bhai v/s CIT >
'Guj He!'

S. Repairs & insurance on plant, machinery & furniture (Sec. 31)

Deductions are allowed if following conditions are satisfied:

C1: There must be a Plant (or) machinery (or) furniture.

C2: Used for purposes of B/P of Atee.

C3: Repairs (not in the nature of capex) (or) Insurance is paid.

Result: Amount actually paid = Deductible
U/s 31 for
tenant/user
of the P/m/F

< Even if payment is made by the owner, tenant who actually uses it for purpose of B/P will get benefit of deduction >



Koushik's
paathashala

6. Depreciation (S. 32 & 43)

Concepts to be covered

- * meaning of depreciation
- * conditions to claim depreciation
- * Ownership vis-a-vis depreciation
- * Depreciation vis-a-vis fractional ownership
- * Active use v/s Passive use of assets
- * Assets qualified for depreciation.
- * Method of depreciation
- * Rates of Depn.
- * Block of assets
- * Actual cost
- * written down value (WDV)
- * Additional depn
- * Balancing charge
- * Capital gain vis-a-vis depreciable assets.
- * Unabsorbed depreciation.

6a. meaning of depreciation

* section / this Act haven't defined the term 'depreciation'.

* however, taking its general meaning, it is usually ———

→ loss (or) decline in value

→ which occurs gradually over useful life of material thing

→ caused due to physical wear & tear and

→ which cannot be restored by current repairs and maintenance.

6b. conditions to claim depreciation

Cond	Content
1	Asset must be <u>owned</u> by Atee.
2	used for <u>purposes</u> of B/P.
3	It must be used during <u>relevant py</u>
4	Depn is allowable on both <u>tangible</u> + <u>intangible assets</u> .

6c. Ownership vis-a-vis Depreciation

* In order to claim depreciation, a tee has to show that the asset is either wholly (or) partly (in case of co-ownership) owned by him.

* It is only the owner who can claim depn.

* Registered ownership is not required.

Exclusive possession rights and full control over assets is mandatory.

< Mysore minerals v/s CIT >

< Varanasi Auto Sales Ltd v/s CIT >

* Depn is case of lease-hold asset

• In case of opng lease: lessor = depn

• In case of finance lease: lessee = depn

< Industrial finance corpn v/s CIT >

< I.C.D.S 164 of 46 CIT >

- If lessee incurred capital expenditure on asset leased, **explan-1 to s. 32(1)** gets attracted.

Explanation 1.—Where the business or profession of the assessee is carried on in a building not owned by him but in respect of which the assessee holds a lease or other right of occupancy and any capital expenditure is incurred by the assessee for the purposes of the business or profession on the construction of any structure or doing of any work in or in relation to, and by way of renovation or extension of, or improvement to, the building, then, the provisions of this clause shall apply as if the said structure or work is a building owned by the assessee.

- Hence, to the extent of that capex, lessee will be treated as owner and depn is claimed accordingly.
- The words used are 'is incurred by....' and therefore, only what is incurred by lessee are allowed. Any capex incurred by lessor, later re-imbursed by lessee do not attract benefit of explan-1.

* Depn in case of Hire-purchase asset

- In case of HP, the HIRER is entitled to claim depreciation of assets hired + used for purposes of BIP provided —
 - * HP agreement clearly show that as long as hire payments are made, hirer has uninterrupted possession over asset.
 - * Seller eventually loses the title over the asset on payt of last instalment.
 - < CIT v/s General Industries Corpn Ltd >
 - < CIT v/s Nagpur Golden Transport Ltd >
 - < Kareemji (P) Ltd v/s ITO >
 - < VLS Finance Ltd v/s CIT >
- Thus, this goes against general principle that a hirer becomes owner upon the payment of last instalment.

6d. Depreciation in case of fractional ownership

* As per section 32(1), The words used are _____

'owned, wholly (or) PARTLY

* Therefore, if ownership is fractional, then depreciation is also allowed on fractional basis.

6e. Active use v/s Passive Use

* Sec. 32(1) emphasizes on 'used for the purposes of B/P

Therefore, the following points are worth noting.
• The word 'used' must be understood in a wider sense to cover 'ready to use' also.

< CIT v/s Neotech construction Co >

• Depreciation can be claimed on a defective + non-functional assets, provided it was purchased bonafide by the owner.

< CIT v/s Sri Chamundeswari Sugar Co Ltd >

• Depreciation can be claimed also on those assets which are kept idle by force / non-occurrence of event to use (eg: fire extinguishers, spare parts)

< Hydrel constructions Ltd v/s CIT >

• Depreciation can be claimed even if asset is put for trial run since, it is in relation to B/P of A/c.

