

CHAPTER 3C: PROFITS & GAINS FROM BUSINESS & PROFESSION

Section 28 Basis Of Charge

1. The profit of any business or profession carried at any time during the relevant PY.
2. Export incentives.(Cash assistance/ sale of import licence/ duty drawback)
3. Profit on sale of Duty Entitlement Pass Book.
4. The value of any benefit or perquisite arising from business or Profession (Gift received from customers/client)
5. Any interest, salary, bonus, commission or remuneration, received by a partner of a firm from such firm.
6. Non - competing fees
 - a) for not carrying out any activity in relation to any Business
 - b) not sharing any know-how, patent, copyright, trademark, licence, franchise or any other business or commercial right
7. Any sum received by ER under a Keyman insurance policy
8. Income from speculative transaction
9. Amount received in connection with termination or modification of terms and conditions of any Business contracts.
10. If any person has converted any inventory or stock in trade in to a capital asset.(
Business Income = FMV on Date of Conversion
11. Any income from letting out of residential house or part thereof by the owner shall be chargeable under the head “Income from house property” rather than PGBP

Note:

Meaning of Speculative Transaction

It means a transaction in which a contract for the purchase or sale of any commodity including stocks and shares, is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or securities.

Transactions not deemed to be speculative transactions

The following forms of transactions shall not be deemed to be speculative transaction:

- a) Hedging contract in respect of raw materials or merchandise or stocks and shares
- b) Forward contract
- c) Trading in derivatives carried out electronically through SEBI registered stockbroker or sub broker or intermediary in a recognized stock exchange.
- d) Trading in commodity derivatives carried out electronically through a registered member or intermediary in a recognised stock exchange, which is chargeable to commodities transaction tax.

However, the requirement of chargeability of commodities transaction tax is not applicable in respect of trading in agricultural commodity derivatives.

Section 29 How to Compute PGBP

The income referred to in section 28 shall be computed in accordance with the provisions contained in sections 30 to 43D.

Rent, Rates, Taxes, Repairs and Insurance for Buildings [Section 30]

Building Used As	Expenses Allowed
Tenant	Rent, Current Repairs, Municipal Taxes & Insurance
Owner	Current Repairs, Taxes, Insurance and also Dep (u/s 32)

Note:

- Capital repairs incurred by the owner are not allowed as a deduction but instead, assessee can claim depreciation on such repairs.
- Capital repairs incurred by tenant is treated as deemed building and depreciation is allowed to tenant.
- If assessee is owner of building then assessee cannot claim notional rent.

Section 31 Deduction relating to plant, machinery & furniture

- Current Repairs and Insurance related to P/M & Furniture used in business is allowed u/s 31.
- Rent Paid for P/M & Furniture if taken on hire, shall also be allowed but in u/s 37.

Section 32 Depreciation

1. Conditions for claiming Depreciation

- Asset must be owned by the assessee, wholly or partly.
- Asset must be used for the purpose of business or profession.
- Asset must be used during the previous year.

If any of the above condition is not satisfied, depreciation shall not be allowed.

Note:

- It is mandatory for Assessee to claim depreciation.
- Depreciation is allowed when asset is put to use and not when it is ready to use.

2. Methods Of Depreciation

- Normal Depreciation For Block Of Assets on WDV basis
- Additional Depreciation For Eligible Asset
- Asset Wise Depreciation For An Undertaking Engaged In Generation or Generation & Distribution Of Power

3. Section 2(11): Block of Assets

It means a group of assets falling within a class of assets comprising:

- a) Tangible assets, being building, plant and machinery or furniture
- b) Intangible assets, being know how, patents, copyrights, trademarks etc. in respect of which same rate of depreciation is charged.

4. Rate Of Depreciation

Building	
• Residential Purpose Building other than Hotel	5%
• Non Residential Purpose Building including Hotel	10%
• Temporary erections	40%
Furniture and Fittings	10%
Machinery and Plant	
Machinery and Plant (General)	15%
• Motor cars	
• Used in a business of running them on hire	
Generally	30%
Acquired and Put To Use between 23/8/19 – 31/3/20	45%
• Other than Used in a business of running them on hire	
Generally	15%
Acquired and Put To Use between 23/8/19 – 31/3/20	30%
• Ships	20%
• Aeroplanes	40%
• Computers including computer software and computer peripherals (Excluding Mobile)	40%
• Books	40%
Intangible Assets other than Goodwill	25%

5. WDV For Charging Depreciation

Particulars	Amount
Opening WDV of Block	xxx
Add: Assets acquired During the previous year	
Put To Use for 180 days or more	xxx
Put To Use for Less than 180 days	xxx
Not Put To Use	xxx
Less: Money Payable (Selling Price Of Asset)	(xxx)
	Closing WDV Before Depreciation
	xxx
Less: Depreciation actually Allowed	xxx

Note: If asset is acquired but not put to use, then depreciation on such asset shall not be allowed.

Example 1.

Block 15%	₹
Opening WDV (A/B/C) as on 1/4/24	10,00,000

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
D	5,00,000	01/07/24	01/08/24
E	6,00,000	01/08/24	16/08/24
F	7,00,000	01/12/24	14/05/25

On 01/03/25 asset B was sold for ₹4,00,000

Calculate depreciation for PY 24-25 & Opening WDV for PY 25-26

Example 2.

Block 15%	₹
Opening WDV (A/B/C) as on 1/4/24	15,00,000

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
D	6,00,000	01/07/24	01/08/24
E	4,00,000	01/03/25	01/04/25

On 15/12/24 asset C was sold for ₹2,50,000

Calculate depreciation for PY 24-25 & Opening WDV for next year.

Example 3. Suppose in above example , Machine E was sold instead of machine C for 2,50,000. Calculate Depreciation for PY 24-25

6. Depreciation allowed at Half Rate

Depreciation will be restricted to 50% of the normal depreciation , if the following conditions are satisfied:

1. Asset is purchased and put to use in the same Year.
2. Period of put to use for less than 180 days.

Example 4.

Block 15%	₹
Opening WDV (A/B/C) as on 1/4/24	10,00,000

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
D	5,00,000	15/07/24	01/08/24
E	6,00,000	15/09/24	05/10/24

Asset B and C was sold for ₹7,00,000. Calculate depreciation for PY 24-25

Example 5.

Block 15%	₹
Opening WDV (A/B/C) as on 1/4/24	10,00,000

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
P	2,00,000	16/07/24	18/08/24
Q	3,00,000	15/09/24	31/10/24
R	4,00,000	01/01/25	05/05/25
S	1,00,000	01/07/25	31/12/25

Following Assets were sold :-

1. B sold for 1,00,000 on 31/12/24
2. C sold for 70,000 on 31/01/26

Calculate depreciation for PY 2024-25 & PY 2025-26

7. When No Depreciation Shall Be Allowed

a) All the assets of the block are transferred (Block Ceases To Exist)

In case all the assets in any block are transferred during the previous year then the block shall cease to exist and no depreciation will be allowed. It can happen in the following two cases:

- i. Sale price exceeds (Op. WDV + Assets purchased during the year)
STCG u/s 50 = Sale Price - (Op. WDV + Assets purchased during the year)
- ii. Sale price < (Op. WDV+ Assets purchased during the year then)
STCL u/s 50 = Sale Price - (Op. WDV + Assets purchased during the year)

b) Part of block is sold and the sale consideration of assets exceeds block Value

- i. Sale price > (Op. WDV + Assets purchased during the year)
- ii. Although certain assets exist in block, but the WDV of the block shall be reduced to NIL and no Depreciation shall be allowed.
- iii. Excess shall be treated as short-term capital gain.

Example 6. Calculate depreciation from the following informations :-

Block 15%

Opening WDV A/B/C 12,00,000

D purchased and Put to use on 01/05/24 3,00,000

Asset B and C were sold for 16,00,000 on 01/12/24

8. Additional depreciation on new machinery or plant [Section 32(1)(iia)] – Only For Old Regime

A. Allowed to assessee engaged in manufacture of any article or generation or generation and distribution of power.

B Assets for which additional depreciation is allowed:

Any new machinery or plant which has been acquired and installed. However , additional depreciation shall not allowed for:

- (i) Ships and aircraft;
- (ii) Second Hand Plant/Machinery ;or
- (iii) Any machinery or plant installed office or residential accommodation or

- office appliances or road transport vehicles;
- (iv) Any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise)
- C. Additional depreciation shall be allowed @ 20% in the first year in which it is put to use.
- D. If the asset is put to use for less than 180 days, then additional depreciation is allowed @ 10% in the first year, and balance of 10% shall be allowed in next year.
- E. Notes:
 - a) Printing or printing and publishing is treated as manufacturing business – eligible for additional dep.
 - b) Forklift used in factory is not treated as transport vehicle hence eligible for add. Dep.
 - c) Add. Dep. Shall not be allowed to power units if they opted SLM method.

Example 7.

Block 15%	₹
Opening WDV (A/B/C) as on 1/4/24	10,00,000

Assessee engaged in Manufacturing

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
D (New)	3,00,000	10/07/24	10/08/24
E (Second Hand)	2,00,000	10/08/24	10/09/24
F (New)	3,00,000	10/09/24	10/10/24
G (New)	1,00,000	10/10/24	10/04/25

Asset B was sold for ₹3,60,000. Calculate depreciation for PY 24-25

9. Actual cost

It means,

- a) Actual cost of the asset to the assessee, and
- b) It should not include any portion of the cost which has been incurred directly or indirectly by any other person or authority.

Note:

1. If the assessee makes a payment or aggregate of payment more than Rs.10,000 to a person in a day, by mode other than an A/c payee cheque, A/c payee bank draft, or electronic clearing system through a bank account, such payment shall be ignored for the purpose of determination of actual cost.
2. Interest paid before commencement of production on amounts borrowed for acquisition and installation of machinery forms the part of actual cost.

Example 8. Loan of 15,00,000 was taken on 01/07/2023 @12% interest rate for construction of office building

- a) Construction completed on 01/12/24 and building put to use immediately
- b) Calculate Actual cost of building

- c) Calculate Depreciation of building for PY 2024-25
 d) Calculate interest on loan debited to profit and loss A/c

Actual cost in certain special situations [Explanations to section 43(1)]

Situation	Actual Cost
Acquisition of Asset: Where assessee himself acquires the asset.	Purchase Price Add: (a) Interest on Loan for the period upto the date of usage of the asset (b) Freight and Insurance (c) Loading, Unloading Charges (d) Installation and Erection Charges Less: (a) Any amount met by any Authority or any other person by way of Subsidy or Grant, (b) GST ITC Credit availed
Assets used in Scientific Research subsequently put into use for business.	Nil. As Asset Cost wholly deductible u/s 35
Conversion of Stock into Capital Asset	FMV which has been taken into account for the purpose of Sec.28(via)
Asset received under Gift, Will or Inheritance.	WDV to the Previous Owner.
Acquisition of Second Hand asset to claim depreciation on enhanced cost to reduce tax liability, in the opinion of A.O.	Cost as determined by the AO, having regard to circumstances of the case, with the prior approval of Joint Commissioner of Income Tax.
Transfer and Re-acquisition: Transfer of an asset and re-acquisition of the same.	WDV at the time of Original Transfer or repurchase price, whichever is less.
Sale and Lease Back: Sale of an asset to the Lessor and taking them back on lease.	WDV to the Transferor.
Building used for private purpose and subsequently put into use in business	Cost of Acquisition or Construction Less: Notional / Deemed Depreciation for the period of personal use.
Assets brought into India by a Non-Resident.	Actual Cost of Acquisition Less: Notional Depreciation for the period held outside India
Receipt of Subsidy / Grant / Reimbursement for the acquisition of asset from Central Government or State Government	Actual Cost shall be reduced by cost as related with such Subsidy/ Grant / Reimbursement

10. Depreciation On SLM Basis

Assessee	Engaged in Generation, transmission, Distribution of Power
Time to Exercise	Before RFD u/s 139(1) of PY in which they begin to generate power. The option once exercised shall not be reversed.

Note: Option of SLM is For Tangible Assets only; For Intangible Assets only WDV is applicable. Depreciation can be charged on tangible assets individually; i.e SLM/WDV whichever is more beneficial.

Sale of Asset By Assessee Engaged In Power Generation

- **Case 1: Sale Value < Book Value**
Terminal Depreciation (Dr. to P/L) = Book Value – Sale Value
- **Case 2: Sale Value > Book Value But ≤ Actual Cost**
Balancing Charge (Cr. To P/L) = Sale Value – Book Value
- **Case 3: Sale Value > Actual Cost**
 - Balancing Charge (Cr. To P/L) = Actual Cost – Book Value
 - LTCG/STCG Depending on Period of Holding = Sale Value – Actual Cost

Example 9. Calculate depreciation

Asset was purchased on 01/04/2022 for 10,00,000 (life 10 years)

It was sold on 15/07/24

- Case-1 : Sale value = 7,50,000
- Case-2 : Sale value = 8,90,000
- Case-3 : Sale Value = 11,50,000

11. Unabsorbed Depreciation

- Where in any previous year profit before depreciation is not sufficient to absorb full depreciation expense, then depreciation is allowed to the extent of profit and balance depreciation shall be termed as unabsorbed depreciation.
- Such unabsorbed depreciation shall be carried forward to next year for adjustment.
- Unabsorbed dep shall be carried forward for indefinite years till it gets fully set off.

For example:

Profit before depreciation = 1,50,000

Depreciation = 2,10,000

In this case depreciation allowed shall be 1,50,000 (to the extent of profit) and balance 60,000 shall be treated as unabsorbed depreciation.

12. Carry forward and set off of unabsorbed depreciation

If Depreciation claim is more than profits before depreciation, then excess depreciation shall be deducted to the extent profits available and excess shall be c/f as unabsorbed depreciation.

After C/F Following shall be the order of setoff

- (i) PY Depreciation
- (ii) B/f Business Loss

(iii) C/F Unabsorbed Depreciation

Illustration 1: Written down value of 4 machines at the beginning of the previous year 2023-24, forming part of a block of assets carrying 15% rate of depreciation was 5,00,000. The following 4 machines of the same block were bought:

Machines	Date of purchase	Date when put to use	Cost
P	5.1.2024	14.4.2024	50,000
Q	5.4.2024	15.5.2024	1,00,000
R	15.5.2024	31.7.2024	2,00,000
S	15.7.2024	27.8.2024	1,50,000

Calculate the depreciation for the assessment year 2024-25 and 2025-26

Illustration 2: written down value of 4 machines at the beginning of the previous year 2024-25, forming part of a block of assets carrying 15% rate of depreciation was 5,00,000. The following 4 machines of the same block were bought:

Machines	Date of purchase	Date when put to use	Cost
P	5.1.2024	14.1.2024	50,000
Q	5.4.2024	15.5.2024	1,00,000
R	15.5.2024	31.1.2025	2,00,000
S	15.11.2024	27.3.2025	1,50,000

Four machines of this block (other than those which were acquired and put to use for less than 180 days) were sold for 4,00,00.

(e) Calculate the depreciation for the assessment year 2025-26.

(f) What will be the answer if four machines were sold for 7,00,000 instead of 4,00,000?

Illustration 3: W.D.V of the block having two machines namely X & Y as on 1.4.2024 is 6,00,000. Machine Z was acquired on 5.11.2024 for 3,00,000 and put to use on the same date . machine Z is sold on 28.3.2025 for 4,00,000.

(a) Compute the depreciation allowable for the assessment year 2025-26.

(b) What will be the Amount of depreciation allowed, if machine 'X' is sold instead of machine 'Z'

(c) What will be the Amount of depreciation allowed if both 'X' and Y machines are sold instead of machine Z.

Illustration 4: The written down value of a block of asset as on 1.4.2024 was 8,00,000. An asset of the same block was acquired during the year for 3,00,000. Thereafter, all the assets of the block are sold for 12,00,000. Compute the depreciation for the assessment year 2025-26 and also indicate if there is any short-term capital gain /loss.

would your answer change if the sale consideration is 9,00,000.

(b) Part of block is sold and the sale consideration of assets exceed value of the block

Illustration 5: X owns the following machinery as on 1.4.2024:

Machinery	WDV as on 1.4.2024	Rate of depreciation (%)
Machinery A	70,000	15
Machinery B	1,64,000	15
Machinery C	84,000	15

He acquired a new machinery i.e. machinery D For 60,000 on 2.11.2024. Machine B & C are sold on 31st January 2025 for 5,00,000 . Compute the depreciation for the assessment year 2025-26 and also indicate if there is any short-term capital gain/loss.

What Will Be your answer if Machinery B and machinery C are sold on 15.3.2025 for consideration of 80,000 and 40,000 respectively.

Illustration 6: R Ltd. Has started a new business of manufacturing paints on 1-4-2021. The company has purchased the following assets during the financial year 2024-25:

Asset	Actual cost of acquisition	Date of purchase	Rate of depreciation	Date on which the asset is put to use
Furniture	2,00,000	10-4-2024	10%	10-4-2024
Air –conditioner installed in office	1,00,000	16-6-2024	15%	18-6-2024
Car	8,00,000	12-4-2024	15%	12-7-2024
Plant A	50,00,000	11-4-2024	15%	28-4-2024
Plant B	20,00,000	15-9-2024	15%	16-11-2024
Plant C	80,000	1-8-2024	40%	15-9-2024
Computer for office	1,00,000	1-7-2024	40%	1-7-2024
Computer for factory	1,50,000	2-7-2024	40%	4-7-2024

Compute the Amount of normal and additional depreciation for the assessment year 2025-26.

Illustration 7: R furnishes the following particulars of his income for the previous year 2024-25:

Particulars	Amount
Business income (before providing for depreciation)	72,000
Depreciation	94,000
Income from house property	60,000
Income from other source	6,000
Income from salary	3,00,000

Compute the taxable income of R for the assessment year 2025-26

Illustration 8: An electricity company which was charging depreciation on straight line method and whose actual cost of the asset was 5,00,000 and written down value 4,50,000 sold the said asset during 2024-25 after 2 years. What will be the tax treatment if the asset

is sold for:

- (i) 3,50,000
- (ii) 4,80,000
- (iii) 6,00,000

Section 35 Scientific Research

1. In-house Research (Research – Related To Business)

Assessee	All Assesseees
Research During PY	100% of revenue as well as capital expenditure incurred during the previous year shall be allowed as deduction except capital expenditure on purchase of LAND.
Research before commencement of business	<ul style="list-style-type: none"> • Exp Incurred upto 3 years before the commencement of business shall be allowed in the year of commencement of business. • Revenue Expenditure – Only Salary (Excluding Perq) + Material Note: Other Revenue Exp Not Allowed • Capital Expenditure – Allowed Except LAND

2. Sale of assets used for scientific research Section 41(3)

- **Asset Sold Without Being Put to use for business purpose:**
 - a) Sale Value \leq Actual Cost, then sale value is Business Income
 - b) Sale Value $>$ Actual Cost, then actual value is business income and difference between sale value and actual cost shall be STCG/LTCG depending upon period of holding
- **Asset Sold After Being Put to use for business purpose:**
Asset will be added to the respective block with NIL value and deducted from the block with sale value

Example 10. Calculate income under head PGBP

1. Profit before depreciation for PY 2024-25 = 5,00,000
2. Opening WDV of block of machine = 6,00,000
3. Scientific research machine was purchased in year 2021-22 for 5,00,000 and put to use in business on 01/04/24
4. Machine is sold for 1,50,000 on 31/12/2024

3. Carried forward of unadjusted capital expenditure of scientific research

- If profit before deducting capital expenditure on scientific research is less than capital expenditure on scientific research, then excess capital expenditure is carried forward.
- Revenue expenditure on Scientific Research is always allowed irrespective of availability of profits.

Example 11.	Case 1	Case 2	Case 3
• Profit before S/R Exp.	10,00,000	6,00,000	1,00,000
• Revenue Exp. of S/R	4,00,000	4,00,000	4,00,000
• Capital Exp. of S/R	5,50,000	5,50,000	5,50,000
Show Tax Implications			

4. Contribution To Outside Agency (Research – Business Relation not compulsory) – Old Regime

Donation given to an Approved scientific research association	100%
Donation is given to an Indian company approved for the purpose of scientific research or to any approved institution social science or statistical research.	100%
Donation is given to IIT/National Laboratory for scientific research	100%

Note:

Deduction shall not be denied if after making donation by the assessee, approval of such institution has been withdrawn.

Illustration 9: X Ltd. purchased one plant and machinery for 30 lakhs on 01.10.2023 for scientific research and entire Amount was debited to the Profit and loss account, subsequently the asset was sold for 33 lakhs in the year 2024-25. WDV of machine as on 1st april 2024 is 60 lakhs. Profit before depreciation is 40 lakhs. Show tax implications if:

- Asset is sold after being put to use in business.
- Asset is sold without being put to use in business.

Illustration 10: Mr. X has furnished the following particulars relating to payments made towards scientific research for the year ended 31.03.2025:

Particulars	Amount(in Lakhs)
Payments made to K Research Ltd	20
Payment made to LMN College	15
Payment made to OPQ College	10
Payment made to National Laboratory	8
Machinery purchased for in-house scientific research	25
Salaries to research staff engaged in in-house scientific research	12

Note: K Research Ltd. and LMN College are approved research institutions and these payments are to be used for the purposes of scientific research.

Compute the Amount of deduction available under section 35 of the Income-tax Act, 1961 while arriving at the business income of the assessee.

Illustration 11: XY Bio-medicals Ltd. is engaged in the business of manufacture of bio-medical items. The following expenses were incurred in respect of activities connected with scientific research:

Year ended	Item	Amount
31.03.2022 (Incurred after 01.09.2021)	Land	10,00,000

31.03.2023	Plant and machinery	5,00,000
31.03.2024	Raw materials	2,20,000

The business was commenced on 01.09.2024 and expenditure incurred on raw materials and salaries is 1,80,000. In view of availability of better model of plant and machinery, the existing plant and machinery were sold for 8,00,000 on 01.03.2025.

Discuss the implications of the above for the Assessment Year 2025-26 along with brief computation of deduction permissible under section 35 assuming that necessary conditions have been fulfilled.

Illustration 12: A Ltd. which is engaged in manufacturing, furnishes the following particulars for the P.Y.2024-25. Compute the deduction allowable under section 35 for A.Y. 2025-26, while computing its income under the head “Profits and gains of business or profession”.