< Ashima syntax Ltd v/s CIT >

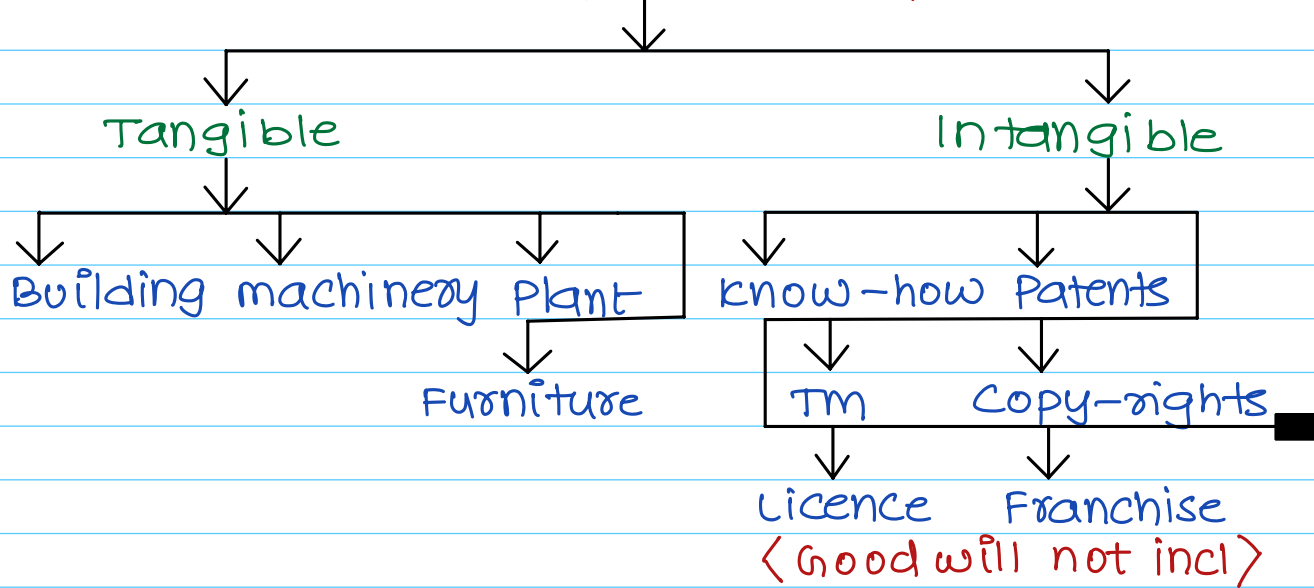
< CIT v/s Union carbide Ltd >

< Auro food Ltd v/s CIT >

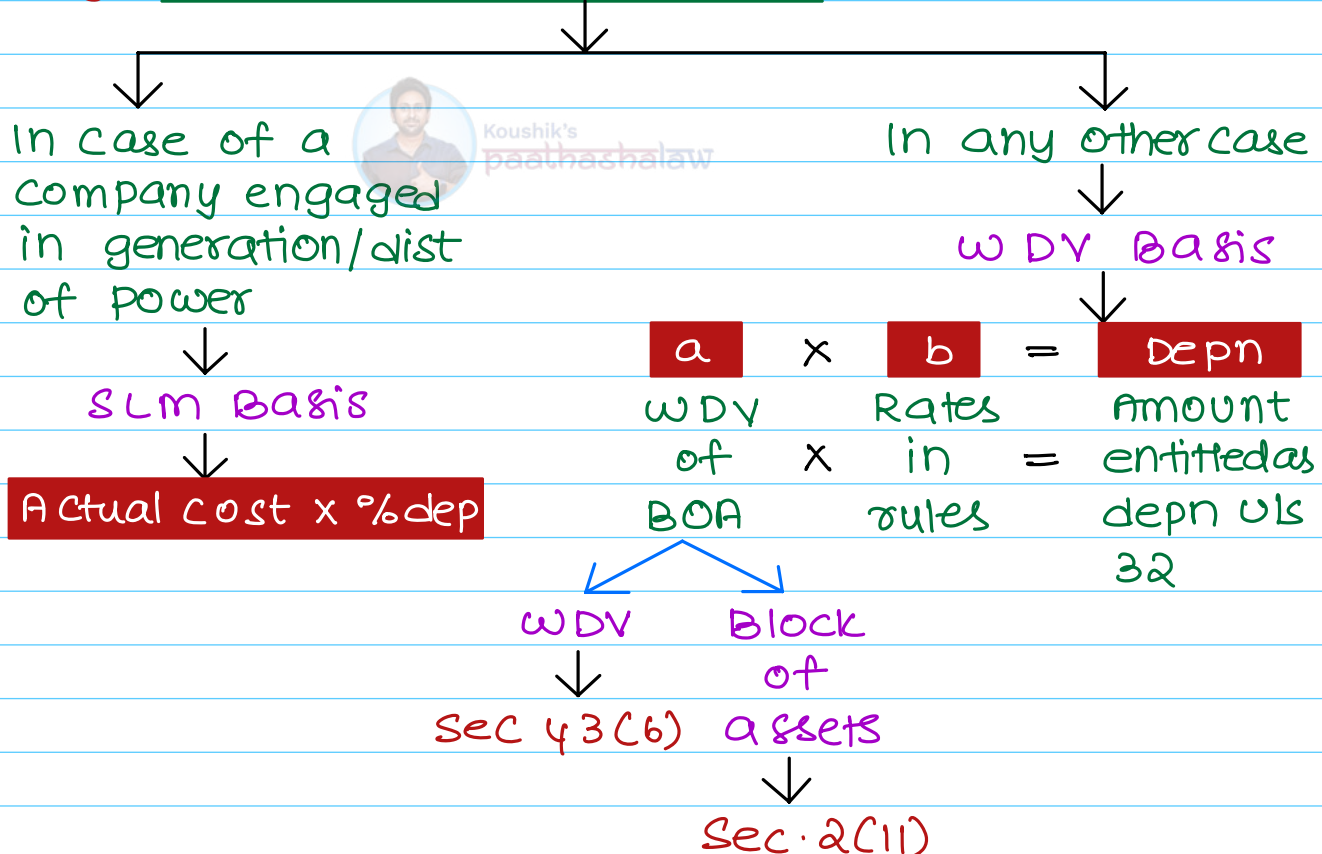
< mentha & Allied foods Ltd v/s CIT >

< Jeypore Sugar Ltd v/s CIT >

6f. Assets qualifying for depreciation



6g. method of depreciation



6h. Rates of depreciation as per Rule 5(1)

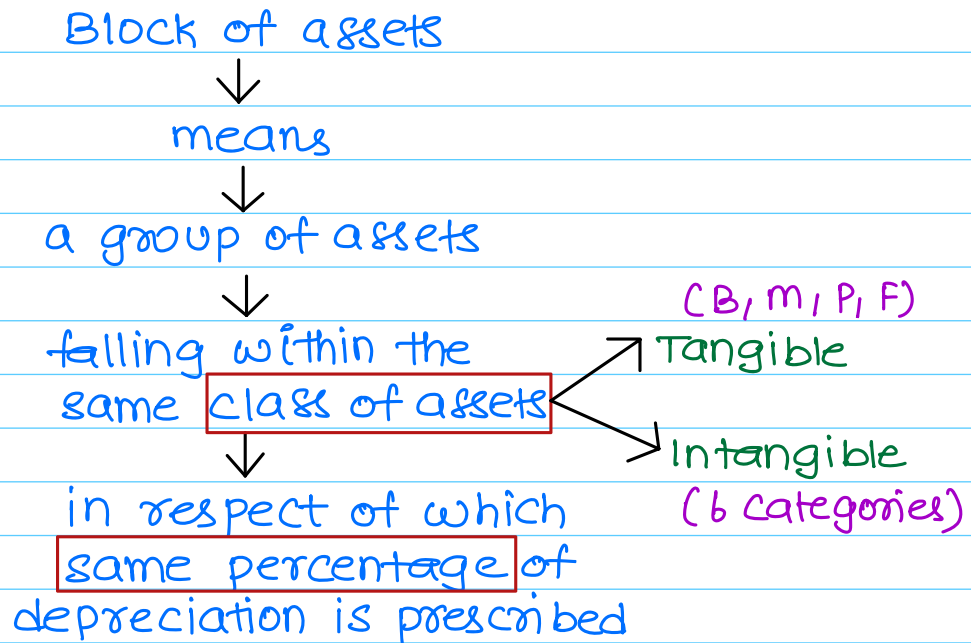
PART A TANGIBLE ASSETS

I	Buildings		II	Furniture and Fittings	
Block 1.	Buildings which are used mainly for residential purposes except hotels and boarding houses	5%	Block 1.	Furniture and fittings including electrical fittings ["Electrical fittings" include electrical wiring, switches, sockets, other fittings and fans, etc.]	10%
Block 2.	Buildings which are not used mainly for residential purposes and not covered by Block (1) above and (3) below	10%	III Plant & Machinery		
Block 3.	Buildings acquired on or after 1 st 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 1.	Motor cars other than those used in a business of running them on hire, acquired during the period from 23.8.2019 to 31.03.2020 and put to use on or before 31.03.2020	30%
Block 4.	Purely temporary erections such as wooden structures	40%	Block 2.	Motor cars other than those used in a business of running them on hire, acquired or put to use on or after 1-4-1990 [Other than motor cars mentioned in Block 1 above]	15%
IV Ships			Block 3.	Motors buses, motor lorries, motor taxis used in a business of running them on hire, acquired during the period from 23.8.2019 to 31.03.2020 and put to use on or before 31.03.2020	45%
Block 1.	Ocean-going ships	20%	Block 4.	Motors buses, motor lorries, motor taxis used in the business of running them on hire [Other than mentioned in Block 3 above]	30%
Block 2.	Vessels ordinarily operating on inland waters not covered by Block (3) below	20%	Block 5.	Moulds used in rubber and plastic goods factories	30%
Block 3.	Speed boats operating on inland water	20%	Block 6.	Aeroplanes, Aeroengines	40%
PART B INTANGIBLE ASSETS			Block 7.	Specified air pollution control equipments, water pollution control equipments, solid waste control equipment and solid waste recycling and resource recovery systems	40%
Know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature, not being goodwill of a business or profession		25%	Block 8.	Plant & Machinery used in semi-conductor industry covering all Integrated Circuits (ICs) (other than mentioned in Block 7 Above)	30%
			Block 9.	Life-saving medical equipment	40%
			Block 10.	Machinery and plant, acquired and installed on or after the 1 st September, 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 11.	Containers made of glass or plastic used as re-fills	40%
			Block 12.	Energy Saving Devices (as specified)	40%
			Block 13.	Renewable Energy Saving Devices (as specified) including the devices specified in (i) to (iii) below	40%
				(i) Electrically operated vehicles including battery powered or fuel-cell powered vehicles	40%
				(ii) Windmills and any specially designed devices which run on windmills installed on or after 1.4.2014	40%
				(iii) Any special devices including electric generators and pumps running on wind energy installed on or after 1.4.2014	40%
			Block 14.	Windmills and any specially designed devices running on windmills installed on or before 31.3.2014 and any special devices including electric generators and pumps running on wind energy installed on or before 31.3.2014	15%
			Block 15.	Computers including computer software	40%
			Block 16.	Books (annual publications or other than annual publications) owned by assessee carrying on a profession	40%
			Block 17.	Books owned by assessee carrying on business in running lending libraries	40%
			Block 18.	Plant & machinery (General rate)	15%



Koushik's
padhashah

6i. Block of Assets [Sec 2(11)]



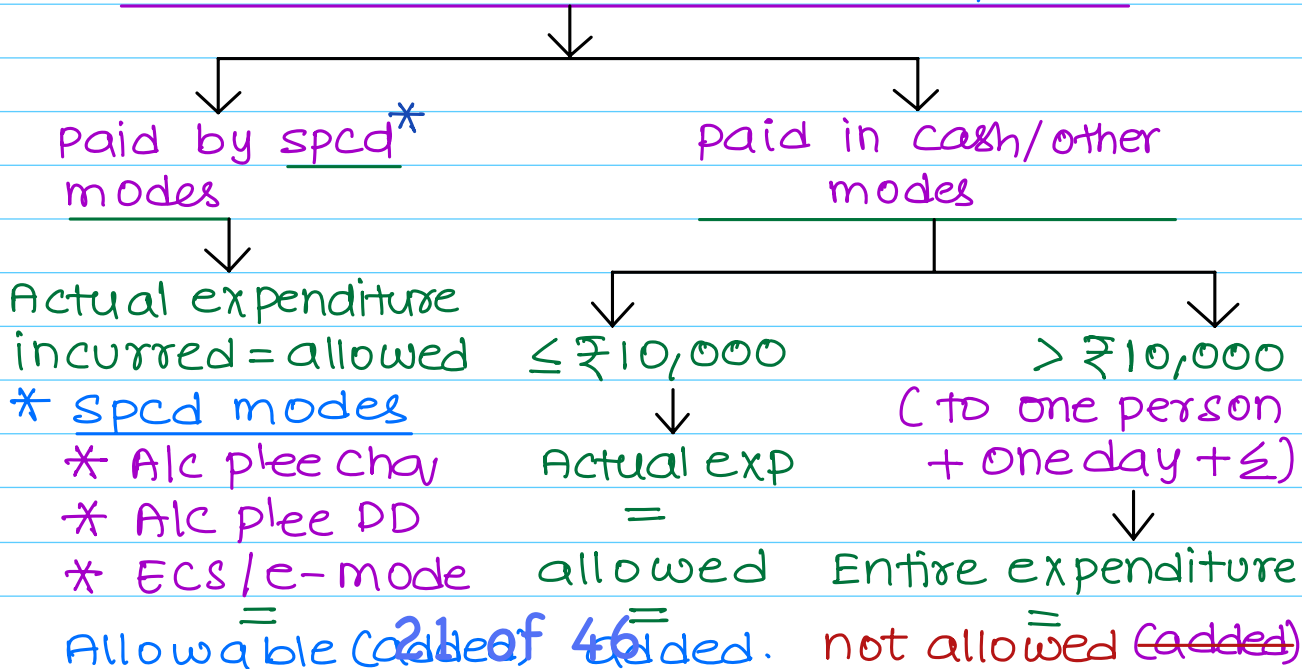
6j. Actual cost - Basic analysis [S. 43(1) + 2nd proviso]