1. Amount paid to Indian Institute of Science, Bangalore, a notified research organisation for scientific research is 1,00,000
2. Amount paid to IIT, Delhi for an approved scientific research programme is 2,50,000
3. Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority is 4,00,000
4. Expenditure incurred on in-house research and development facility as approved by the prescribed authority
 - (a) Revenue expenditure on scientific research is 3,00,000
 - (b) Capital expenditure (including cost of acquisition of land 5,00,000) on scientific research is ₹ 7,50,000

Section 35AD Deduction in case of Specified Businesses – Only For Old Regime

1. Specified business means

Specified Business	Commencement
(a) Laying & operating a cross-country Natural Gas or Crude or Petroleum Oil Pipeline Network for distribution, including Storage Facilities being an integral part of such network.	on or after 01.04.2007
(b) Setting up and operating a Cold Chain Facility,	on or after 01.04.2009
(c) Setting up and operating a Warehousing Facility for storage of Agricultural Produce.	on or after 01.04.2009
(d) Building and operating a Hotel of two star or above category as classified by the Central Government.	on or after 01.04.2010
(e) Building and operating a Hospital with atleast 100 beds for patients.	on or after 01.04.2010
(f) Developing and building a Housing Project under a scheme for Affordable Housing Slum Redevelopment or Rehabilitation Scheme framed by Central or State Government and notified by CBDT.	on or after 01.04.2010

(g) Developing and building a Housing Project under a scheme for Affordable Housing framed by the Central Government or State Government and notified by CBDT	on or after 01.04.2010
(h) New Plant or in newly installed capacity in an existing Plant, for production of Fertilizer.	on or after 01.04.2010
(i) Setting up and operating an Inland Container Depot or Container Freight Station notified or approved under the Customs Act.	on or after 01.04.2012
(j) Bee-keeping and production of Honey and Beeswax.	on or after 01.04.2012
(k) Setting up and operating a Warehousing Facility for storage of Sugar.	on or after 01.04.2012
(l) Laying and operating a Slurry Pipeline for the transportation of Iron Ore.	on or after 01.04.2014
(m) Setting up and operating Semi-Conductor Wafer Fabrication Manufacturing Unit notified by CBDT.	on or after 01.04.2014
(n) Business of developing or maintaining and operating or developing, maintaining and operating a New Infrastructure Facility	On or after 01.04.2017

2. **Deduction:** 100% of capital expenditure except (Land, Goodwill and financial instrument). Also expenses incurred before commencement of business shall be allowed if capitalized in books of accounts.
3. However, Any Expenditure for Acquisition of any Asset for which aggregate payment made to A Person in A Day, otherwise than by A/c Payee Cheque/Draft or Electronic clearing system is more than Rs. 10,000 , then such payment Not Eligible for Deduction u/s 35AD
4. **Conditions and Notes:**
 - a) Business Not Formed by Splitting/Reconstruction of Existing Business
 - b) Not Formed by Transfer of Used P&M (However, Used P&M is Allowed upto 20%)
 - c) Depreciation shall not be allowed if deduction is allowed u/s 35AD.
 - d) Loss of specified business can be adjusted only against specified business income.
 - e) Loss of Specified business can be carried forward for indefinite period.
 - f) Asset must be used in business for 8 AY for which deduction Is claimed u/s 35AD otherwise, in the year of sale or put to use in other business shall be business income which is equals to:
PGBP Income = Total Deduction Claimed (i.e. Cost of Asset)– Deemed Depreciation.
 - g) If asset is sold after 8 years then entire sales consideration shall be treated as business income as per section 28.

Illustration 13: An Assessee starts business of setting up and operating a warehousing facility for agricultural produce on 01.06.2024. Following information is given to you:

1. Profits from operating warehousing facility 40,00,000

2. The following assets have been purchased for warehousing facility and the profit of 40,00,000 is computed without giving effect to the following:

- (i) Machinery purchased on 31.07.2024 10,00,000
 - (ii) Land purchased on 31.07.2024 10,00,000
 - (iii) Machinery purchased on 31.10.2024 6,00,000
 - (iv) Building purchased on 31.8.2024 4,00,000
 - (v) Building Constructed on 31.05.2024 19,00,000
- Compute income or loss for the assessment year 2025-26

Illustration 14: Mr. Ram commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 01.04.2024. He incurred capital expenditure of 80 lakh, 60 lakh and 50 lakh, respectively, on purchase of land and building during the period January, 2024 to March, 2024 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2024. The cost of land included in the above figures are 50 lakh, 40 lakh and 30 lakh, respectively. Further, during the P.Y.2024-25, it incurred capital expenditure of 10 lakh, 20 lakh and 12 lakh, respectively, for extension/ reconstruction of the building purchased and used exclusively for the above businesses. Compute the income under the head “Profits and gains of business or profession” for the A.Y.2025-26 and the loss to be carried forward, assuming that Mr. X has fulfilled all the conditions specified for claim of deduction under section 35AD. The profits from the business of setting up a warehousing facility (before claiming deduction under section 35AD and section 32 for the A.Y. 2025-26 is 16 lakhs, 14 lakhs and 31 lakhs, respectively.

Illustration 15: Mr. Arnav is a proprietor having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil. Unit A commenced operations on 1.4.2022 and it claimed deduction of 100 lacs incurred on purchase of two buildings for 50 lacs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y.2024-25. However, in February, 2025, Unit A transferred one of its buildings to Unit B. Examine the tax implications of such transfer in the hands of Mr. Arnav

Section 35D Preliminary Expenditure

1. **Meaning:** Preliminary expenses are expenses incurred before setting up of the business; or the expenses are incurred in connection with extension (same line of business) of an undertaking or in connection with setting up a new business. (Setting up new factory, opening a new branch)
2. **Assessee:** The Assessee should be an -Indian Company, or Non-Corporate Resident Assessee.
3. **Eligible Expenses:**
 - (i) Preparation of feasibility report

- (ii) Conducting market survey or any other survey necessary for the business.
- (iii) Preparation of project report.
- (iv) Engineering services relating to the business.
- (v) Legal charges for drafting any agreement relating to the setting up or conduct of the business.
- (vi) Legal charges for drafting and printing of Memorandum of Association (MOA) and Articles of Association (AOA).
- (vii) Registration fees of a company paid to Registrar of Companies.
- (viii) Expenses and legal charges incurred in drafting, printing and advertising of prospectus.
- (ix) Expenditure incurred on issue of shares or debentures like underwriting commission, brokerage, advertisement etc.

Note: Salary to employees, rent of premises, interest on borrowed capital are not treated as preliminary expenses hence deduction never allowed. These are treated as dead expenses.

4. Deduction

- (i) An Indian company
Lower of following shall be allowed as deduction in 5 equal installments
 - (a) Aggregate Amount of eligible expenditure or
 - (b) 5% of the cost of project or 5% of the capital employed-whichever is higher
- (ii) a resident non-corporate assessee.
 - (a) Aggregate Amount of eligible expenditure or
 - (b) 5% of the cost of projectwhichever is lower is allowed as deduction in 5 equal installments

5. Note:

- a) Cost of project includes actual cost of the fixed assets, being land, buildings, leaseholds, plant, machinery, furniture, fittings and railway sidings (including expenditure on development of land and buildings).
- b) Capital employed is the aggregate of the issued share capital, debentures and long-term borrowings
- c) Reserve and Surplus including security premium shall not be part of Capital Employed.

Example 12.

X Ltd. (Indian Co.) commences business in 2024 – 25

Capital Employed = 50,00,000

Cost of Project = 40,00,000

Eligible P/E = 90,000

Calculate Deduction u/s 35D

Example 13.

Mr. X commences business in 2024 – 25
Cost of Project = 15,00,000
Eligible P/E = 90,000
Calculate Deduction u/s 35D

Illustration 16: X Ltd. is an existing Indian company which sets up a new industrial unit. It incurs the following expenditure in connection with the new unit:

1. Preparation of project report - 4,00,000
2. Market survey - 5,00,000
3. Legal and other charges for issue of additional capital required for the new unit - 2,00,000

The following further data is given: Cost of project 30,00,000 Capital employed in the new unit 40,00,000 What is the deduction admissible to the company under section 35D?

Solution

Illustration 17: Presume Assessee is Mr. X.

Section 35DDA Amortisation of expenditure incurred under Voluntary Retirement Scheme

If any employer has given voluntary retirement to the employees and has paid any Amount in connection with such voluntary retirement, such payment shall be allowed to assessee in 5 annual equal installments commencing from the year in which payment is made.

Illustration 18: XYZ Ltd. has given voluntary retirement to 100 employees and has paid 5,00,000 to each of the employee and total payment made is 500 lakhs . Show the Tax treatment of expenditure

Section 36 Other Deductions

The following expenses are allowed to be debited in the profit & Loss Account

1. Insurance Premium
 - a) Stock (including livestock)
 - b) Medical Insurance of EE (provided not paid in cash)
2. Bonus Or Commission Paid to the EEs [not payable as dividend], subject to section 43B.
Note: there is no restriction on the amount of the bonus, it may exceed the bonus payable under the Payment Of Bonus Act, 1965
3. Interest On Loan taken for business or profession. However, if a loan is taken from a scheduled bank or financial institution including NBFC, deduction is allowed subject to section 43B.
Note: loan taken for asset – Interest prior to the date the asset is put to use is capitalized and depreciation is allowed.

4. Discount on Zero coupon bonds is allowed on a pro-rata basis over the life of ZCB.

Example 14.

Zero Coupon Bonds issued @ 25/bond

Face Value = 100/Bond

No. of bonds = 1,00,000 bonds

It is redeemable after 20 years

Calculate deduction u/s 36.

5. ER contribution to

1. Statutory Provident Fund	Allowed subject to the provisions of Section 43B i.e. if paid upto RFD
2. Recognized Provident Fund	
3. Approved superannuation fund	
4. Approved gratuity fund	
5. Any other Approved Fund	

6. ER Contribution to NPS referred u/s 80CCD, lower of following shall be allowed as deduction:

- i) Amount contributed
- ii) 10% of RBS

However, in case of Default tax regime, lower of following shall be allowed as deduction :

- i) Amount contributed
- ii) 14% of RBS

7. EE contribution deducted by the ER from his salary will be allowed if ER Deposited the amount in the relevant account upto the due date in the relevant Act (i.e. 15th of Next Month)

Note: if the amount is deposited after the due date of the Fund, then such amount shall be considered as PGBP income of ER and never be allowed as deduction to ER.

8. Bad Debts

Bad debts written off from the books of accounts – allowed as a deduction

Note: Such debts have been taken into account for computing income of PY or any earlier PY.

Provision for bad debts is not allowed as a deduction.

Bad Debts recovered – Income of recovery year, whether or not business or profession is in existence.

Example 15.

During PY 2022-23, Bad debts claimed by assessee = 50,000

But A.O. allowed only 42,000 as an expense

During PY 2024-25, Assessee recovered 35,000

What shall be the business income ?

9. Family planning Expenditure is allowed to company assessee as follows

Revenue Expenditure	Full
Capital Expenditure	In 5 Installments

If Sufficient profit is not available then expenditure (R/C) shall be deducted to the extent of profit available.

10. STT/CTT paid is allowed as deduction if securities/commodities are held as stock in trade.

SECTION 37(1) GENERAL DEDUCTIONS

If any expenditure is not covered under section 30 to 36, then such expense shall be allowed under this section subject to following conditions:

- (a) Expenditure is of revenue nature
- (b) Expenditure is incurred for the purpose of business and profession.

Various expenditure which may be allowed under section 37(1) are as given below:

1. Expenditure in connection with advertisement. If the expenditure incurred is capital nature, depreciation is allowed.
2. Expenditure on travelling including the expenses of boarding and lodging in connection with business/profession.
3. Salary paid to the employees.
4. Expenditure in connection with entertainment of the employees or the customer
5. Expenditure in connection with opening ceremony (Mahurat) of the business/profession.
6. Expenditure on the occasion of various festivals like Diwali etc. for employees or customer
7. Interest on late payment of GST.
8. Expenditure in connection with legal proceedings.
9. Professional tax paid by a person carrying on business or profession.
10. Expenditure on the filing of return of income, filing of appeal or audit fee etc. is allowed.
11. Expenditure incurred on Keyman insurance policy
12. Any other expenditure which is revenue in nature and it is related to business or profession.

Following expenses are not allowed as deduction:

- a) CSR expenses incurred by company.
- b) Advertisement in any souvenir, brochure, tract, pamphlet or the like published by a political party.

- c) Penalty for breach of law.
Note: Penalty for breach of contract – Allowed as deduction.
- d) Interest on loan taken for payment of income tax
- e) Illegal expenses like, hafta, bribe etc.
- f) Expenditure incurred to settle proceedings related to legal contraventions as notified by the Central Government

Illustration 19: Determine admissibility of following expenditure

1. Expenditure incurred for repairing a property taken on lease for business.
2. Current repairs
3. Capital repairs
4. The Amount of rent includes an Amount 1,800 being rent of office premises, the premises belong to the proprietor.
5. Insurance of premises used for the purposes of the business.
6. The car was used both for business and personal purposes. 2/3rd is for the business purposes.
7. The property tax of 4,000 was in respect of her self - occupied house whose rental value is 18,000.
8. Health Insurance premium of employees.
9. Salary includes bonus paid Amounting to 1,80,000. However, bonus payable under the Payment of Bonus Act, 1965 works out to 1,20,000. Payment made by the Company was in pursuance of settlement approved by the Labour Court.
10. Purchased a building for 5,00,000, to be used exclusively as a family planning center for the employees.

Illustration 20: Show Tax Implication for the Following cases:

1. Purchased a new plant costing 3,00,000 on deferred payment (interest payable for the period subsequent to the installation Amounting to 1,00,000 has been capitalised along with the cost).
2. Interest on own capital.
3. Interest on overdraft facility.
4. Interest on loan taken for business.
5. Interest on loan before the asset is put to use.
6. Interest includes an Amount of 50,000 paid to the bank for loan taken for purchase of new machinery. It includes an interest of 4,000 till the asset is put to use.
7. The interest includes 10,000 paid on late payment of GST
8. X raised a loan from LIC of India on the security of his life insurance policy and used the same for the payment of expenses relating to repairs of machinery.

Illustration 21: How will you deal with the following in computing the business income?

1. Profit on transfer of Duty Entitlement Pass Book Scheme.
2. Profit on sale of securities
3. The Manager admitted that during the year purchases to the extent of 10 lakhs were not recorded in the books and also sales to the extent of 5 lakhs were kept out.

4. Gift from Father-in-law
5. Dividend on Shares of Indian company.
6. Profit from Business of dealing in equity shares.
7. Sales includes a sum of 6,000 representing the value of goods withdrawn by Mr. Rocky for his personal use. These goods were purchased at a cost of 4,000.
8. Loss by theft occurred as embezzlement by the employees.
9. Paid interest of 30,000 for shortfall in advance tax paid.
10. The Amount of interest on loan includes an Amount of 1,300 being interest on loan taken from wife of X. She gave this loan from her stridhan. The Amount of loan taken from wife was utilised for the payment of arrears of income tax.
11. Anticipated loss on forward contract for purchase of raw material as a result of fall in market price.
12. Provision of CGST and SGST.

Illustration 22: How will you deal with the following in computing the total income of the company

1. Donation in Temple.
2. Donation of ₹ 25,000 to a political party.
3. The donation includes 1 lakh to an approved Scientific Research Association.
4. Administrative charges include expenses in respect of donation of 1,000 to the trade association for the purpose of an advertisement in the souvenir published by it.
5. Opening stock overvalued by 2,00,000.
6. Closing stock undervalued by 50,000.
7. It was found, some stocks were omitted to be included in both the opening and closing stock, the values of which were—opening stock: 9,000; closing stock: 18,000.
8. Penalty levied by GST department for non-compliance of GST laws.
9. Miscellaneous Expenses include 30,000 paid towards penalty for non-fulfilment of delivery conditions of a contract of sale for reasons beyond control.
10. Purchases also include 10,000 paid by way of compensation to a supplier as the assessee was unable to take the delivery of goods due to lack of storage space and finances.
11. Rent, rates and taxes also include a penalty of 10,000 levied for non-payment of sales tax.
12. Penalty levied for non-fulfilment of listing laws

SECTION 38 EXPENDITURE WHICH ARE PARTLY IN BUSINESS USE AND PARTLY IN PERSONAL USE

If any person has any asset in business or profession as well as in personal use, expenditure is allowed only to the extent the asset is in the use of the business or profession

Expenses Not Allowed As Deduction

Payments on Which TDS Provisions Apply

Disallowance will be attracted if any of the following conditions are satisfied:

- a) TDS not Deducted upto last day of Relavant PY
- b) TDS Not deposited with govt. upto return filing date u/s 139(1).
Return filling due date as per section 139(1)

Audit	-	31/10/AY
No Audit	-	31/7/AY

Disallowance shall be:

Section	Payment To	Disallowance
40(a)(i)	Payment to any person O/S India or in India to Non-resident	100%
40(a)(ia)	Payment In India To Resident	30%

Disallowed amount shall be allowed in the year in which TDS is deposited with GOVT.

Note:

However no disallowance shall be attracted if payee has furnished the return of income taking into account such amount in total income and has paid tax on such amount.

Example 16.

Mr. X made payment outside India to Mr. John during 2024-25

Show TDS implication in the following cases :-

1. Commission = 5,00,000
Date of payment = 15/07/2024
TDS Deducted on 14/07/24
TDS deposited on 31/12/24
Return Filing Date = 31/10/25
2. Commission = 5,00,000
Date of payment = 15/03/2025
TDS Deducted on 31/03/25
TDS deposited on 31/12/25
Return Filing Date = 31/10/25
3. Commission = 5,00,000
Date of payment = 15/03/2025
TDS Deducted on 15/04/25
TDS deposited on 15/07/25
Return Filing Date = 31/07/25
4. Commission = 5,00,000
Date of payment = 15/03/2025
TDS Deducted on 15/03/25
TDS deposited 60% on 15/07/25 and 40% on 16/08/25
Return Filing Date = 31/07/25

Example 17.

Mr. X made following payments in India to Resident. Show TDS implications

- Rent paid to Ram 4,00,000 on 01/03/25
TDS deducted on 01/03/25
TDS deposited on 16/08/25
Return Filing date = 31/07/25
- Commission paid 5,00,000 on 15/03/25
TDS deducted on 15/03/25
TDS deposited 50% on 16/07/25 , 30% on 01/12/25 and 20% on 01/04/2026
Return Filing date = 31/07/25

Section 40(a)(iii)

Any sum which is chargeable under the head 'Salaries' if it is payable outside India or to a non-resident and if the tax has not been paid thereon nor deducted.

Section 40(a)(v)

Tax paid on perquisites on behalf of employees is not deductible- In case of an employee, deriving income in the nature of perquisites (other than monetary payments), the amount of tax on such income paid by his employer is exempt from tax in the hands of that employee. Correspondingly, such payment is not allowed as deduction from the income of the employer.

Illustration 23: Mr. Ram has paid 20 lakhs as interest outside India in the P.Y. 2024-25. Determine whether deduction is allowed or not in the following cases:

TDS Deduction date	TDS Deposit date	Analysis
3/1/2025	10/03/2025	
1/4/2025	10/04/2025	
31/1/2025	10/12/2025	

Illustration 24: Mr. Ram has paid 20 lakhs as interest to Mr. Shawn in India in the P.Y. 2024-25. Determine whether deduction is allowed or not in the following cases:

TDS Deduction date	TDS Deposit date	Analysis
3/1/2025	10/03/2025	
1/4/2025	10/04/2025	
31/1/2025	40% on 10/07/2025 50% on 10/10/2025 Balance on 10/04/2026	

SECTION 40(b) PAYMENT OF SALARY OR INTEREST TO THE PARTNERS

- Interest to the partner is allowed if mentioned in the partnership deed but maximum @ 12% p.a.
- Payment of salary, bonus, commission or any other remuneration is allowed to the

working partner subject to the following limits:

Book Profit(BP)	Max. Remuneration
Upto Rs. 6,00,000	90% of BP or Rs. 3 Lakh, whichever is higher
Beyond Rs. 6,00,000	60% of BP

Meaning Of BP

Particulars	Amount
Profit as per Income Tax	-
Add: Remuneration to Partner (if debited to P/L)	-
Less: Brought forward Depreciation (Unabsorbed Dep)	(-)
Book Profit	-

Note: Brought forward losses shall not be adjusted for calculation of Book Profit.

Example 18. Calculate income under head PGBP

Profit as per Income Tax before dr. following items	15,00,000
Depreciation u/s 32 PY 24-25	3,50,000
Int on capital to partners (15%)	1,80,000
B/F unabsorbed Depreciation	1,70,000
Brought Forward loss	75,000
Salary paid by firm to partners	9,00,000

Illustration 25: Calculate maximum salary deduction allowed to XYZ partnership firm in following cases:

(a) 6,00,000 (b) 2,90,000 (c) 1,10,000

Section 40A(2) Payment Made To Relatives

If A.O is of the opinion that having regard to FMV, payment is excessive or unreasonable, then such excessive or unreasonable payment shall be disallowed.

Meaning of Related Person

- For An individual** → An individual who is relative of the assessee.
Relative, in relation to an “individual”, means the spouse, brother or sister or any lineal ascendant or descendant of that individual [Section 2(41)].
- For A Company** → Director of the company or any relative of a director
- For A Firm** → Partner of the firm or relative of a partner
- For An AOP** → Member of the AOP or relative of a member
- For An HUF** → Member of the family or relative of such person

Section 40A(3) Payment by Non Specified Mode

- A Payment or Aggregate of Payments made to A Person in A Day for An Expenditure exceeds Rs. 10,000 (Rs. 35,000 to Transporter for Goods Carriages],
- Entire payment shall be disallowed
- If it is made through any mode other than A/C payee cheque/Draft or an Electronic clearing system through bank A/C, Debit/Credit Card, IMPS, NEFT, RTGS, Net Banking, UPI etc.

Rule 6DD (exception to S.40A(3)) no disallowance for following payments:

1. Payments made to Cultivator, Grower or Producer of agricultural produce & related products etc
2. Payment made to Government, Banks, RBI, LIC
3. Payment to person residing @ place which is not served by bank.
4. Where the payment is made by any person to his agent who is required to make payment in cash for goods or services on behalf of such person;
5. Payment to employee for retirement benefit not exceeding Rs.50,000.
6. Payment of salary to EE who is posted to any other place or ship (not a normal place of duty) for a period of 15 days or more.
7. Where the payment is made for the purchase of the products manufactured in a cottage industry without the aid of power., to the producer of such products.
8. Where the payment is made by transferring funds from one bank account to the other or payment is being made by any credit card/ a debit card/ letter of credit etc., payment is allowed.
9. Payment by book entry i.e. adjustment entry passed in books.

Note:

1. If Expenditure has been allowed as deduction in any earlier PY on accrual basis (if assessee is following accrual basis) & payment for such expenditure has been made in any subsequent PY exceeding Rs. 10,000/35,000 in cash to a person in a day, then such payment shall be deemed to be the income of PY in which payment is made [Section 40A(3A)]
2. Sec 40A(3) does not Apply for Repayment of Loans (Capital Expenditure). But it applies to interest payments since interest is a Revenue expenditure.

Illustration 26: Following cash payments are found debited in P & L A/c. Discuss tax implications

1. June 11, 2024 5,000 paid to Mr. Ram
2. June 11, 2024 9,000 paid to Mr. Shyam
3. June 11, 2024 19,000 paid to Mr. Ram
4. June 12, 2024 8,000 paid to Mr. Shyam

Illustration 27: Discuss Tax Implications

1. If PQR Ltd. has paid 65,000 in cash
2. Mr. Rocky has paid 11,000 by a bearer cheque
3. If PQR Ltd. has paid 10,050 by a crossed cheque
5. PQR Ltd. has paid 35,000 by an account payee cheque

6. Mr. Rocky pays a salary to his employee 15,000 by crossed cheque
7. PQR Ltd. has paid 32,000 in cash to a goods transport agency for transportation of goods
8. Mr. Rocky purchases goods worth 75,000 on 01.01.2025 and payment was made 60,000 on 03.01.2025 by account payee cheque and 8,000 in cash on 03.01.2025 and 7,000 in cash on 05.01.2025
9. Mr. Rocky purchases goods worth 8,000 and 5,000 against two bills from Mr. Shawn and makes the payment 13,000 in cash in a single day
10. Mr. Rocky purchases goods worth 15,000 from Mr. Shawn against one bill but makes payment of 7,500 and 7,500 at different times on the same date.