Koushik's Paalharhalaw

Particulars	Amt (₹)
Actual cost incurred by Alee	X X X
(-) Portion of cost met by other person (or) authority	(X X X)
(+) Incidental expenses*	X X X
Total = Actual cost U/s 43(1) r/w Sec. 32	X X X

* Dis-allowance of incidental expenses



6k. written down value [s.43(b)]

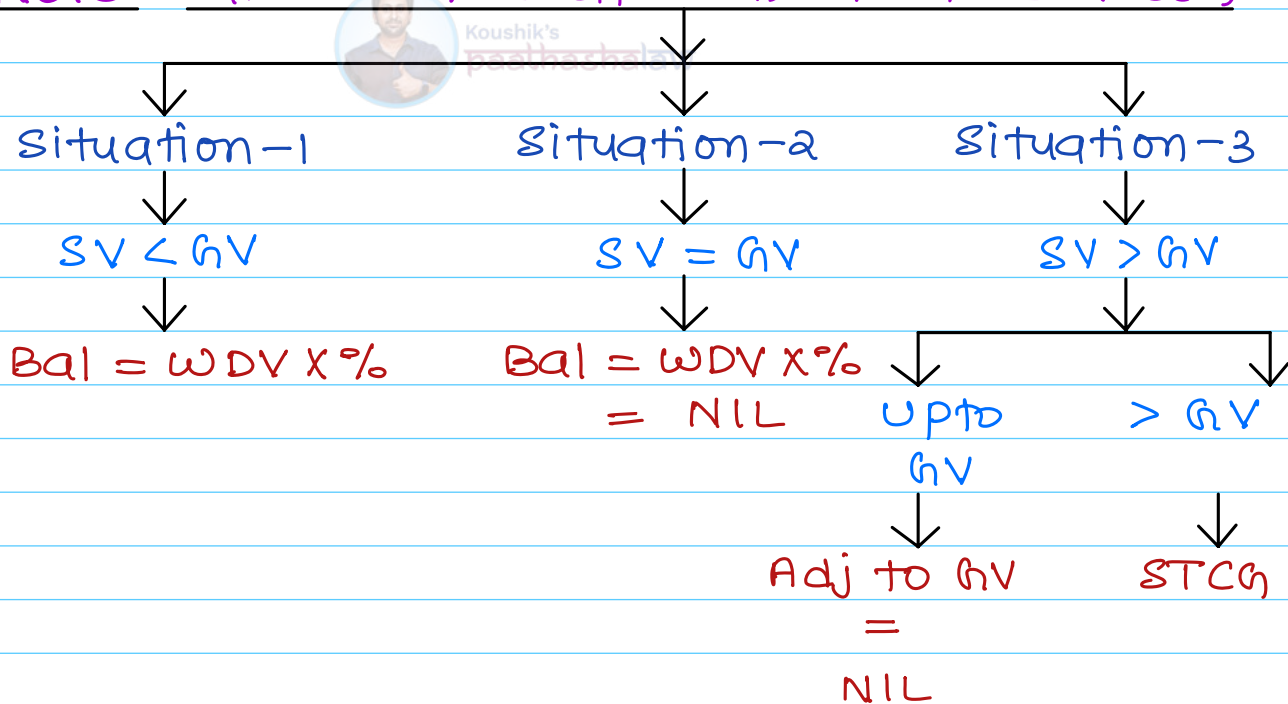
WDV for an A.Y will be determined as under —

* similar to opg Bal in alc.

Step	Details
1.	Identify the depreciated value of block*
2.	(+) Actual cost of assets acquired in Py (falling in the same block)
3.	Total (1) + (2) = Gross value/Gross block
4.	(-) money received (incl scrap) in respect of any asset in block upon sale, demolition etc.

=
WDV of BOA
for the A.Y.

Note: sale value/Receipt (S4) v/s Gross value (S3)



Note:

1. Sale value \neq s.cn = s.cn - incidental exps
< CIT v/s Essar shipping Ltd >
< CIT v/s Hindustan motors Ltd >
2. Sale Cn \neq FMV \neq SDV = Actual sale Cn (Net)
< CIT v/s cable corpn of India Ltd >
< Composites India CP Ltd v/s CIT > 2024 (mum)

3. If asset is demolished but not sold then the resultant will be scrap value. Hence, if scrap is considered, sale value cannot be considered and vice versa.

Illustration 1:

On April 1, 2024, depreciated value of a block of asset (rate of depreciation: 15%) is ₹ 80,000. It consists of Plants A & B. The assessee purchases plant C (rate of depreciation: 15%) on December 28, 2024 for ₹ 30,000 and sells Plant A on May 3, 2024 for ₹ 1,80,000. In this case on

Calc the depn + Depreciated value for year ended 2025.

Solution:

Particulars	Amount (₹)
Depreciated value of BOA (P-A+B)	80,000
(+) Actual COA acquired (P-C)	30,000
Gross block (P-A+B+C)	1,10,000
(-) money recd on sale (P-A)	(1,10,000)
<u>WDV as on 31/3/25</u>	<u>—</u>

* Since the WDV is NIL, for that PY no depn can be claimed

* If Gross value of block < money recd on sale the amount in excess of Gross value is treated as 'STCG' and taxable UH Capital gains.

Illustration 2:

X Ltd. owns two plants – Plant A & Plant B – on April 1, 2024 (rate of depreciation: 15%, depreciated value on April 1, 2024: ₹ 2,37,000), the company purchases Plant C on May 31, 2024 for ₹ 20,000 and sells Plant A (on April 10, 2024), Plant B (on December 12, 2024) and Plant C (on March 1, 2025) for ₹ 10,000, ₹ 15,000 and ₹ 24,000 respectively.

Solution:

<u>Facts:</u>	<u>Date of purchase</u>	<u>Date of sale</u>
A:	1/4/24	10/4/24
B:	1/4/24	12/12/24
C:	31/5/24	01/3/25

Particulars	Amount (₹)
Depreciated value of BOA (P-A+B)	2,37,000
(+) Actual COA acquired (P-C)	20,000
Gross block (P-A+B+C)	2,57,000
(-) money recd on sale (P-A)	(49,000)
WDV as on 31/3/25	2,08,000

DEPN ≠ claimed since Block cease to exist. (Though there is a value).

6 L. IF asset is put to use for less than 180 days in year of acqn.

C1: Asset is acquired during P.Y.

C2: That is put to use for < 180 days in that PY (PY of acqn)

Result: Depn cannot be claimed @ actual rate but is claimed @ 50% of actual rate.



Koushik's
paathashala

Illustration 1:

Date of purchase

10/5/24

(2024-25)

Date of put to use

10/1/25

(2024-25)

Since, Asset is put to use for < 180 days in PY of acqn, depn for that year is 50% of actual rate i.e. $50\% \times 15\% = 7.50\%$.

Illustration 2: (Answered)

Y Ltd. purchases a plant (rate of depreciation: 15 percent) on May 10, 2024. It is put to use on January 10, 2026. In this case, the plant is acquired during 2024-25 and in the year 2024-25 it is not put to use at all. Therefore, for the previous year 2024-25 no depreciation is available. It is put to use in the previous year 2025-26. For the previous year 2025-26, the usual depreciation will be available, as the asset is not acquired during 2025-26, although it is put to use for less than 180 days.