Section 40A(7) Deductibility in respect of provision for Gratuity Fund

If provision (contribution) is made towards approved gratuity fund, then such provision is allowed as per Section 36(1)(v) subject to section 43B. However If provision (contribution) is made towards unapproved gratuity fund, then such provision is disallowed under Section 40A(7).

Section 43B Certain Payments Allowed On Payment Basis

Following expenditures are allowed if paid on or before the due date mentioned u/s 139(1):

- a) Tax, Duty, Cess or Fee (by whatever name called) levied under any law.
- b) Employer's Contribution to any SPF, RPF, Approved Superannuation Fund, Approved Gratuity Fund, Notified Pension Scheme or any recognized fund
- c) Leave Salary, Bonus/Commission to employees.
- d) Interest on any Loan or borrowing from any Bank, Financial Institution including NBFC.
- e) Any Sum Payable to Indian Railways for the use of Railways Assets.

Note:

1. If the payment is made after due date of filing of return of income, expenditure is allowed in the year in which the assessee has made the payment.
2. If outstanding interest on any loan or borrowing or advance, is converted into a new loan or borrowing or advance, shall not be considered as paid and hence not eligible for deduction. However, deduction shall be allowed for installments actually paid in respect of new loan.
3. Similarly if outstanding interest is converted into debentures, such conversion is not to be considered as actual payment.

Amendment By FA 2023

Any sum payable by the assessee to micro and small enterprise beyond the time limit specified in section 15 of the MSME Development Act, 2006 would be allowed as deduction only in that previous year in which such sum is actually paid.

As per section 15 of the MSME Development Act, 2006, payment is to be made to the supplier as follows:

- (a) in case of written agreement- as per agreement subject to maximum 45 days from the date of acceptance of goods and service
- (b) in case of no written agreement- maximum 15 days.

Example 19. Following amounts are payable to MSME . Determine amount of deduction during PY 2024-25

Enterprise	Invoice date	Due date as per agreement	Date of Payment
Micro	15/01/25	15/03/25	25/01/25
Small	15/02/25	25/03/25	01/04/25
Micro	19/03/25	No agreement	10/04/25
Small	25/03/25	No agreement	01/04/25
Medium	20/03/25	No agreement	25/06/25

Illustration 28: Debit side of the profit and loss account of X Ltd. shows the following expenses, which have been due but are outstanding as on March 31, 2025:

1. Leave encashment expenses 65,000. First payment on June 1, 2025 15,000. Second payment on Dec. 25, 2025 50,000.
2. GST payable 14,000. First payment on June 10, 2024 3,000. Second payment on April 1, 2025 11,000.
3. GST payable 48,000. First payment on Sept. 5, 2025 48,000.
4. Bonus payable to employees 87,000. First payment on May 2, 2025 30,000. Second payment on September 30, 2025 57,000.
5. Interest payable to LIC on loan 75,000. First payment on May 13, 2025 50,000. Second payment on January 10, 2026 25,000.
6. Municipal tax payable 5,000. Not yet paid.
7. Interest on loan taken from Z Ltd 5,00,000. Paid on 7-11-2025. Due date of filing return of income is 31/10/2025.

Find out the previous years in which the aforesaid payment are deduction. The company maintains book of account on the basis of mercantile system of accounting

Section 44AA Compulsory Maintenance Of Books Of Accounts

1. Assessee engaged in Specified Professions

Gross receipts exceeds INR 1.5 Lakh in each of the last three PY	Gross receipts doesn't exceeds INR 1.5 Lakh in each of the last three PY
Prescribed Books as per Rule 6f	Necessary books to enable AO to assess the income.

Specified Profession

1. Legal profession
2. Medical profession
3. Engineering profession
4. Architectural profession
5. Profession of accountancy
6. Technical consultancy
7. Interior decoration
8. Authorised representatives
9. Film artists
10. Company Secretary
11. Information Technology

2. Assessee engaged in other Profession or Business

Required to maintain such books of a/c which will enable ao to compute their taxable income if any of the following conditions are satisfied in ANY ONE of the last 3 PY:

	Individual / HUF	Other Assessee
1. Income exceeds	INR 2.5 Lakh	INR 1.20 Lakh
2. Turnover or Gross Receipts exceeds	INR 25 Lakh	INR 10 Lakh

3. If a person fails to maintain books of account as required by section 44AA → penalty of Rs. 25,000 would be attracted u/s 271A.
4. Prescribe books as per Rule 6F
 - (i) a cash book;
 - (ii) a journal
 - (iii) a ledger;
 - (iv) Carbon copies of bills and receipts in relation to sums exceeding Rs. 25;
 - (v) Original bills and receipts of expenditure.
5. Preservation of the books of accounts The books of accounts are to be kept and maintained for the period of atleast 6 years from the end of the relevant assessment year.

Example 20. Mr. X Provides details of his turnover & Income of last 3 PY. Decide whether requirement of S.44AA is applicable or not ?

PY	Turnover	Income
23-24	24,00,000	2,50,000
22-23	25,00,000	2,40,000
21-22	19,00,000	2,10,000

Example 21. Suppose In above Q. if income of PY 23-24 = 2,60,000

Section 41 Deemed PGBP Income

1. Refund/Recovery of Deduction/Remission/Cessation of Trading Liability
Eg. Discount received while making payment to creditors; stock in trade is destroyed and allowed as trading loss and subsequently insurance claim is received.
2. Recovery of Bad Debt Allowed as deduction

3. Sale of Scientific Research Asset
4. Balancing Charge (In case of assessee engaged in Power Generation)

Section 44AB Compulsory Audit Of Books Of Accounts

Assessee Engaged In	Audit Requirement
Business	Turnover exceeds 1 Crore Proviso to Section 44AB(a) Inserted : NO AUDIT Upto 10 Crore Turnover if : <ol style="list-style-type: none"> a) If Turnover of assessee is more than 1 crore but upto 10 crore b) Aggregate of all Amounts received in cash is not more than 5% of total Receipts during the PY, and c) Aggregate of all Amounts paid in cash is not more than 5 % of total payments during the year.
Profession	Gross Receipts exceeds 50 Lakh
Persons covered under S. 44AD, 44ADA,44AE	If such person claims that his income is LOWER than Income computed on Presumptive basis & his Income Exceeds Basic exemption limit.

Penalty for failure to get books of account audited u/s 271B:

- a) 0.5% of Total Sales, Turnover Or Gross Receipts
- b) Rs. 1,50,000

Analysis

Turnover	Total Receipts	Cash Receipts	Total Payments	Cash Payments	Audit Requirement
85,00,000	90,00,000	45,00,000	70,00,000	55,00,000	
1,50,00,000	1,20,00,000	3,60,000	1,00,00,000	4,00,000	
5,00,00,000	4,50,00,000	31,50,000	4,00,00,000	20,00,000	
8,00,00,000	7,50,00,000	30,00,000	7,00,00,000	56,00,000	
10,00,00,000	9,00,00,000	45,00,000	8,00,00,000	32,00,000	
10,00,00,000	9,00,00,000	46,00,000	8,00,00,000	40,00,000	
11,00,00,000	10,00,00,000	50,00,000	9,00,00,000	45,00,000	

Presumptive Taxation

Section 44AD PROFITS AND GAINS OF BUSINESS ON PRESUMPTIVE BASIS

1. **Eligible Assessee:** Resident Individual/ HUF / Firm except LLP
2. Section 44AD is applicable only to business and not to specified profession and also it is not applicable for the persons having earning as commission or brokerage or Agency

Business.

3. Turnover of eligible assessee doesn't Exceed 2 crore
(3 crore, if aggregate cash receipts in relevant P.Y. is upto 5% of T.O. or G.R.)
4. **Presumptive Income = 8% of Turnover or Gross Receipts.** No further deduction is allowed under section 30 to 38.
Rate of 6% shall be applied instead of 8% if the Amount of total turnover or gross receipts which is received through specified mode upto RFD as per section 139(1).
5. Brought forward business loss is allowed to be adjusted from such income but brought forward depreciation is not allowed to be adjusted from such income.
6. If Assessee opts Section 44AD, then assessee shall be exempt from maintaining books of accounts as well as from audit requirement.
7. Such assessee shall be required to pay advance tax to the extent of 100% of tax liability on or before 15th March of the relevant previous year
8. If an assessee has opted for presumptive income under section 44AD and in the subsequent 5 years he has rejected presumptive income, in that case he will not be allowed to opt for presumptive income for next 5 year If assessee has rejected the presumptive income, he will be required to maintain any books of accounts and also audit is required.

Example 22. Calculate Income under head PGBP if

(a) S.44AD opted

(b) S.44AD not opted

- Turnover = 1,90,00,000 (80% received through specified mode)
- Expenses = 1,72,00,000
- B/F unabsorbed depreciation = 1,50,000
- B/F loss = 72,000

Illustration 29: Mr. X is engaged in a business with turnover 170,00,000 (all payments received by account payee cheque, bank draft or through electronic clearing) and expenses incurred in connection with earning of income are 160,00,000. He has LTCG 5,00,000. He has donated 4,00,000 to Rajiv Gandhi Foundation by cheque. He has brought forward loss of business 1,00,000 of previous year 2019-20. Compute his Income and Tax Liability for previous year 2024-25, in two situations–

- (i) He has opted for section 44AD.
- (ii) He has not opted for section 44AD.

Illustration 30: Mr. X engaged in Retails Trade, reports a turnover of 58,50,000 (all payments received in account payee cheque) for the financial year 2024-25. His income from the said business as per books of account is computed at 2,90,000. Retail trade is the only source of income for Mr. X.

- (i) Is Mr. X eligible to opt for presumptive determination of his income chargeable to tax for the Assessment Year 2025-26?
- (ii) Is so, determine his income from retail trade as per the applicable presumptive provision.
- (iii) In case, Mr. X has not opted for presumptive taxation of income from retail trade, what are his obligations under the Income-tax Act, 1961?
- (iv) What is the 'due date' for filing his return of income, under both the options?

SECTION 44ADA PRESUMPTIVE SCHEME FOR SPECIFIED PROFESSION

1. **Eligible Assessee:** Resident Individual or Partnership excluding LLP having specified profession
2. Section 44ADA shall be available if G.R. of PY is upto Rs. 50 Lakhs (75 akhs if aggregate cash receipts in relevant P.Y. \leq 5% of total gross receipts)
3. **Presumptive Income** = 50% of Gross Receipts. No further deduction is allowed under section 30 to 38.
4. Brought forward business loss is allowed to be adjusted from such income but brought forward depreciation is not allowed to be adjusted from such income.
5. If Assessee opts Section 44ADA, then assessee shall be exempt from maintaining books of accounts as well as from audit requirement.
6. Such assessee shall be required to pay advance tax to the extent of 100% of tax liability on or before 15th March of the relevant previous year.
7. Assessee can change the option on a year-to-year basis.

Section 44AE BUSINESS OF PLYING, HIRING OR LEASING GOODS

1. If any person is engaged in the business of plying, hiring or leasing goods carriages, he will have the option to compute PGBP on presumptive basis:
 - a) Heavy goods Vehicle (Gross Weight > 12,000 Kgs or 12 Tons) \rightarrow Rs. 1,000 per ton per month or part thereof.
 - b) Other vehicle: Rs. 7,500 per month or part thereof.