Illustration 3:

X Ltd. owns two buildings A and B on April 1, 2024 (rate of depreciation: 10 percent, depreciated value: ₹ 14,15,700). It purchases on December 1, 2024 building C for ₹ 3,10,000 (rate of depreciation: 10 percent) and sells building A during the previous year 2024-25 (say on January 10, 2025) for ₹ 8,70,000, then depreciation for the previous year 2024-25 shall be determined as under: (₹)

Depreciated value of the block (i.e. building A and B) on April 1, 2024	14,15,700
Add: Cost of building C (purchased on December 1, 2024)	3,10,000
Total	17,25,700
Less: Sale proceeds of building A	8,70,000
Written down value of the block	8,55,700
Depreciation (as building C is purchased in the year 2024-25 and it is put to use for less than 180 days, depreciation on ₹ 3,10,000 will be 50% of 10% of ₹ 3,10,000 and on the remaining amount depreciation will be 10% of (₹ 8,55,700 – ₹ 3,10,000)]	70,070
Depreciated value of the block on April 1, 2025	7,85,630

Illustration 4:

The depreciated value of a block of assets (consisting of Plants A & B) (rate of depreciation 30%) owned by a trading company is ₹ 1,17,000 on April 1, 2024 [Plant A: ₹ 1,00,000 + Plant B: ₹ 17,000]. The following information is available:

Asset	Rate of depreciation (%)	Date of purchase	When it is put to use	Actual cost (₹)
Plant C	30	March 10, 2024	April 10, 2024	20,000
Plant D	30	March 1, 2024	December 3, 2024	30,000
Plant E	30	March May 6, 2024	May 6, 2024	40,000
Plant F	30	May 15, 2024	January 2, 2025	60,000
Plant G	30	June 6, 2024	April 6, 2025	80,000

Plant A is sold on August 16, 2024 for ₹ 86,000. Depreciation shall be determined as under the previous year 2024-25:

6M. Actual cost in different cases (explan - s. 43(D))

6M(I). Assets used in Scientific research

$$\text{Actual cost (Business)} = \text{Actual cost of asset} - \text{Deduction u/s 35}$$

Cond 1: Asset is used for SR.

Cond 2: Asset ceased to be used for SR later on.

Cond 3: Asset is used in Business.

Result: $AC = AC - \text{Ded u/s 35}$.

Illustration:

X purchased plant on 22/4/07 = ₹80,000.

(Depn claimed @ 100%)

X shifted that asset to factory

on 11/11/24

Calculate actual cost to claim depreciation.

Solution:

$$\begin{aligned} \text{Actual cost} &= \text{Actual cost} - \text{Depn u/s 35} \\ &\quad \text{@ acqn} \\ &= ₹80,000 - ₹80,000 \\ &= - \end{aligned}$$

Hence, no depn can be claimed.

6M(II). Actual cost upon conversion of stock-in-trade into capital asset

$$\text{Actual cost of CA} = \text{FMV of that asset on the date of conversion}$$

6M(III). Assets acquired by way of gift (or) inheritance.

$$\text{Actual Cost to Alee} = \text{Actual Cost to previous owner} - \text{Depn allowable to Alee on that asset independently}$$

Note:

- * FMV is not relevant.
- * Gift (or) Grant in cash is not considered.
- * Assets distributed on account of partition of HUF do not amount to gift/inheritance.
(CIT v/s P.N. Krishna Iyer)

Illustration:

Alec = Mr. X

Assets as on 1/4/22 (A, B & C) @ 15%

Details of txns is as under: ₹

Dep. value of Block (A, B & C) - 1/4/22	: 1,55,000
(+) Cost of Plant D - PTU - 1/11/22	: 1,00,000
(-) Sale value of Plant A (22-23)	: (1,97,000)
WDV on 31/3/23	: 58,000
(-) Depn - 22-23 (7.5% x 58,000)	: (4,350)
WDV on 31/3/23 (B, C, D)	: 53,650
(-) Depn for 23-24	: (8,048)
Depd value of block (1/4/24)	: 45,602

Plant D is gifted by X to his friend Y on Dec 20, 2024 (FMV = ₹ 86,000)

Details of Y

1/4/24 : Plant L + M (Dep @ 15%)

Depd value of block 1/4/24 : ₹ 90,000

Plant 'D' was PTU on same day.

Required

Depreciation in hands of X & Y for 24-25 PY.

Solution:

a. <u>Depn in case of x</u>		₹
Depd value of block (1/4/24)		45,602
(+) Actual cost of assets acquired		—
(-) Sale proceeds (Gift ≠ sale)		—
WDV as on 31/3/25		45,602
(-) Depn = ₹ 45,602 × 15%		(6,840)
Clg. WDV (Depd value 1/4/25)		38,762

b. <u>Depn in case of y</u>		₹
Depd value as on 1/4/24		90,000
(+) Actual cost of assets acq.*		78,625
(-) Sale proceeds		—
Gross Value		1,68,625
(-) Depn (90,000 × 15% + 78,625 × 7.5%)		(19,397)
WDV as on 31/3/25		1,49,228

<u>* Calc of actual cost</u>		₹
Actual cost of Plant - D	=	1,00,000
(-) Depn for 22-23 @ 7.5%	=	(7,500)
WDV as on 22-23 (31/3/23)	=	92,500
(-) Depn for 23-24 @ 15%	=	(13,875)
WDV as on 31/3/24	=	78,625



6m (IV.) Actual cost in case of second hand asset

1. Conditions to be satisfied:

- a. Asset is used by previous owner for his B/P.
- b. Such asset is acquired by the Alee during the PY for his B/P.

2. what if cnds are satisfied?

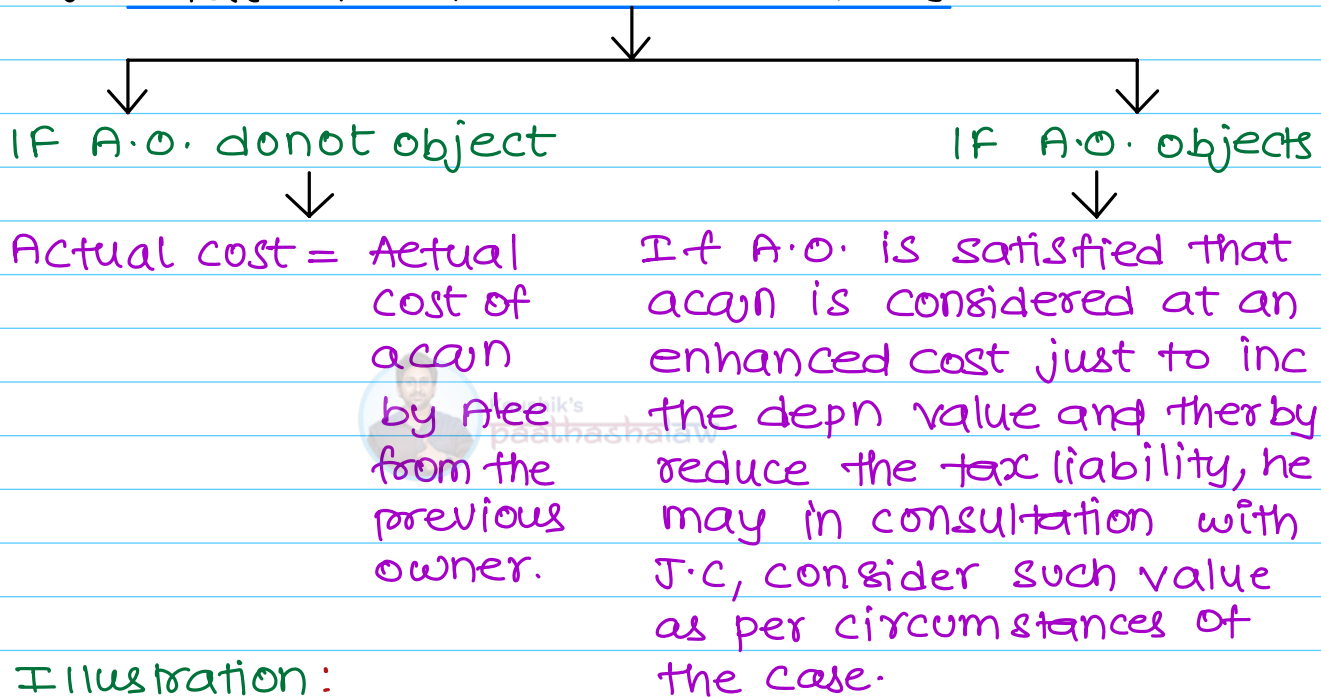


Illustration:

X Ltd : Plant A + B (Depn @ 15%)

Depd value of block (1/4/24) : ₹ 6,12,000

Transfer of Plant B to Y Ltd : ₹ 3,50,000

(on Sep 20, 2024) (FMV @ ₹ 90,000)

Y Ltd : Plant m + N (Depn @ 15%) : ₹ 1,15,000

Depd value of block (1/4/24)

Plant B is put to use on 6/11/24

Plant m is sold for ₹ 2,45,000 on 22/3/25.

Required

Calc Depn for Ay 25-26 for X & Y if A.O object + donot object.

Solution:

A. Calc of depreciation + depreciated value for X Ltd

Particulars	Amount (₹)
1. Depd value of block (1/4/24)	6,12,000
2. (+) Actual cost of assets acq	—
3. Gross block	6,12,000
4. (-) Sale proceeds	(3,50,000)
5. WDV as at 31/3/25	2,62,000
6. Depn on WDV @ 15%	(39,300)
7. Depd value @ 1/4/25	2,22,700

B. Calc of depreciation + depreciated value for Y Ltd

Particulars	A.O donot object	A.O. objects
Depd value @ 1/4/24	1,15,000	1,15,000
(+) Actual cost of acq of 2nd hand machine	3,50,000	90,000
Gross block	4,65,000	2,05,000
(-) Sale proceeds on plant - m. (22/3/25)	(2,45,000)	(2,05,000)
WDV as on 31/3/25	2,20,000	—
(-) Depn @ 15% x 50%	(16,500)	—
Depd value of block	2,03,500	—

6M(v) Actual cost in case of re-acan of transferred assets

a. Conditions

cond	content
1.	Alee owns an asset in the past.
2.	Such asset is used for the purpose of B/P.
3.	He Ceased to be the owner of that asset by reason of transfer (or) otherwise.
4.	Same asset is re-acquired by the Alee.

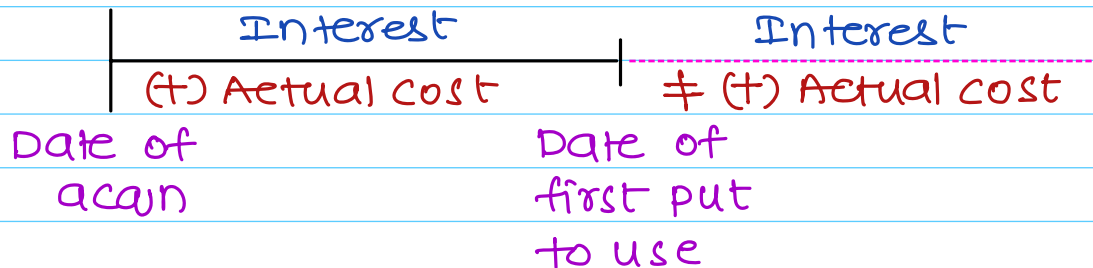
b. Result

Actual Cost of asset re-acquired

(i) Actual cost to Alee when it is first acquired	X X X
(-) Depn allowable on such asset	(X X X)
Net actual cost	X X X
(OR)	
(ii) cost at which it is reacquired	X X X

6m(vi) Interest on capital borrowed for the
acqn of asset

(explan viii)



6m(vii) Personal building transformed into
Business asset

a. conditions

cnd	Content
1.	Alee owns a building - used other than for B/P.
2.	Later converted into Business asset.
3.	Asset is put to use in any PY

b. Result

Actual cost of building

Actual cost to alee on date of acqn = xxx
(-) Depn allowable as if asset is put to use from the inception = (xxx)

Actual cost for the purposes of s.32 = xxx

Notes:

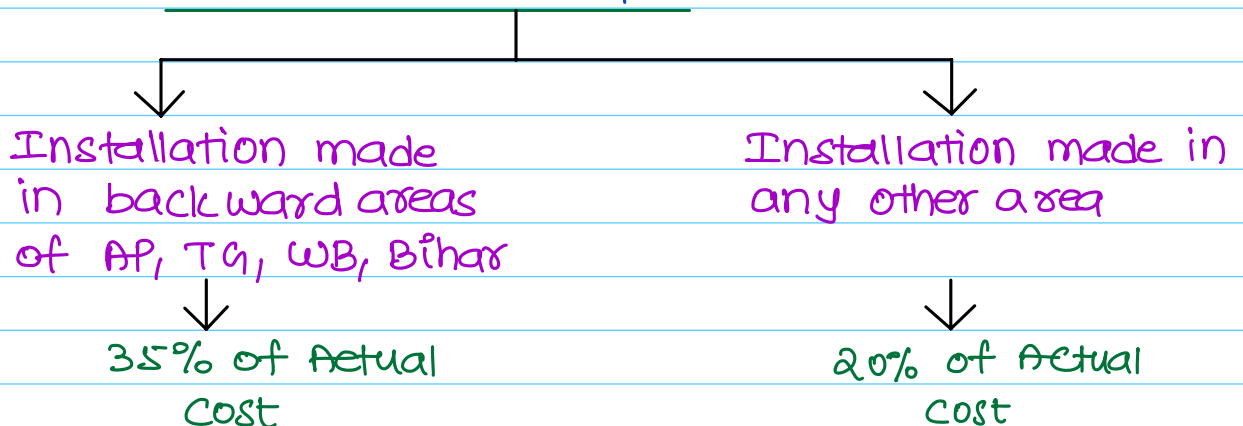
- * while considering the rate of depreciation, for entire period, it should be rate as on date on which asset (building) is PTU.
- * Explanation applies only to building.
- * Conversion should be as a Business asset not 'Capital asset'

6N. Additional depreciation

a. Conditions

Cond	Content
1.	Asset is engaged in the business of manufacturing (or) production of any article/thing/generation of power.
2.	Asset acquired a 'NEW P/m' + installed for the purposes of Business.
3.	The following cases do not claim addl depn: <ul style="list-style-type: none">* P/m is used (before installation) by any other person.* It should not be used for office premises/residential accommodation (or) guest house.* Office appliances + road transport vehicles* Such P/m is not a ship/aircraft.

b. Amount of addl depn:



* 50% of normal rate in case it is PTU < 180 days.

Note:

- * No A.D on other than P/m.
- * No A.D on second hand assets.
- * No A.D on intangibles.
- * Addl depn is given in addition to normal depn.

Illustration:

A/c = X Ltd, Activity = Manufacture of computer hardware

Details of block

Particulars	Block-1	Block-2	Block-3
Rate of depn	15%	30%	60%
No. of. assets	11	12	17
Depd. value	18,00,000	25,00,000	5,00,000
Additions (New)	57,00,000	4,00,000	17,00,000
Sale (old)	8,00,000	28,70,000	42,00,000

Other info:

Plants A, B, C are acquired during May 24 and put to use during Sep 20 24. However, Plant B was put to use on March 21 24.

Find out:

- Depn
- Addl depn.



Koushik's
paathashala

Step 1: Calc of additional depreciation

Plants

Particulars	A	B	C
claim of AD?	Yes	Yes	Yes
Rate of AD?	20%	10%*	20%
Actual Cost	₹ 57,00,000	₹ 4,00,000	₹ 17,00,000
Additional depn	₹ 11,40,000 (₹ 57L x 20%)	₹ 40,000 (₹ 4L x 10%)	₹ 3,40,000 (₹ 17L x 20%)

* If asset is put to use for < 180 days, depn allowable is 1/2 of the actual rate.
(20% x 1/2) = 10%.

Step 2: Calc of normal depn

Particulars	₹		
	Block 1	Block 2	Block 3
Rate of depn	15%	30%	60%
opg. Depd value	18,00,000	25,00,000	5,00,000
(+) Actual cost (A,B,C)	57,00,000	4,00,000	17,00,000
Gross value	75,00,000	29,00,000	22,00,000
(-) Sale proceeds	(8,00,000)	(28,70,000)	(42,00,000)
Clg WDV (24-25)	67,00,000	30,000	—
Depn (Normal)	10,05,000	4,500	—

Step 3: Total depn allowed during PY 24-25

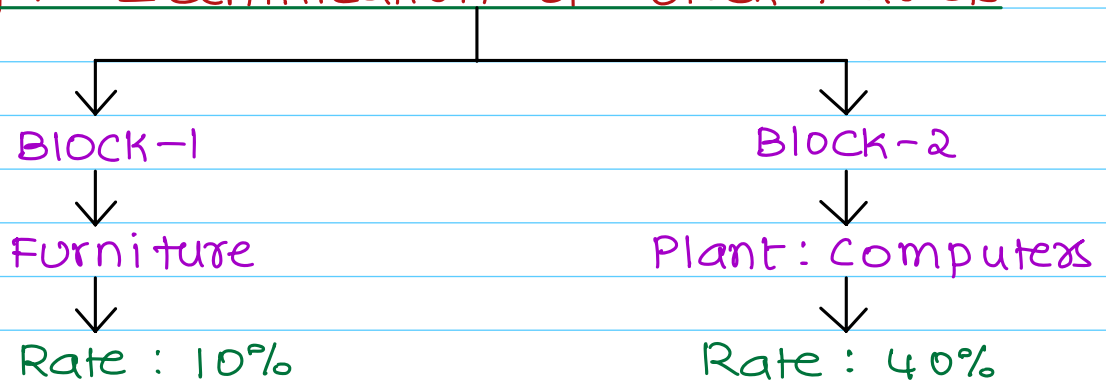
Block	₹		
	Depn	Addl depn	Total
I	10,05,000	11,40,000	21,45,000
II	4,500	40,000	44,500
III	—	3,40,000	3,40,000
Total	10,09,500	15,20,000	25,29,500

ISM - Illustration

A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office during F.Y. 2024-25 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for A.Y.2025-26. Assume that all the assets were purchased by way of account payee cheque.