Note: income is calculated on the basis of ownership of vehicle. It is irrelevant whether assessee actually runs the vehicle or not.
2. Assessee should not own more than 10 vehicles at anytime during the year.
3. No further deduction is allowed under section 30 to 38 but in case of a firm interest and salary to partners is allowed as per section 40(b).
4. The assessee shall be exempt from maintaining books of accounts or audit.
5. The assessee has the option to reject presumptive income but in that case assessee should maintain any books of accounts and also audit is required.

6. An assessee, who is in possession of a goods carriage, whether taken on hire purchase or on instalments, shall be deemed to be the owner of such goods carriage.
7. Assessee can change the option on year-to-year basis.
8. Brought forward depreciation shall not be allowed to be adjusted but brought forward business loss shall be allowed to be adjusted.

Example 23. Mr. X own 7 Trucks during PY 24-25. Details of which are as follows.

Trucks	Gross Weight	Owned for
2	14 MT	7 Month + 10 days
3	10 MT	9 Month + 5 days
2	9 MT	11 Month + 20 days

Illustration 31: Mr. X retired from Govt. service in March 2024. He got 20,00,000 on account of retirement benefits. Out of the aforesaid sum, he purchased on 23rd April 2024 a few motor vehicles and got their delivery on that date. The particulars of the vehicles are given below–

Vehicle	Number	Cost of the vehicle
Heavy goods Vehicle (15 ton)	2	9,00,000
Medium goods Vehicle (8 ton)	4	4,50,000
Light commercial Vehicle (4 ton)	3	3,20,000

He started plying the vehicles from 04.06.2024. On an average every vehicle remains off the road for about a week for repairs and maintenance. He maintains a rough record of the receipts and outgoings which is given below–

Receipts	3,70,000
Less: Expenses (Excluding depreciation and salaries to Mr. Y)	(60,000)
Profit	3,10,000

You are required to compute the Total Income of Mr. X from the business of goods carriage for the previous year 2024-25.

Illustration 32: An assessee owns a heavy commercial vehicle having gross vehicle weight of 15 ton each for 9 months 15 days, a medium goods vehicle having gross vehicle weight of 8 ton for 9 months and a light goods vehicle having gross vehicle weight of 5 ton for 12 months during the previous year. Compute his income applying the provisions of section 44AE

Illustration 33: Mr. Chauhan is having a trading business and his Trading and Profit & Loss Account for the financial year 2024-25 is as under:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	1,50,000	By Sales	2,70,00,000
To Purchase	2,49,00,000	By Closing stock	1,00,000
To Gross profit	20,50,000		
Total	2,71,00,000	Total	2,71,00,000
Salary to employees (Including Contribution to PF)	5,00,000	By Gross Profit b/d	20,50,000
Donation to Prime Minister Relief Fund	1,00,000		
Provision for bad debts	50,000		
Bonus to employees	50,000		
Interest on bank loan	50,000		
Family planning expenditure incurred on employees	20,000		
Depreciation	30,000		
Income-tax	1,00,000		
To Net profit	11,50,000		
Total	20,50,000	Total	20,50,000

Other information:

- a) He incurred expenditure on furniture & fixtures of ₹ 35,000, which is paid in cash on 25.7.2024 to M/s Décor World.
 - b) Depreciation allowable ₹ 40,000 [excluding depreciation on furniture & fixtures refer in (i) above] as per Income-tax Rules, 1962.
 - c) No deduction of tax at source on payment of interest on bank loan has been made.
 - d) Out of salary, ₹ 25,000 pertains to his contributions to recognized provident fund which was deposited after the due date of filing return of income. Further, employees contribution of ₹ 25,000 was also deposited after the due date of filing return of income.
- Compute business income of Mr. Chauhan for the Assessment Year 2025-26.

Illustration 34: You are required to compute the business income of Mr. Anoop, a resident individual aged 55 years, for the Assessment Year 2024-25 from the following information shown in his Profit and Loss Account for the year ended 31st March 2024:

- (i) The net profit was ₹ 8,40,000.
- (ii) Depreciation debited in the books of account was ₹ 1,05,000.
- (iii) The following incomes were credited in the Profit & Loss Account :
 - (a) Interest on notified government securities ₹ 32,000

- (b) Dividend from a foreign company ` 28,000.
- (c) Gold chain worth ` 78,000 received as gift from his mother.
- (iv) Interest on loan amounting to ` 82,000 was paid in respect of capital of ` 8,20,000 borrowed for the purchase of new plant & machinery which has been put to use on 12th April, 2023.
- (v) General expenses included:
 - (a) An expenditure of ` 18,500 which was paid by a bearer cheque.
 - (b) Compensation of ` 4,500 paid to an employee while terminating his services in business unit.
- (vi) Depreciation allowable as per Income-tax Act, 1961 was ` 1,16,000 [without considering depreciation on new plant & machinery referred to in (iv) above].

PGBP

Solution 01

Computation of Depreciation (Block 15%)

Particulars	Amount
Opening WDV as on 01/04/23	5,00,000
(+) Purchase and Put to use	NIL
(+) Purchase but not Put to Use	50,000
(-) Sold / Discarded	NIL
Closing WDV	5,50,000
Depreciation for PY 2023-24 $(550000-50000) \times 15\%$	75,000
Opening WDV as on 01/04/24	4,75,000
(+) Purchase and Put to use	
Q 1,00,000	
R 2,00,000	
S 1,50,000	4,50,000
(-) Sold / Discarded	NIL
Closing WDV	9,25,000
Depreciation for PY 2024-25 $(925000 \times 15\%)$	1,38,750
Opening WDV as on 01/04/25	7,86,250

Solution 02

a) Sale Value is 4,00,000

Computation of Depreciation (Block 15%) for PY 2024-25

Particulars	Amount
Opening WDV (including Machine P)	5,00,000
(+) Purchase and Put to use during PY 2024-25	
1. Put to use ≥ 180 days : Q 1,00,000	
2. Put to use < 180 days : R 2,00,000	
S 1,50,000	4,50,000
(-) Sold / Discarded	(4,00,000)
Closing WDV	5,50,000
Depreciation	
Half Rate = $3,50,000 \times 7.5\%$	26,250
Full Rate = $2,00,000 \times 15\%$	30,000
Total Depreciation	56,250

b) Sale Value is 7,00,000

Computation of Depreciation (Block 15%) for PY 2024-25

Particulars	Amount
Opening WDV (including Machine P)	5,00,000
(+) Purchase and Put to use during PY 2024-25	
1. Put to use ≥ 180 days : Q 1,00,000	

2. Put to use < 180 days : R 2,00,000 S 1,50,000	4,50,000
(-) Sold / Discarded	(7,00,000)
Closing WDV	2,50,000
Depreciation Half Rate = $2,50,000 \times 7.5\%$	18,750
Total Depreciation	18,750

Solution 03

a) Z is sold for 4,00,000

Computation of Depreciation (Block 15%)

Particulars	Amount
Opening WDV (X/Y)	6,00,000
(+) Purchase and Put to Use < 180 days (Z)	3,00,000
(-) Sold / Discarded (Z)	(4,00,000)
Closing WDV (X/Y)	5,00,000
Depreciation ($500000 \times 15\%$)	75,000

As asset Z does not exist on last day of PY, therefore No half rate of depreciation shall be applicable

b) X is sold for 4,00,000

Computation of Depreciation (Block 15%)

Particulars	Amount
Opening WDV (X/Y)	6,00,000
(+) Purchase and Put to Use < 180 days (Z)	3,00,000
(-) Sold / Discarded (X)	(4,00,000)
Closing WDV (Y/Z)	5,00,000
Depreciation :-	
Half rate (Z) ($300000 \times 7.5\%$)	22,500
Full rate (remaining block) ($2,00,000 \times 15\%$)	30,000
Total depreciation	52,500

c) X and Y sold for 4,00,000

Computation of Depreciation (Block 15%)

Particulars	Amount
Opening WDV (X/Y)	6,00,000
(+) Purchase and Put to Use < 180 days (Z)	3,00,000
(-) Sold / Discarded (X/Y)	(4,00,000)
Closing WDV (Z)	5,00,000
Depreciation :-	
Half rate (Z) ($300000 \times 7.5\%$)	22,500
Full rate (remaining block) ($2,00,000 \times 15\%$)	30,000
Total depreciation	52,500

Solution 04**a) Sale value is 12,00,000**

Under head PGBP :- as all assets of the block have been sold , Block ceases to exist and therefore, No depreciation shall be allowed

Under head Capital Gain :-

$$\begin{aligned} \text{STCG u/s 50} &= \text{Sale value} - \text{Block value} \\ &= 12,00,000 - (8,00,000 + 3,00,000) \\ &= 12,00,000 - 11,00,000 \\ &= 1,00,000 \text{ /-} \end{aligned}$$

b) Sale value is 9,00,000

Under head PGBP :- No depreciation shall be allowed as closing WDV of block will become NIL when part of block is sold but sale value exceeds block value

Under head Capital Gain :-

$$\begin{aligned} \text{STCG u/s 50} &= \text{Sale value} - \text{Block value} \\ &= 9,00,000 - (8,00,000 + 3,00,000) \\ &= 9,00,000 - 11,00,000 \\ &= (2,00,000) \end{aligned}$$

Solution 05**Computation of Depreciation (Block 15%)**

Particulars	Amount
Opening WDV as on 01/04/2024 (A/B/C)	3,18,000
(+) Purchase and Put to use for 180 days or more	-
(+) Purchase and Put to Use for less than 180 days (D)	60,000
(+) Purchase but not put to use	-
(-) Sold / Discarded (B/C)	(5,00,000)
Closing WDV as on 31/03/2025	NIL

Under head PGBP :- No depreciation shall be allowed as closing WDV of block will become NIL when part of block is sold but sale value exceeds block value

Under head Capital Gain :-

$$\begin{aligned} \text{STCG u/s 50} &= \text{Sale value} - \text{Block value} \\ &= 5,00,000 - (3,18,000 + 60,000) \\ &= 5,00,000 - 3,78,000 \\ &= 1,22,000 \text{ /-} \end{aligned}$$

if Machinery B and machinery C are sold on 15.3.2025 for consideration of 80,000 and 40,000 respectively :-

Computation of Depreciation (Block 15%)

Particulars	Amount
Opening WDV as on 01/04/2024 (A/B/C)	3,18,000
(+) Purchase and put to use for 180 days or more	-
(+) Purchase and Put to Use for less than 180 days (D)	60,000
(+) Purchase but not put to use	-
(-) Sold / Discarded (B/C)	(1,20,000)
Closing WDV as on 31/03/2025	2,58,000
Depreciation : Half Rate (60,000 x 7.5%)	4,500
Full Rate (1,98,000 x 15%)	29,700
Total Depreciation	34,200

Solution 06

Furniture – 10%

Particulars	Amount
Opening WDV	-
Add: Purchase & Put To Use For 180 days or more	2,00,000
Add: Purchase & Put To Use For less than 180 days	-
Add: Purchase but not Put To Use	-
Less: Asset Sold & Discarded	-
Closing WDV (A/D)	2,00,000
Depreciation (2,00,000 x 10%)	20,000

Plant & Machinery – 15%

Particulars	Amount
Opening WDV	-
Add: Purchase & Put To Use For 180 days or more	
AC – office	1,00,000
Car	8,00,000
Plant A	50,00,000
Add: Purchase & Put To Use For less than 180 days	
Plant B	20,00,000
Less: Asset Sold & Discarded	Nil
Closing WDV (A/D)	79,00,000
Normal Depreciation	
Half Rate 20,00,000 x 7.5%	1,50,000
Full Rate 59,00,000 x 15%	8,85,000
Additional Depreciation	
Half Rate 20,00,000 x 10%	2,00,000
Full Rate 50,00,000 x 20%	10,00,000

Total Depreciation	22,35,000
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Plant & Machinery – 15%

Particulars	Amount
Opening WDV	-
Add: Purchase & Put To Use For 180 days or more	
Plant C	80,000
Computer – Office	1,00,000
Computer – Factory	1,50,000
Add: Purchase & Put To Use For Less than 180 days	-
Less: Sold/Discarded	-
Closing WDV	3,30,000
Normal Depreciation	
Full Rate 3,30,000 x 40%	1,32,000
Additional Depreciation	
Full Rate 2,30,000 x 20%	46,000
Total depreciation	1,78,000

Solution 07

Particulars	Amount	Amount
Income u/h Salary		3,00,000
Income u/h House Property	60,000	
Less: Depreciation	22,000	38,000
PGBP		
Profit Before Depreciation	72,000	
Less: Depreciation	72,000	Nil
Income u/h Other sources		6,000
GTI		3,44,000
Less: Deductions		-
Total Income		3,44,000

Solution 08

- a. Since sale value (i.e. 3,50,000) is less than book value (i.e. 4,50,000)
Therefore, Terminal Depreciation shall be allowed as expense in P/L
- $$\begin{aligned} \text{Terminal Depreciation} &= \text{Book Value} - \text{Sale Value} \\ &= 4,50,000 - 3,50,000 \\ &= 1,00,000 \end{aligned}$$
- b. Since sale value (i.e. 4,80,000) is less than actual cost (i.e. 5,00,000)
Therefore, Balancing charge shall be shown as income in P/L
- $$\begin{aligned} \text{Balancing Charge} &= \text{Sale Value} - \text{Book Value} \\ &= 4,80,000 - 4,50,000 \\ &= 30,000 \end{aligned}$$
- c. Since sale value (i.e. 6,00,000) exceeds actual cost (i.e. 5,00,000)

Therefore, Capital Gain shall be computed

$$\begin{aligned} \text{STCG} &= \text{Sale Value} - \text{Cost of Acquisition} \\ &= 6,00,000 - 5,00,000 \\ &= 1,00,000 \end{aligned}$$

$$\begin{aligned} \text{Balancing charge} &= \text{Actual cost} - \text{Book Value} \\ &= 5,00,000 - 4,50,000 \\ &= 50,000 \end{aligned}$$

Solution 09

a) Asset is sold after being put to use in business.

Particulars	Amount
Profit Before Depreciation	40,00,000
Less: Depreciation	4,50,000
PGBP	35,50,000

Calculation of Depreciation

Particulars	Amount
Opening WDV	60,00,000
Add: Asset Put To Use (Scientific Research Asset)	Nil
Less: Sale / Discarded (Scientific Research Asset)	30,00,000
Closing WDV	30,00,000
Depreciation 30,00,000 x 15%	4,50,000

b) Asset is sold without being put to use in business

Particulars	Amount	Amount
PGBP		
Profit Before Depreciation	40,00,000	
Sale Of Scientific Research Asset	30,00,000	
Less: Depreciation	9,00,000	61,00,000
Income u/h Capital Gains		
Sale Value	33,00,000	
Less: Cost of Acquisition	30,00,000	3,00,000
GTI		64,00,000

Calculation of Depreciation

Particulars	Amount
Opening WDV	60,00,000
Add: Asset Put To Use	Nil
Less: Sale / Discarded	Nil
Closing WDV	60,00,000
Depreciation 60,00,000 x 15%	9,00,000

Solution 10

Calculation Of Deduction Available u/s 35

Particulars	Amount
Payments made to K Research Ltd	20,00,000
Payment made to LMN College	15,00,000
Payment made to OPQ College (Disallowed as it is not approved college)	-
Payment made to National Laboratory	8,00,000
Machinery for in-house research	25,00,000
Salary to research staff for in-house research	12,00,000
Total Deduction u/s 35	80,00,000

Solution 11

Calculation Of Deduction Available u/s 35

Particulars	Amount
Expenses Incurred 3 Years before the commencement Of Business	
Land (Deduction not allowed u/s 35)	-
Plant & Machinery	5,00,000
Raw Material	2,20,000
Expenses Incurred During PY 2024-25	
Raw Material & Salaries	1,80,000
Total Deduction u/s 35	9,00,000

Sale of Scientific Research Asset

As the sale value of S/R asset exceeds Actual Cost, there shall be both Business income as well as Capital Gains. Period of holding of Asset is less than 36 month, there shall be STCG.

Business Income for PY 2024-25 = Actual cost i.e. 5,00,000

STCG = Sale Value – COA
 = 8,00,000 – 5,00,000
 = 3,00,000

Solution 12

Calculation Of Deduction Available u/s 35

Particulars	Amount
Amount paid to Indian Institute of Science, Bangalore	1,00,000
Amount paid to IIT, Delhi	2,50,000
Amount paid to X Ltd., (Indian Company) which has as its main object scientific research	4,00,000
In-House Research	

1. Revenue Expenditure	3,00,000
2. Capital Expenditure Excluding Land	2,50,000
Total Deduction u/s 35	13,00,000

Solution 13**Computation of income under head PGBP**

Particulars		Amount
Profits from operating warehouse facility		40,00,000
Less : Deduction u/s 35AD		
1.	Machinery purchased on 31.07.2024 (10,00,000)	
2.	Machinery purchased on 31.10.2024 (6,00,000)	
3.	Building purchased on 31.08.2024 (4,00,000)	
4.	Building constructed on 31.05.2024 (19,00,000)	(39,00,000)
Income under head PGBP		1,00,000

Solution 14

Expenditure incurred prior to commencement of business (cost of building) :-

1. Food Grains = 80,00,000 – 50,00,000 = 30,00,000
2. Sugar = 60,00,000 – 40,00,000 = 20,00,000
3. Edible Oil = 50,00,000 – 30,00,000 = 20,00,000

Expenditure incurred on construction of building during the PY 2024-25 = 10,00,000 + 20,00,000 + 12,00,000 = 42,00,000

Computation of income under head PGBP

Particulars	Specified u/s 35AD		Normal Business
	Food Grains	Sugar	Edible Oil
Profit before deduction u/s 35AD/u/s 32	16,00,000	14,00,000	31,00,000
Less : Deduction u/s 35AD			
Prior to commencement of business	(30,00,000)	(20,00,000)	-
During the year	(10,00,000)	(20,00,000)	-
Less : Deduction u/s 32 (20L + 12L)×10%	-	-	(3,20,000)
Income under head PGBP	(24,00,000)	(26,00,000)	27,80,000

Specified business loss = 24,00,000 + 26,00,000 = 50,00,000 shall be C/F
Income under head PGBP shall be 27,80,000

Solution 15

During PY 2024-25, Building of Unit A transferred to Unit B , then there shall be Business income under head PGBP

Business income = Deduction allowed u/s 35AD – Notional Depreciation

Particulars	Amount
Deduction allowed u/s 35AD	50,00,000
Less : Notional Depreciation for PY 2022-23 @10%	(5,00,000)
	45,00,000
Less : Notional Depreciation for PY 2023-24 @10%	(4,50,000)
Income under head PGBP (Business Income)	40,50,000

Solution 16**Computation of Eligible preliminary expenditure**

Particulars	Amount
Preparation of project report	4,00,000
Market survey	5,00,000
Legal and other charges	2,00,000
	11,00,000

Calculation of deduction admissible to the company under section 35D

Particulars	Amount
5% of cost of project	1,50,000
5% of capital employed	2,00,000
Higher	2,00,000
Eligible Preliminary Expenditure	11,00,000
Lower	2,00,000
	/ 5
Deduction u/s 35	40,000

Solution 17**Computation of Eligible preliminary expenditure**

Particulars	Amount
Preparation of project report	4,00,000
Market survey	5,00,000
Legal and other charges	2,00,000
	11,00,000

Calculation of deduction admissible to the company under section 35D

Particulars	Amount
5% of cost of project	1,50,000
Eligible Preliminary Expenditure	11,00,000
Lower	1,50,000
	/ 5
Deduction u/s 35	30,000

Solution 18

In case of Voluntarily Retirement Scheme , deduction is allowed in 5 equal installments commencing from year in which scheme is given
in this case expenditure is allowed in 5 annual equal installments of 100 Lakh Each.

Solution 19

1. Since, Repair is of current nature . Therefore, Expenditure shall be allowed
2. Current repairs is allowed as deduction
3. Only depreciation is allowed in case of capital repairs
4. Notional rent shall not allowed as expenditure
5. Insurance of premises used for business purpose shall be allowed as deduction
6. $\frac{2}{3}$ rd portion of expenditure towards Car shall be allowed as expenditure
7. Property tax of 4,000 in respect of self occupied house shall be disallowed under PGBP
8. Health insurance premium of employees shall be allowed provided payment is made through any mode other than cash
9. Whole amount of Bonus (i.e. 1,80,000) shall be allowed as expenditure . Amount prescribed in payment of bonus act shall be irrelevant
10. Purchase of building is capital expenditure and it shall be allowed in 5 equal installments of 1,00,000 each.

Solution 20

1. Interest of 1,00,000 shall be debited to P/L instead of capitalization as it has been accrued subsequent to the installation
2. Interest on own capital shall be disallowed
3. Interest on overdraft facility shall be allowed
4. Interest on loan taken for business shall be allowed
5. Interest on loan before the asset is put to use shall be capitalized in cost of asset and assessee can claim depreciation on it
6. Interest on loan before the machine is put to use (i.e. 4,000) shall be capitalized in cost of asset and assessee can claim depreciation on it whereas balance 46,000 shall be debited to P/L
7. Interest on late payment of GST shall be allowed as expense
8. Repairs of Machinery is business expense and hence allowed as expenditure

Solution 21

1. Profit on transfer of duty entitlement pass book shall be treated as business income and credited to P/L
2. If securities are held as stock in trade , then profit on sale of securities shall be treated as business income and credited to P/L
However, If securities are held as Investments , then profit on sale of securities shall be treated as Capital Gain

3. Purchase of 10,00,000 shall be debited to P/L and sales of 5,00,000 shall be credited to P/L
4. Gift from relative is exempt
5. Dividend on shares is not a business income
6. Profit from business of dealing in equity shares is business income and shall be credited to P/L
7. Amount of drawings wrongly treated as sales (i.e. 6,000) shall be debited to P/L and actual cost of purchase (i.e. 4,000) shall be credited to P/L
8. Loss by theft occurred as embezzlement of employees shall be debited to P/L as it is a business loss
9. Interest paid on shortfall in advance tax shall be disallowed
10. Loan taken for the purpose of payment of income tax shall be disallowed
11. Anticipated loss is not allowed as deduction
12. Provision is not an actual expense and hence, no deduction is allowed

Solution22

- a) No deduction is allowed for donation in temple under head PGBP
- b) No deduction is allowed for donation to Political Party under head PGBP
- c) Donation towards approved scientific research association shall be allowed as deduction only in case of old regime
- d) Donations to the trade association for the purpose of advertisement in the souvenir published by it shall be allowed as expenditure
- e) Overvaluation of opening stock shall be credited to P/L
- f) Undervaluation of closing stock shall be credited to P/L
- g) Amount of opening stock (i.e. 9000) shall be debited to P/L whereas amount of closing stock (i.e. 18,000) shall be credited to P/L
- h) Penalty towards infringement of law shall be disallowed
- i) Penalty for non-fulfillment of delivery conditions shall be allowed as deduction
- j) Amount of compensation paid to supplier shall be allowed as deduction
- k) Penalty towards infringement of law shall be disallowed
- l) Penalty towards infringement of law shall be disallowed

Solution23

- a) Since, TDS deducted and deposited on time
Therefore , 20,00,000 shall be allowed as deduction during PY 2024-25
- b) Since , TDS is not deducted on time (i.e. Up to 31/03/25) but deposited up to return filing date (i.e. 31/07/25)
Therefore, 100% of such payment shall be disallowed for PY 24-25 as payment is made outside India and shall be allowed during PY 25-26
- c) Since , TDS is deducted on time (i.e. Up to 31/03/25) but not deposited up to return filing date (i.e. 31/07/25)
Therefore, 100% of such payment shall be disallowed for PY 24-25 as payment is made outside India and shall be allowed during PY 25-26

Solution24

1. Since, TDS deducted and deposited on time
Therefore , 20,00,000 shall be allowed as deduction during PY 2024-25
2. Since, TDS is late deducted
Therefore , 30% of 20,00,000 = 6,00,000 shall be disallowed in PY 24-25 and shall be allowed in PY 25-26 i.e. year in which it is deposited

PY 24-25 = 14,00,000 expenses shall be allowed

PY 25-26 = 6,00,000 expenses shall be allowed

3. Out of 20,00,000 , TDS of 40% payment is timely deducted and deposited.
Therefore , 40% of 20,00,000 i.e. 8,00,000 shall be allowed during PY 2024-25
Out of 20,00,000 , TDS of 60% Payment is late deposited i.e. after return filing date
Therefore , 30% of such payment shall be disallowed during PY 2024-25
i.e. $20,00,000 \times 60\% = 12,00,000$
 $12,00,000 \times 70\% = 8,40,000$ shall be allowed during PY 24-25
 $12,00,000 \times 30\% = 3,60,000$ shall be disallowed

Solution25

As per S.40B , Payment of salary to working partner shall be allowed as deduction to firm subjected to the following limits :-

- a. First 6,00,000 of book profits : 90% of book profit or 3,00,000 whichever is higher
- b. On balance amount of book profits : 60% of book profit

1) 6,00,000

First 6,00,000 = 90% of 6L = 5,40,000 or 3,00,000 whichever is higher = 5,40,000
Thus, Maximum salary allowed as deduction = 5,40,000

2) 2,90,000

90% of 2,90,000 = 2,61,000 or 3,00,000 whichever is higher = 3,00,000
Thus, Maximum salary allowed as deduction = 3,00,000

3) 1,10,000

90% of 1,10,000 = 99,000 or 3,00,000 whichever is higher = 3,00,000
Thus, Maximum salary allowed as deduction = 3,00,000

Solution26

- i. Cash payment of 5,000 made to Mr. Ram on 11 June shall be allowed as expenditure as the aggregate amount does not exceeds prescribed limit of 10,000
- ii. Cash payment of 9,000 made to Mr. Shyam on 11 June shall be allowed as expenditure as the aggregate amount does not exceeds prescribed limit of 10,000
- iii. Cash payment of 19,000 made to Mr. Ram on 11 June shall not be allowed as expenditure as the aggregate amount exceeds prescribed limit of 10,000
- iv. Cash payment of 8,000 made to Mr. Shyam on 12 June shall be allowed as expenditure as the aggregate amount does not exceeds prescribed limit of 10,000

Solution 27

- a) Cash payment of 65,000 shall not be allowed as expenditure as the aggregate amount exceeds prescribed limit of 10,000
- b) payment of 11,000 made by bearer cheque shall not be allowed as expenditure as the aggregate amount exceeds prescribed limit of 10,000
- c) payment of 10,500 made by crossed cheque shall not be allowed as expenditure as the aggregate amount exceeds prescribed limit of 10,000
- d) payment of 35,000 made by A/c payee cheque shall be allowed as expenditure as payment is made by specified mode
- e) payment of salary 15,000 made by crossed cheque shall not be allowed as expenditure as the aggregate amount exceeds prescribed limit of 10,000
- f) payment of 32,000 in cash to Goods transportation agency shall be allowed as expenditure as the aggregate amount exceeds prescribed limit of 35,000
- g) whole payment of 75,000 shall be allowed as expenditure as 60,000 is paid through A/c payee cheque (Specified Mode) and cash payment of 8,000 and 7,000 is made on different dates being within the prescribed limit of 10,000
- h) Cash payment of 13,000 shall be allowed as expenditure as the payment is made towards two different bills (8,000 and 5,000 respectively)
- i) Cash payment of 15,000 shall not be allowed as expenditure as the aggregate amount exceeds prescribed limit of 10,000

Solution 28

1. Since , only 15,000 is paid up to return filing date . Therefore 15,000 shall be allowed during PY 24-25 and rest shall be disallowed
2. Since whole amount of GST is paid before return filing date (i.e. 31/10/25) .Therefore whole amount shall be allowed as expense in PY 24-25
3. Since whole amount of GST is paid before return filing date (i.e. 31/10/25) .Therefore whole amount shall be allowed as expense in PY 24-25
4. Since whole amount of Bonus is paid to employees before return filing date (i.e. 31/10/25) .Therefore whole amount shall be allowed as expense in PY 24-25
5. First payment made on 13th May 2025 shall be allowed as expense in PY 24-25 Whereas Second payment made on 10th Jan 2026 shall be allowed in the year of payment (i.e. during PY 2025-26)
6. Municipal taxes is still outstanding as on 31/03/24.
As per S.43B if it is paid on or before return filing date (i.e. 31/10/25) , then it shall be allowed as expense during PY 24-25 . Otherwise , it shall be allowed as expenditure in the year of actual payment
7. Z Ltd. Is not a Financial Institution . Therefore, Section 43B shall not applicable.
Therefore , Interest on loan from Z Ltd. Shall be allowed on due basis (i.e. in PY 2024-25)

Solution 29**a) If S.44AD Opted****Computation of Total Income**

Particulars	Amount
PGBP	
Turnover x 6% i.e. 1,70,00,000x6% = 10,20,000	
(-) B/F loss (1,00,000)	9,20,000
Capital Gain (LTCCG)	5,00,000
GTI/Total Income	14,20,000

b) If S.44AD not Opted**Computation of Total Income**

Particulars	Amount
PGBP	
Revenue 1,70,00,000	
(-) Expenses (1,60,00,000)	
(-) B/F loss (1,00,000)	9,00,000
Capital Gain (LTCCG)	5,00,000
GTI/Total Income	14,00,000

Solution 30

- a) Yes, Mr. X is eligible to opt for presumptive determination of his income as per S.44AD as his total turnover (i.e. 58,50,000) from retail trade is within the prescribed limit of 200 lakhs
- b) Income of Mr. X from retail trade = 58,50,000 x 6% = 3,51,000
- c) Obligations of Mr. X if he has not opted for presumptive taxation of income:-
1. Compulsory maintenance of detailed books of accounts as per S.44AA
 2. Audit of books of accounts as per S.44AB
 3. Deposit of advance tax as per normal provisions of the act
- d) Since, Mr. X turnover does not exceeds 1cr, He is not required to get its books of Accounts audited. Therefore, due date for filing return of his income under both options shall be 31/07/25

Solution 31**Computation of Total Income of Mr. X**

Particulars	Amount
Heave Goods Vehicle = 2 x (1000 x 15 Tons) x 12	3,60,000
Medium Goods Vehicle = 4 x 7500 p.m. x 12	3,60,000
Light commercial Vehicle = 3 x 7500 p.m. x 12	2,70,000
	9,90,000

Solution 32

Computation of Total Income

Particulars	Amount
Heavy Goods Vehicle = (1000 x 15 Tons) x 10 months	1,50,000
Medium Goods Vehicle = 7500 p.m. x 9 months	67,500
Light commercial Vehicle = 7500 p.m. x 12 months	90,000
	3,07,500

Solution 33

Computation of Business Income of Mr. Chauhan for the A.Y. 2025-26

Particulars	₹	₹
Net profit as per Profit and Loss Account		11,50,000
Add: Expenses not deductible		
1. Donation to Prime Minister Relief Fund (Refer Note 1)	1,00,000	
2. Provision for bad debts (Refer Note 2)	50,000	
3. Family planning expenditure incurred on employees (Refer Note 3)	20,000	
4. Depreciation as per Profit and Loss Account	30,000	
5. Income-tax (Refer Note 4)	1,00,000	
6. Employer's contribution to recognized provident fund (Refer Note 5)	25,000	3,25,000
		14,75,000
Less: Expense allowed		
Depreciation as per Income-tax Rules, 1962 (Refer Note 6)	40,000	
		14,35,000
Add: Employee's contribution included in income as per Section 2(24)(x) (Refer Note 7)		25,000
Business Income		14,60,000

Notes :

1. Donation to Prime Minister Relief Fund is not allowed as deduction from the business income, since it is not incurred wholly and exclusively for business. It is allowed as deduction under section 80G from the gross total income.
2. Provisions for bad debts is allowable as deduction under section 36(1)(vii) (subject to the limits specified therein) only in case of banks, public financial institutions, State Financial Corporation and State Industrial Investment Corporation. Therefore, it is not allowable as deduction in the case of Mr. Chauhan.
3. Expenditure on family planning is allowed as deduction under section 36(1)(ix) only to a company assessee. Therefore, such expenditure is not allowable as deduction in the hands of Mr. Chauhan.
4. Income-tax paid is not allowable as deduction as per the provisions of section 40(a)(ii).
5. Since Mr. Chauhan's contribution (Employer's Contribution) to recognized provident fund is deposited after the due date of filing return of income, the same is disallowed as per provisions of section 43B, in computing business income of A.Y. 2018-19.

6. As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds ₹ 10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on furniture & fixtures would not be allowed, since payment exceeding ₹ 10,000 (₹ 35,000 in this case) is made in cash. Therefore, no adjustment is required to be made in the amount of depreciation computed as per Income-tax Rules, 1962, since such amount does not include depreciation on furniture & fixtures.
7. Employee's contribution is includible in the income of the employer by virtue of Section 2(24)(x). The deduction for the same is not provided for as it was deposited after the due date under the Provident Fund Act.
8. TDS provisions under section 194A are not attracted in respect of payment of interest on bank loan. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

Solution 34

Computation of total income of Mr. Anoop for the Assessment Year 2024-25

Particulars	₹	₹
Net profit as per profit and loss account		8,40,000
Less: Income credited to profit and loss account but not taxable under this head		
1. Interest on notified government securities	32,000	
2. Dividend from foreign company	28,000	
3. Gift of gold chain received from his mother	78,000	1,38,000
		7,02,000
Add: Depreciation debited in the books of account	1,05,000	
Add: Expenses debited to profit and loss account but not allowable as deduction		
1. Interest on capital borrowed for purchase of plant & machinery	82,000	
2. Expenditure in excess of ₹ 10,000 paid by bearer cheque to be disallowed as per section 40A(3)	18,500	
3. Compensation paid to an employee on termination of his services in the business unit is allowable on the grounds of commercial expediency. Hence, no disallowance is attracted	Nil	1,00,500
		9,07,500
Less: Depreciation allowable under the Income-tax Act, 1961 [Depreciation on new plant & machinery would not be allowed, since it was not put to use during the previous year 2023-24]	1,16,000	
		7,91,500
Income from Other Sources		
1. Interest on notified Government Securities, exempt	Nil	

	under section 10(15)		
2.	Dividend from foreign company [(not exempt under section 10(34)]	28,000	
3.	Gift of gold chain received from his mother is not taxable, since mother is a relative [clause (I) of proviso to section 56(2)(x)]	Nil	28,000
	Gross Total Income		8,19,500
	Less: Deductions under Chapter VI-A Under section 80C-80U	Nil	
	Total Income		8,19,500
	Tax on First 5,00,000 @slab rate	12,500	
	Tax on Balance 3,19,500@20%	63,900	
			76,400
	Add : Health and Education cess @4%	3056	
	Tax Liability (Rounded off)		79,460