Sl. No.	Description	Date of acquisition	Date when put to use	Amount ₹
1.	Computer including computer software	27 Sept., 24	1 Oct., 24	35,000
2.	Computer UPS	2 Oct., 24	8 Oct., 24	8,500
3.	Computer printer	1 Oct., 24	1 Oct., 24	12,500
4.	Books (other than annual publications are of ₹ 12,000)	1 Apr., 24	1 Apr., 24	13,000
5.	Office furniture (Acquired from a practicing C.A.)	1 Apr., 24	1 Apr., 24	3,00,000
6.	Laptop	26 Sep., 24	8 Oct., 24	43,000

Step 1: Identification of block + assets



Step 2: Rate of depn allowable

Particulars	P TU > 180 days	Rate allowed
Furniture	Yes	10%
Computer	Yes (123)	40%
UPS	No	20%
Books	Yes	40%
Printer	Yes	40%
Laptop	No	20%

Step 3: Calc of depreciation

<u>Particulars</u>	<u>Amount (₹)</u>
<u>Block 1: Furniture</u>	
* Furniture (10%) (₹ 3,00,000 X 10%)	30,000
<u>Block 2: Plant</u>	
* Computers + SW (40%) (₹ 35,000 X 40%)	14,000
* UPS (₹ 8,500 X 20%)	1,700
* Printer (₹ 12,500 X 40%)	5,000
* Books (₹ 13,000 X 40%)	5,200
* Laptop (₹ 43,000 X 20%)	8,600
Total depn (24-25)	<u>64,500</u>

6'0': Unabsorbed depreciation

S-1
Depn of PY
is deductible
from income
U/H PGBP

S-2 IF S-1 is not
fully deductible
U/H PGBP, it
is deductible
Under other heads
(except IFHS)

S-3 IF S-2 is still
unabsorbed, it
can be clf to
subsequent Ays
by same Alee.
(indefinite years)



Koushik's
paathashala

Notes:

* No timelimit fixed for purpose of clf of unabsorbed depn, it can be carried forward to indefinite years.

* manner of setoff for subsequent Ays:

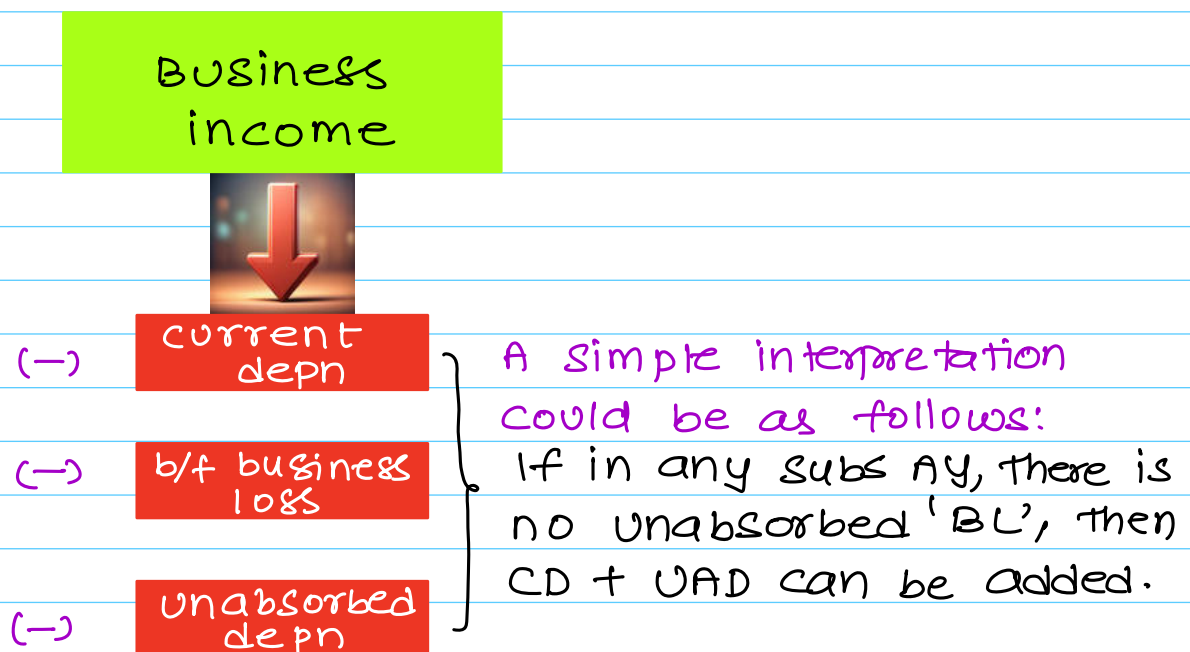


Illustration 1:

₹(in PY)

Particulars	24-25	25-26
Salary	1,00,000	2,00,000
P&BP (excl dep)	16,000	18,000
Current depn	1,34,000	1,32,000
IFOS	10,000	80,000

Determine taxable income for both Ays

Illustration 2:

Particulars	24-25	25-26
P&BP	(50,000)	45,000
current depn	18,000	20,000
IFOS	20,000	70,000

Determine taxable income for both Ays

(A) Solution to illustration - 1

Amount (₹)

Particulars	24-25	25-26
Income from salaries *	1,00,000	2,00,000
Income from HP	-	-
Profits + gains of B/P	-	-
Capital gains	-	-
IFOS	-	-
Gross total income	1,00,000	2,00,000

Note - 1: P&BP income

24-25			25-26		
Particulars	₹	₹	Particulars	₹	₹
P&BP inc	16,000		P&BP inc	18,000	
(-) C. Depn	1,34,000	-	(-) Depn *	2,40,000	-

Unabsorbed depn
 = ₹ 1,34,000 - ₹ 16,000
 = ₹ 1,18,000.

Depn = CD + UAD
 = ₹ 1,32,000 +
 ₹ 1,08,000

UAD = ₹ 2,22,000
 (2,40,000 - 18,000)

Note - 2: IFOS (24-25)

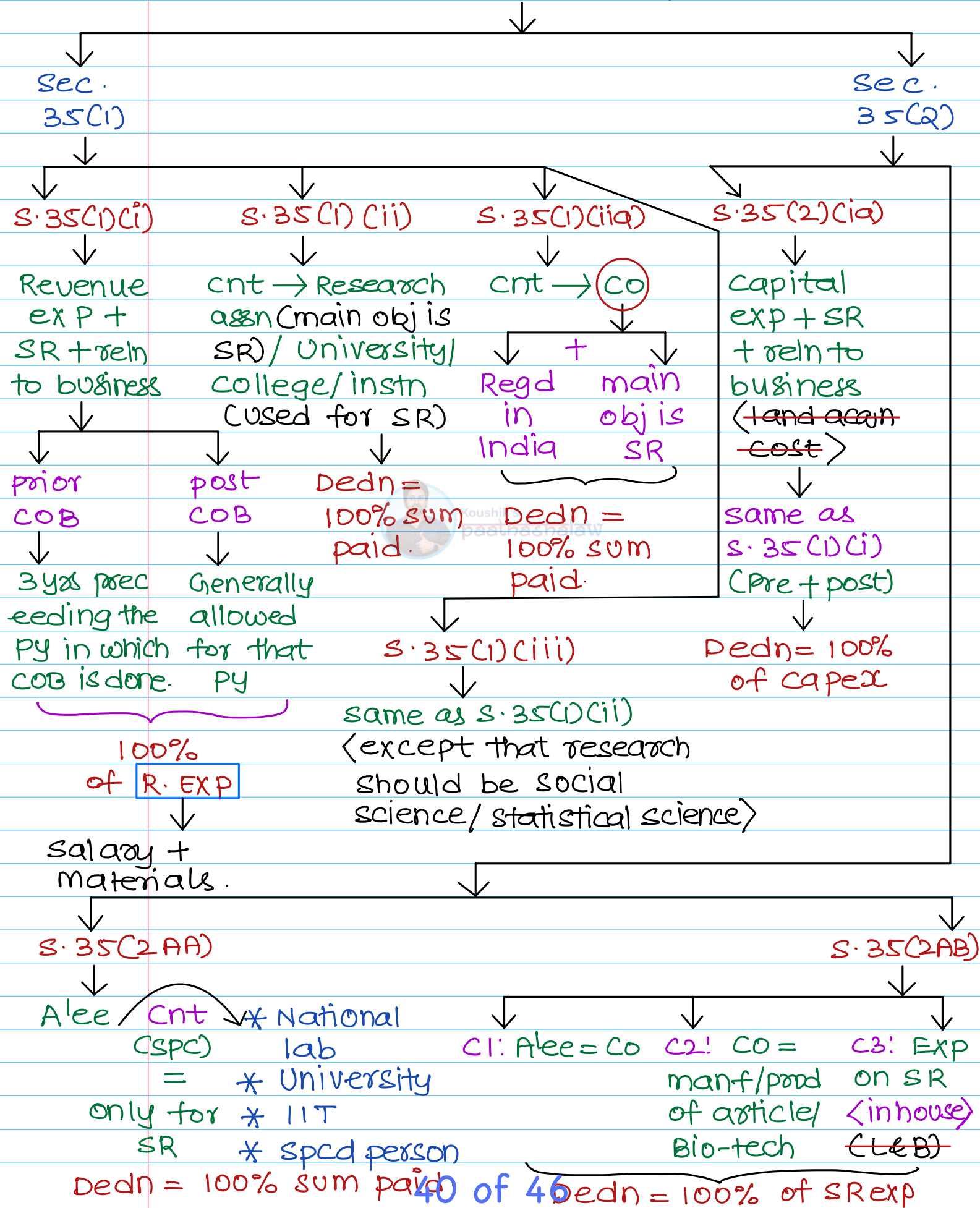
IFOS = ₹ 10,000
 - UAD = (₹ 1,18,000)
 IFOS (after s/o) = -
 UAD = ₹ 1,08,000

Note - 2: IFOS (25-26)

IFOS = ₹ 80,000
 - UAD = (₹ 2,22,000)
 IFOS (after s/o) = -
 UAD = ₹ 1,42,000

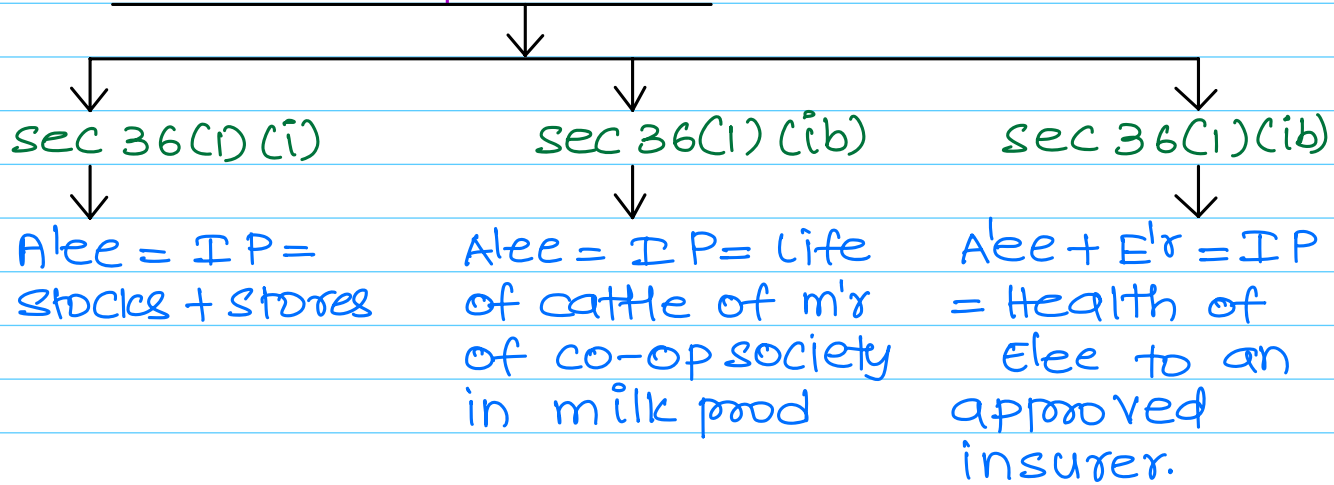
(*) No s/o (or) 391 of 46 against IFOS.

7. Expenditure on scientific research
(S. 35 & w Sec. 41)

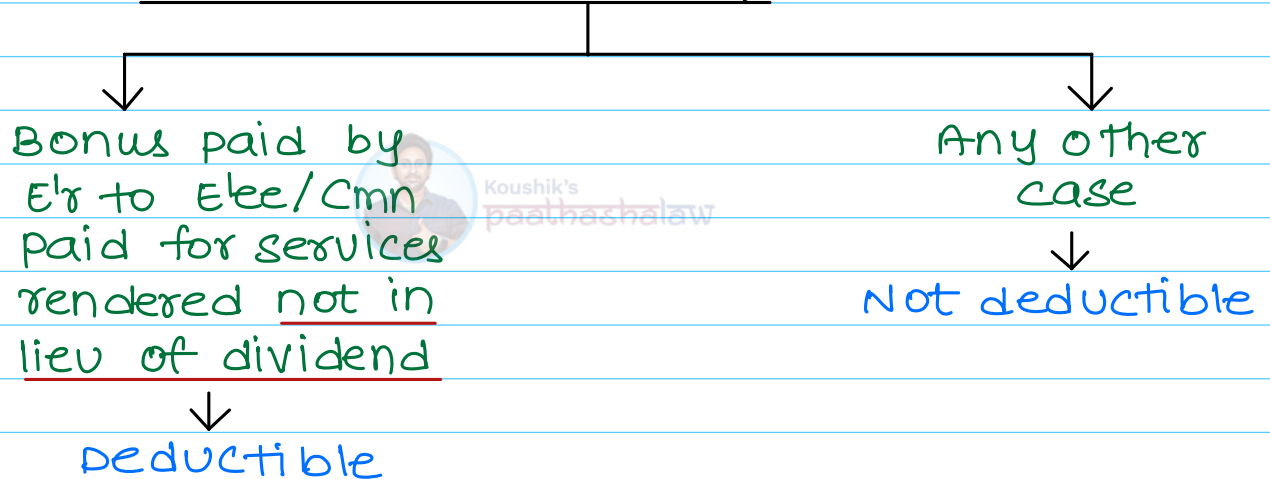


8. Other Deductions (Sec 36)

I. Insurance premium (Sec 36(1)(i))



II. Bonus (Sec 36(1)(ii))

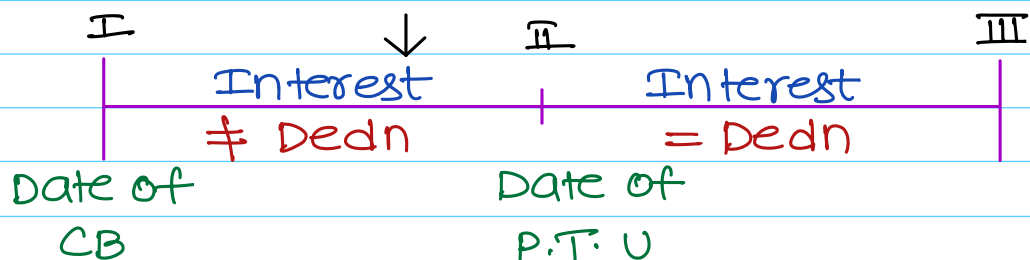


III. Interest on capital borrowed (S. 36(1)(iii))

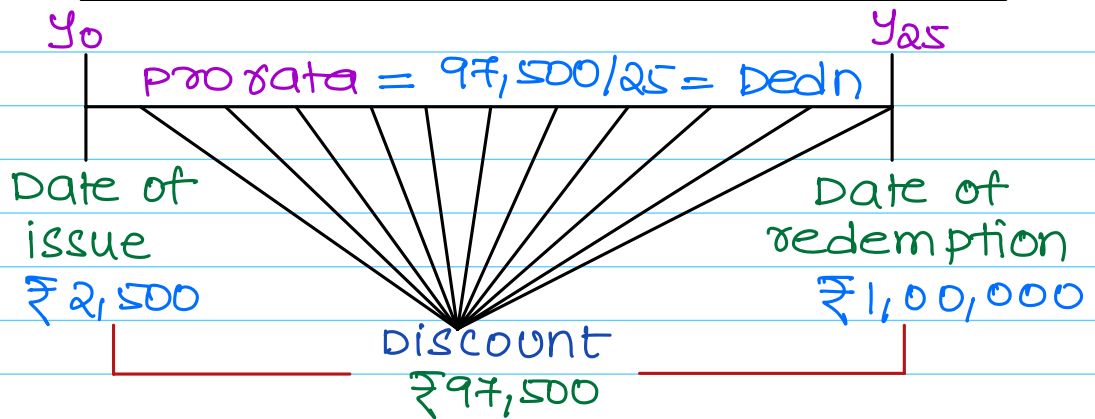
Interest paid = Allowed as a deduction if

- * Capital is borrowed for purposes of B/P.
- * Used for revenue/capex

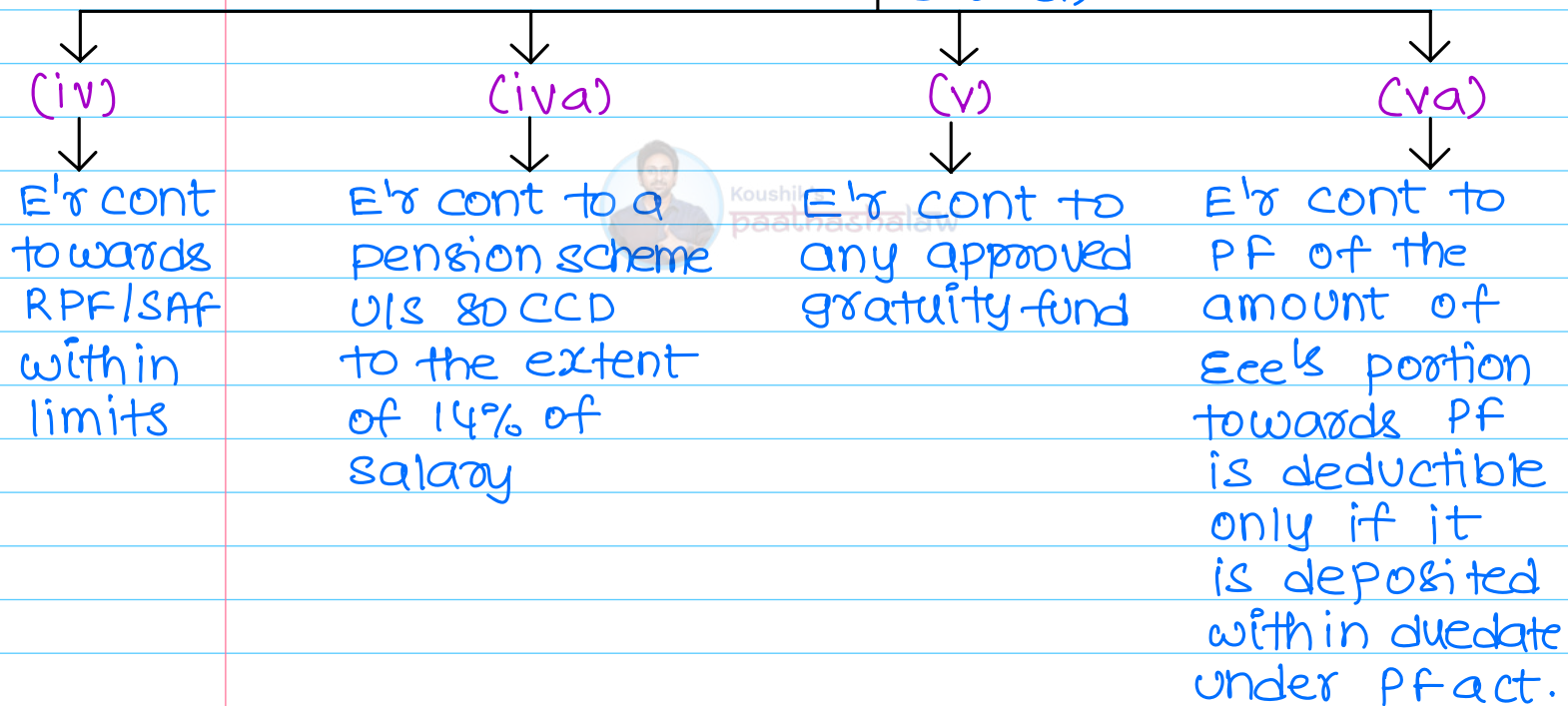
Note: CB to acq asset



IV. Discount on zero coupon bonds
(Sec 36(i)(iii))



V. Contribution towards PF/pension etc
S. 36(i)



VI. Bad debts
(Sec 36(i)(vii))

* Bad debts are allowed as a dedn subj to following cnds:

1. Debt should be considered in Books.
2. whole/part is irrecoverable.
3. Such amount is written off in the

either in ^{cor} either for
the BOA 46 46 CDS purposes.

* what if, debts are subsequently recovered ?

→ chargeable to tax U/H P&B P U/s 41 as deemed income

→ In the year of receipt

→ even if the B/P is not in existence.



Koushik's
paathashala

9. General/Residual dedns (sec. 37)

Conds:

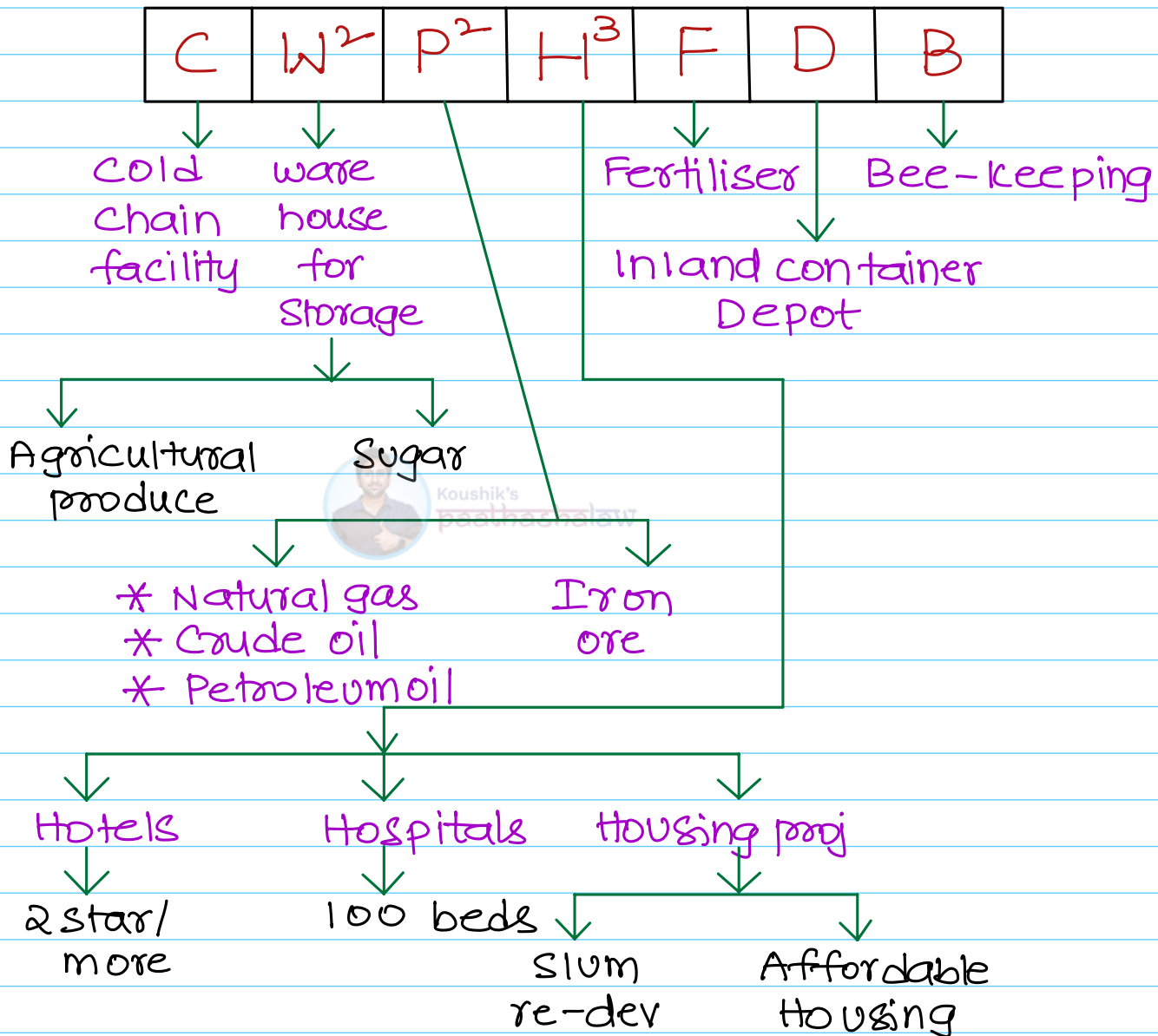
1. Expenditure not deductible U/s 30-36.
2. Alee = Any person
3. Expenditure \neq Capital nature
4. Expenditure \neq personal nature
5. Incurred wholly + exclusively for BIP purposes.

Exceptions:

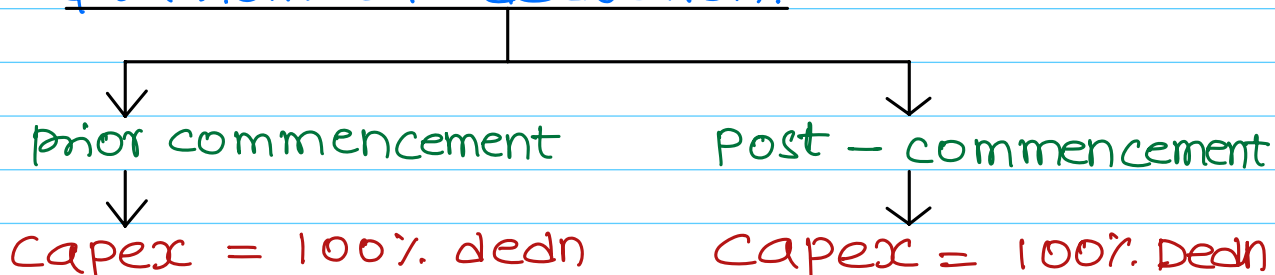
1. Any expenses incurred on any activity prohibited / offensive at law.
2. Any expenditure on CSR U/s 135 of CA 2013.
3. Any fines / compounding / settlement fees on a/c of any offence.

10. Investment linked deductions U/S 35AD

1. Applicable to any Atee.
2. Atee should be engaged in specified business.



3. Quantum of deduction:



Note:

- * No dedn w.r.t. investment in —
 - Land
 - Good will
 - financial instruments.
- * No dedn if unit is formed by splitting up/ reconst of existing unit
- * No dedn for used P&M in excess of 20% of total value of P&M
- * Used P&M can claim full dedn if —
 - It is imported.
 - Not used in BP in India.
 - No dedn is claimed.

4. Other conditions:

- * Dedn allowed only if BOA are audited by CA + verified in prescribed manner.
- * Asset claiming dedn U/s 35AD shall be used exclusively for purposes of specified business for 8 years beginning from PY in which asset is acquired.

5. Special points:

