



CHAPTER 6

PROFITS AND GAINS OF BUSINESS OR PROFESSION

Income Chargeable under the head

- ◆ Profits and gains of any business or profession
- ◆ Any compensation or other payment due to or received by a person, at or in connection with termination or the modification of the terms and conditions, of any contract relating to his business
- ◆ Income derived by a trade, professional or similar association from specific services performed for its members
- ◆ In the case of an assessee carrying on export business, the following incentives –
 - Profit on sale of import entitlements
 - Cash assistance against exports under any scheme of GoI
 - Customs duty or excise duty re-paid or repayable as drawback
 - Profit on transfer of Duty Entitlement Pass Book Scheme or Duty Free Replenishment Certificate
- ◆ The value of any benefit or perquisite arising from business or the exercise of profession, whether
 - convertible into money or not or
 - in cash or in kind or partly in cash and partly in kind
- ◆ Any interest, salary, bonus, commission or remuneration due to, or received by, a partner of a firm from such firm (to the extent allowed as deduction in the hands of the firm)
However, the partner's share in the Total Income of the firm or LLP is exempt from tax [Section 10(2A)]
- ◆ Any sum, received or receivable, in cash or kind under an agreement for –
 - not carrying out any activity in relation to any business or profession or
 - not sharing any know-how, patent, copyright, trademark, licence, franchise or any other business or commercial right of similar nature or information or technique likely to assist in the manufacture or processing of goods or provision of services



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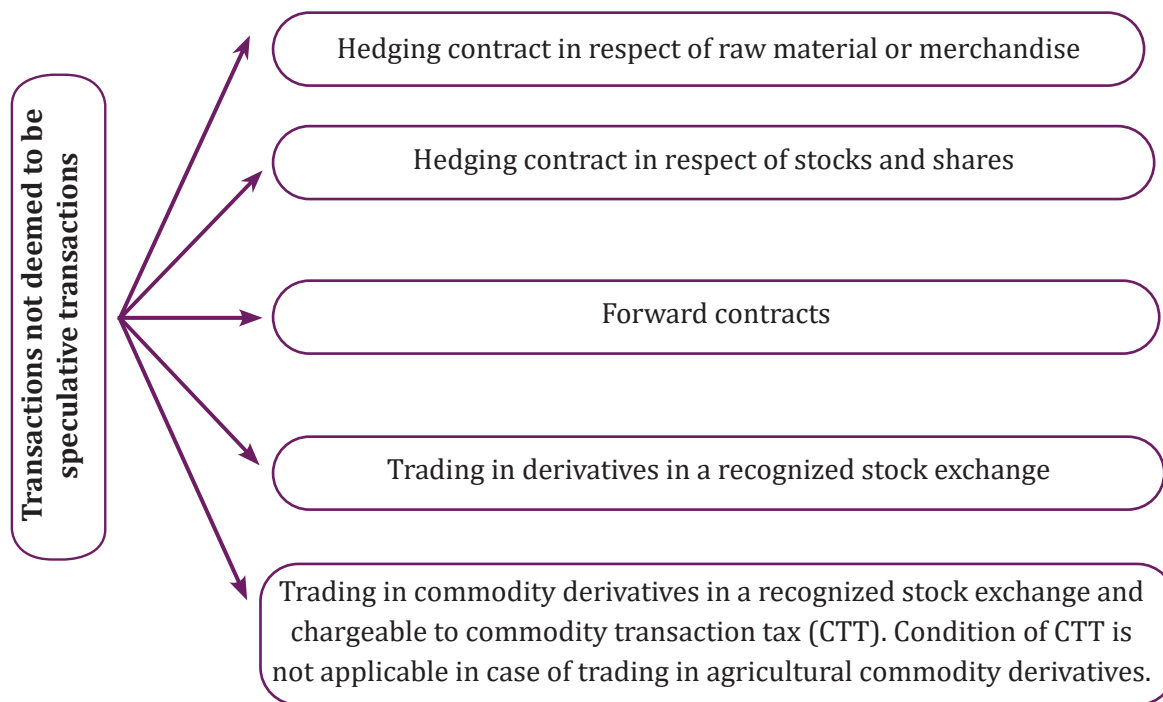
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- ◆ Any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy
- ◆ Fair Market Value (FMV) of inventory as on date on which it is converted into or treated as a capital asset
- ◆ Any sum, whether received or receivable, in cash or kind, on account of any capital asset (other than land or goodwill or financial instrument) being demolished, destroyed, discarded or transferred, in respect of which the whole of the expenditure had been allowed as deduction u/s 35AD

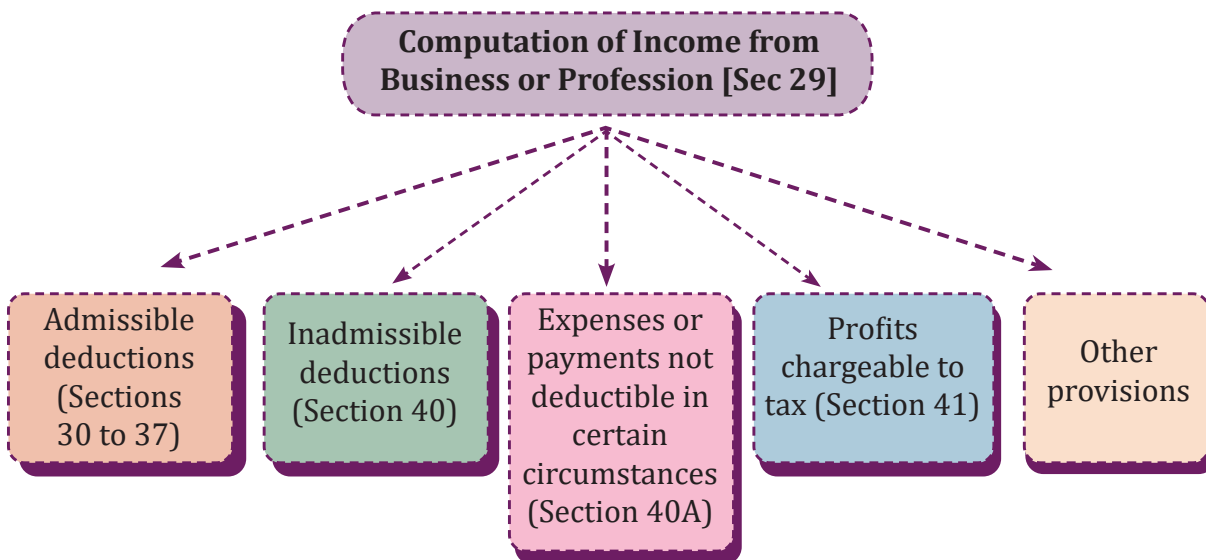
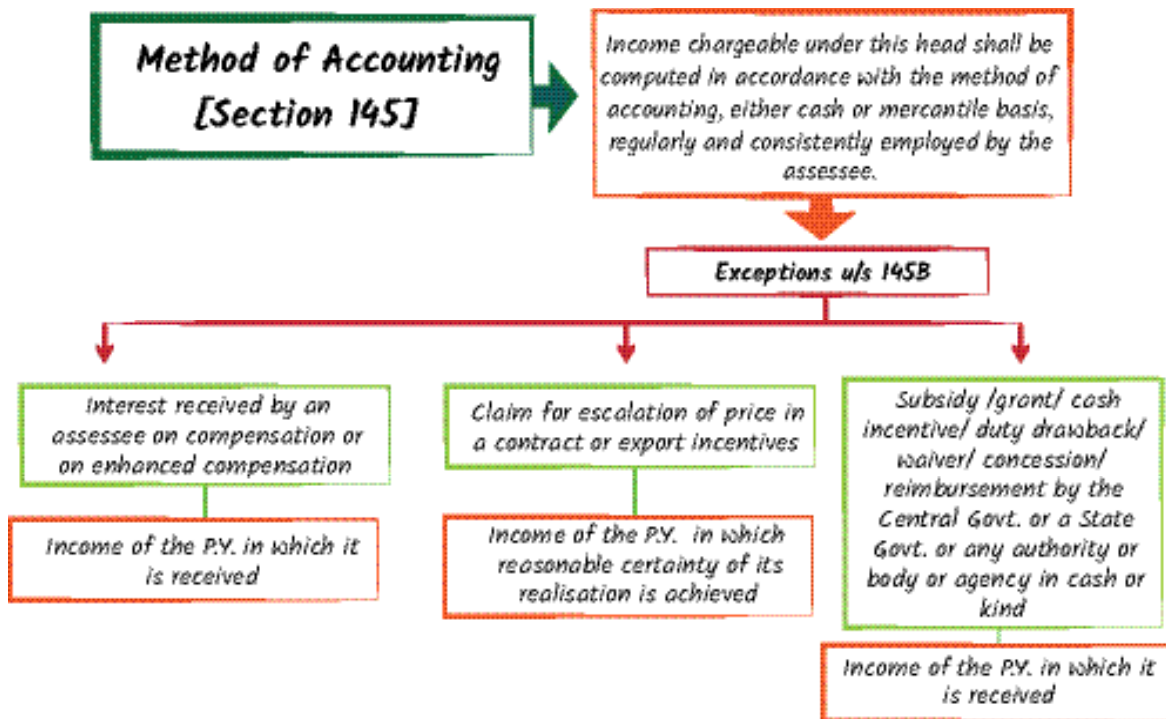
Any income from letting out of a residential house or a part of the house by the owner shall not be chargeable under the head “Profits and gains of business or profession” and shall be chargeable under the head “Income from house property”.

SPECULATIVE TRANSACTION

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

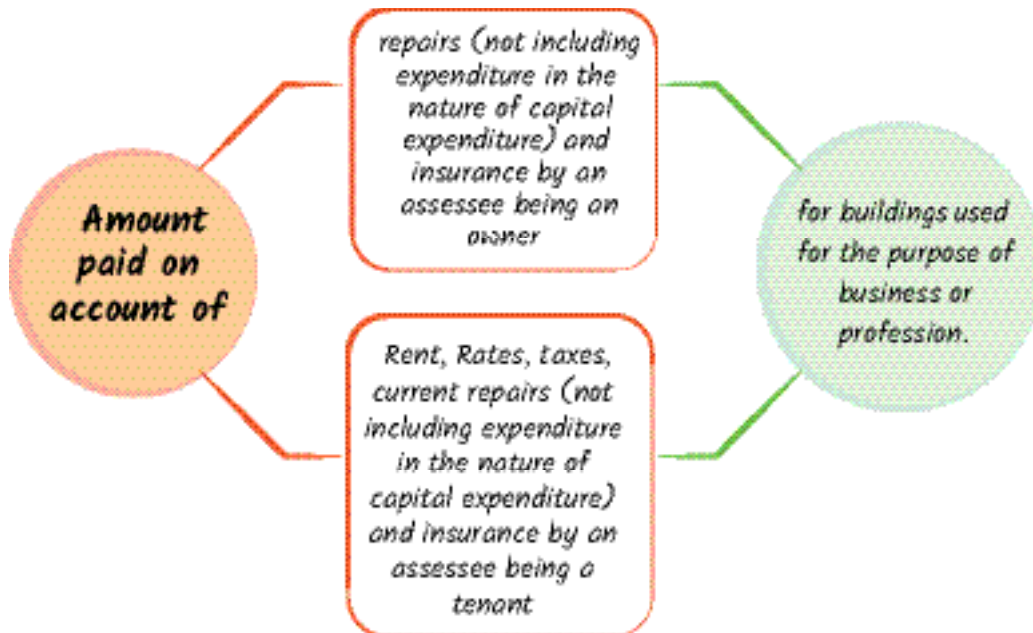


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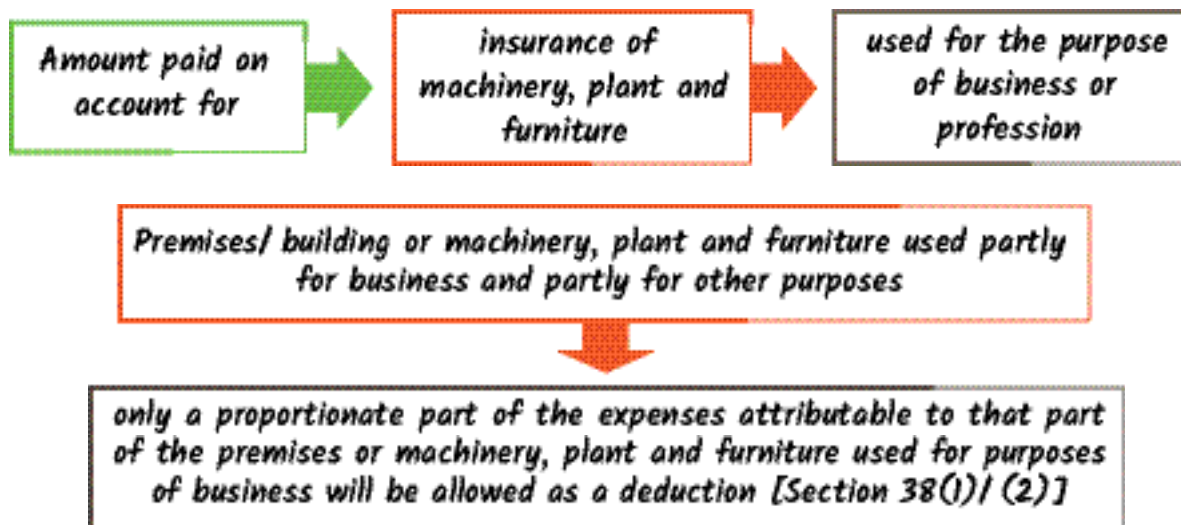




RENT, RATES, TAXES, REPAIRS AND INSURANCE FOR BUILDING USED FOR THE PURPOSE OF BUSINESS OR PROFESSION [SECTION 30]



REPAIRS AND INSURANCE OF MACHINERY, PLANT AND FURNITURE [SECTION 31]





DEPRECIATION [SECTION 32]

Depreciation is mandatorily allowable as deduction

Asset must be used for the purpose of business or profession at any time during the P.Y.

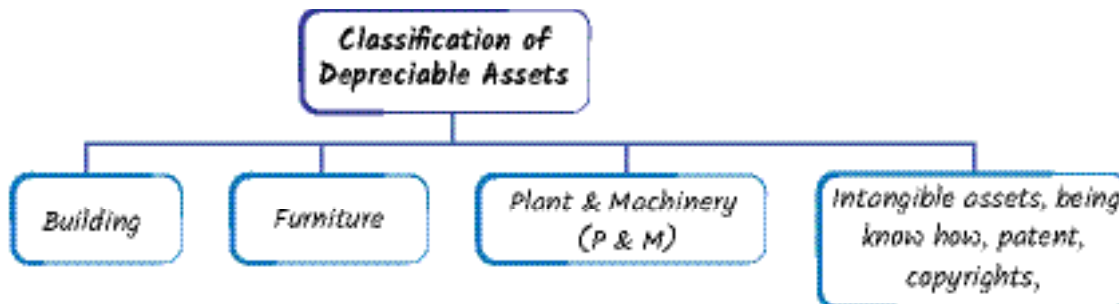
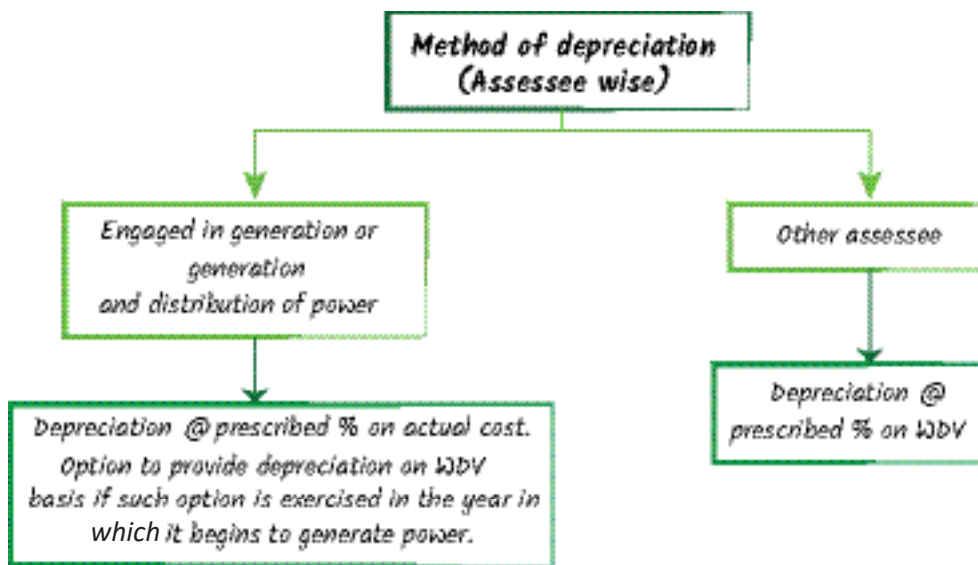
The asset should be owned (wholly or partly) by the assessee.

Note: If the asset is acquired during the P.Y. and is put to use for less than 180 days during that P.Y. then, only 50% of the depreciation calculated at the rates prescribed will be allowed.

Capital expenditure incurred by the lessee/tenant on the building

would be treated as deemed building owned by the lessee/tenant

and depreciation would be allowed to the lessee/tenant on that capital expenditure





Additional Depreciation u/s 32(1)(ia)

Where new P & M acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation, transmission or distribution of power

Additional Depreciation @20% of actual cost of P & M shall be allowed

If P & M is acquired and put to use for **less than 180 days during the P.Y.** in which it is acquired, additional depreciation will get restricted to **10% of actual cost** (i.e., 50% of 20%)

The balance additional depreciation@10% of actual cost will be allowed in the immediately succeeding P.Y.

Additional depreciation will not be allowed on the following plant or machinery:

- Ships, aircraft, road transport vehicles, office appliances;
- Machinery previously used within or outside India by any other person;
- Machinery installed in any office premises, residential accommodation, or guest house;
- Machinery in respect of which, the whole of the actual cost is fully allowed as deduction (whether by way of depreciation or otherwise) of any one previous year.

Assessee engaged in the business of printing and publishing, eligible for additional depreciation



Additional depreciation is not allowed to power generation undertakings claiming depreciation as a % of actual cost



WRITTEN DOWN VALUE OF ASSETS (WDV) [SECTION 43(6)]

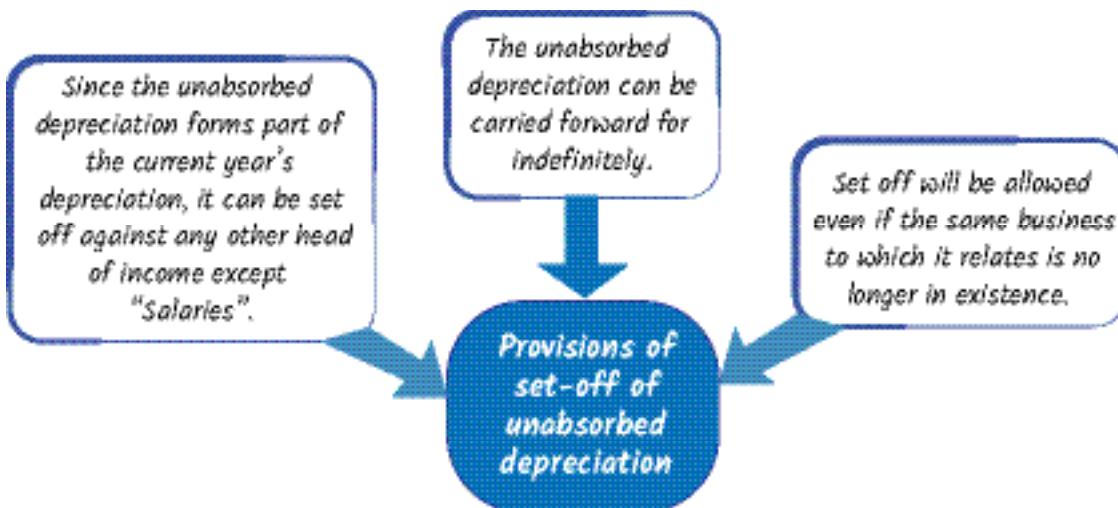
(1) W.D.V. of the block of assets in immediately preceding previous year	XXX
(2) Less: Depreciation actually allowed in respect of that block of assets in said preceding previous year	XXX
Opening balance as on 1st April of the current P.Y.	XXX
Add:	
(3) Actual cost of assets acquired during the P.Y., not being on a/c of acquisition of goodwill of a business or profession	XXX
(4) Total (1) - (2) + (3)	XXX
Less:	
(5) Money receivable in respect of any asset falling within the block which is sold, discarded, demolished or destroyed during that P.Y. together with scrap value.	XXX
(6) In case of slump sale, actual cost of the asset (-) amount of depreciation that would have been allowable to the assessee	XXX
(7) W.D.V at the end of the year (on which depreciation is allowable) [(4) - (5) - (6)]	XXX
(8) Depreciation at the prescribed rate (Rate of Depreciation × WDV arrived at in (7) above)	XXX

Additional points

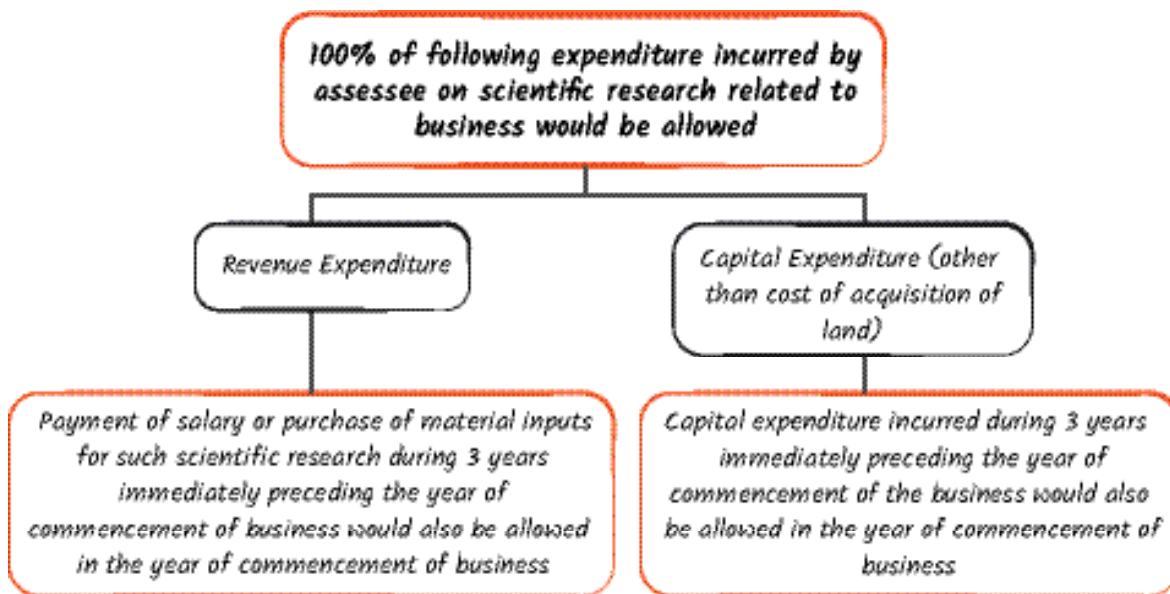
- If the assets are used partly for business and partly for other purposes, only a proportionate part of the depreciation will be allowed as a deduction.
- If the asset is acquired during the P.Y. and is not put to use in the same year, no depreciation would be allowed in that year but asset would be added to the block of asset.
- In case of lease, depreciation would be allowable to the lessor only.
- EPABX & Mobile phone are not computers, hence not eligible for 40% rate of depreciation while computer accessories such as UPS, printers, scanners, etc. are eligible for 40% rate.

ORDER OF SET-OFF

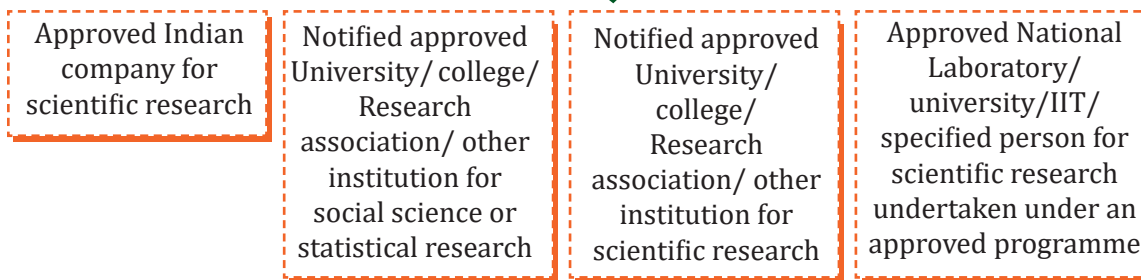




EXPENDITURE ON SCIENTIFIC RESEARCH [SECTION 35]



100% of following contributions to outsiders would be allowed as deduction





100% of expenditure incurred
(other than expenditure on
land & building)



by a company engaged
in business of Bio-technology or
in any business of manufacture
or production of any article, not
being article or thing specified in
the list of the Eleventh Schedule
on an approved in-house
research and development
facility, would be allowed as
deduction u/s 35(2AB)

DEDUCTION IN RESPECT OF THE SPECIFIED BUSINESSES [SECTION 35AD]

If Capital expenditure (other than
expenditure on acquisition of any
land, goodwill or financial instrument)
incurred during the previous year

If Capital expenditure (other than
expenditure on acquisition of any
land, goodwill or financial instrument)
incurred prior to commencement of
operation

100% of the expenditure would be
allowed as deduction from the business
income, if he has opted for the provisions
of section 35AD

100% of the expenditure would be
allowed as deduction from the business
income during the P.Y. in which the
assessee commences operation of his
specified business.
Condition: Deduction is allowed
if the amount incurred prior to
commencement has been capitalized
in the books of account of the assessee
on the date of commencement of its
operations.

LIST OF SPECIFIED BUSINESS

S. No.	Business	Commenced operations
1	Laying and 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 1.4.2007
2	Setting-up and operating warehousing facilities for storing agricultural produce	on or after 1.4.2009
3	Setting-up and operating 'cold chain' facilities for specified products	



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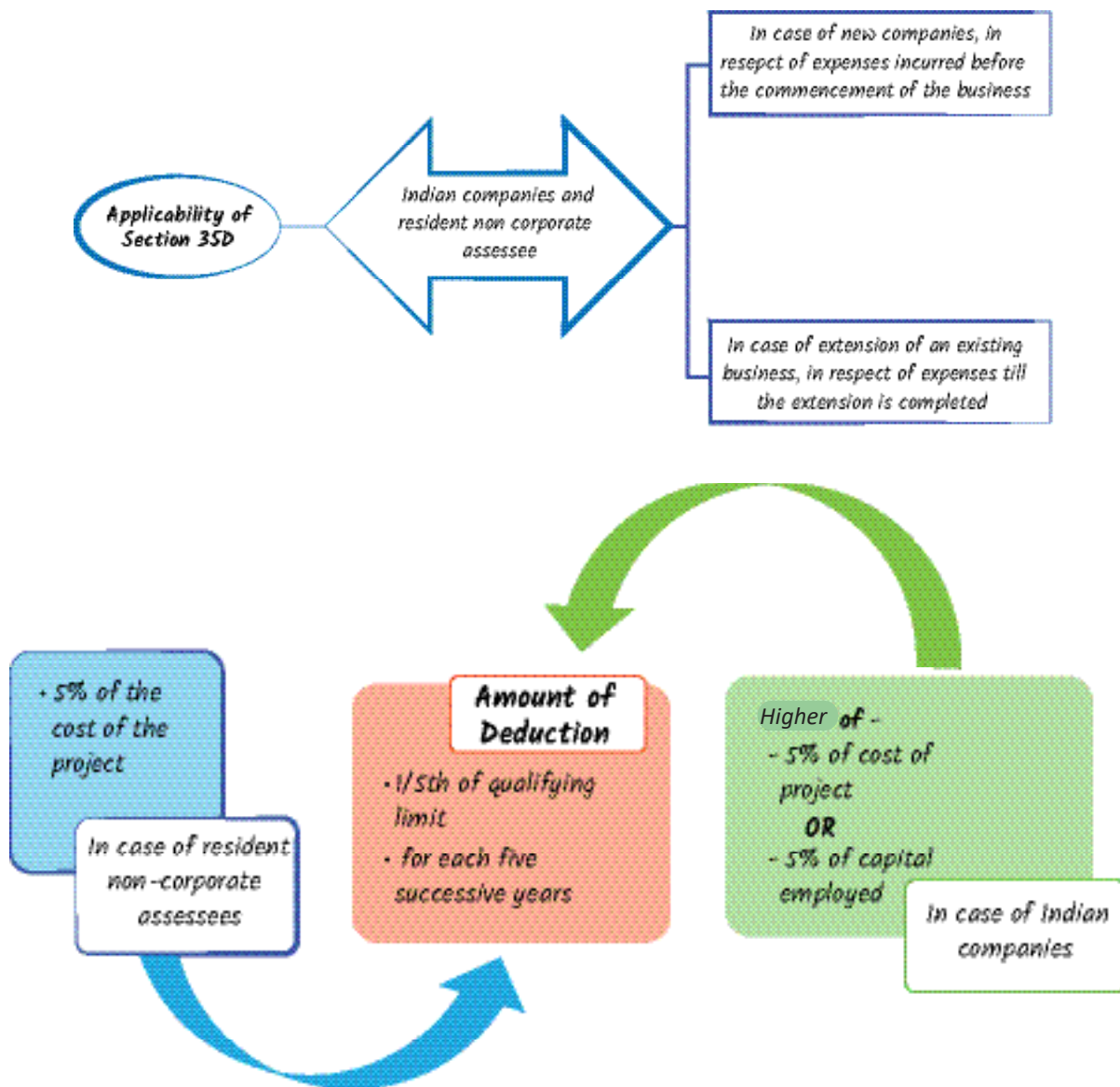
4	Building and operating a hotel of two star or above category, anywhere in India	on or after 1.4.2010
5	Building and operating a hospital, anywhere in India, with at least 100 beds for patients	
6	Developing and building a housing project under a notified scheme for slum redevelopment or rehabilitation framed by the Central Government or a State Government	
7	Developing and building a housing project under a notified scheme for affordable housing framed by the Central Government or State Government	on or after 1.4.2010
8	Production of fertilizer in a new plant or in a newly installed capacity in an 1.4.2011 existing plant in India	
9	Setting up and operating an inland container depot or a container freight station notified or approved under the Customs Act, 1962	on or after 1.4.2012
10	Bee-keeping and production of honey and beeswax	
11	Setting up and operating a warehousing facility for storage of sugar	
12	Laying and operating a slurry pipeline for transportation of iron-ore	on or after 1.4.2014
13	Setting up and operating a semiconductor wafer fabrication manufacturing unit, if such unit is notified by the Board in accordance with the prescribed guidelines	
14	Developing or maintaining and operating or developing, maintaining and operating a new infrastructure facility	on or after 1.4.2017
Other conditions for claiming deduction u/s 35AD	Payment exceeding ₹ 10,000 to be made through a/c payee cheque, a/c payee bank draft, use of ECS or through prescribed electronic modes to qualify for deduction u/s 35AD	
	No deduction u/s 10AA or Chapter VI-A is allowed in respect of an expenditure for which deduction is claimed u/s 35AD.	
	Asset to be used only for specified business for 8 years. If such asset is used for any other purpose, deduction claimed and allowed u/s 35AD in respect of such asset less depreciation allowable under section 32, would be deemed to be the business income of the assessee of the P.Y. in which the asset is so used.	



AMORTISATION OF PRELIMINARY EXPENSES [SECTION 35D]

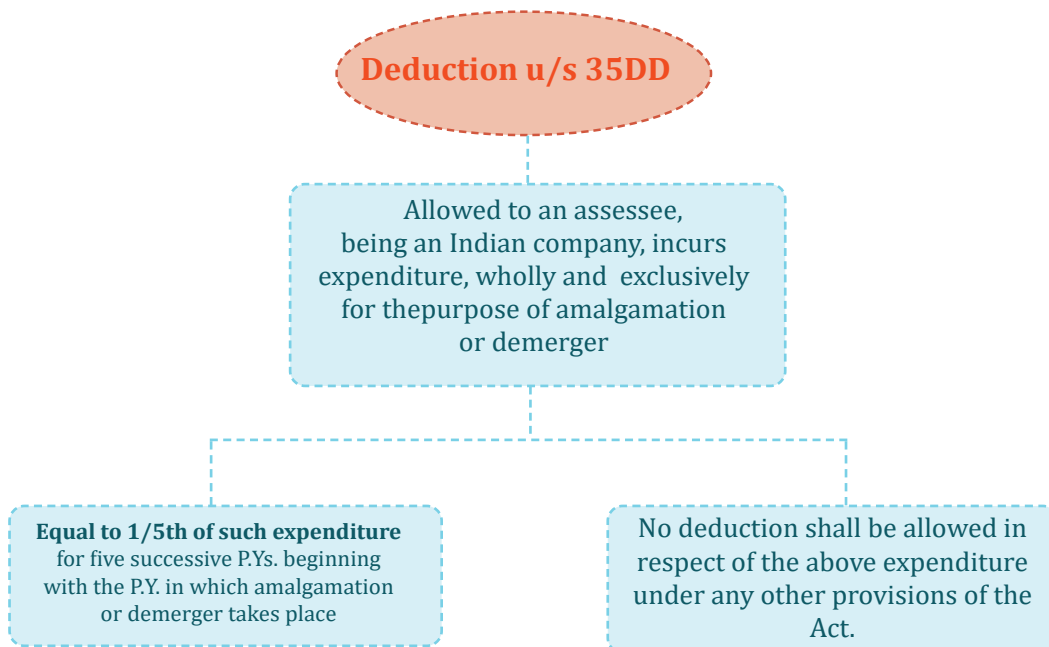
Examples of Preliminary expenses – Expenses on preparation of project report, feasibility report, market survey, engineering services, legal charges for drafting agreement.

In case of a Company, preliminary expenses would include, in addition to the above, legal charges for drafting Memorandum of Association (MOA), Articles of Association (AOA), printing of MOA and AOA, fee for registration of Co., expenditure in connection with issue of shares or debentures of Co. (i.e. underwriting commission, brokerage and charges for drafting, typing, printing and advertisement of the prospectus)

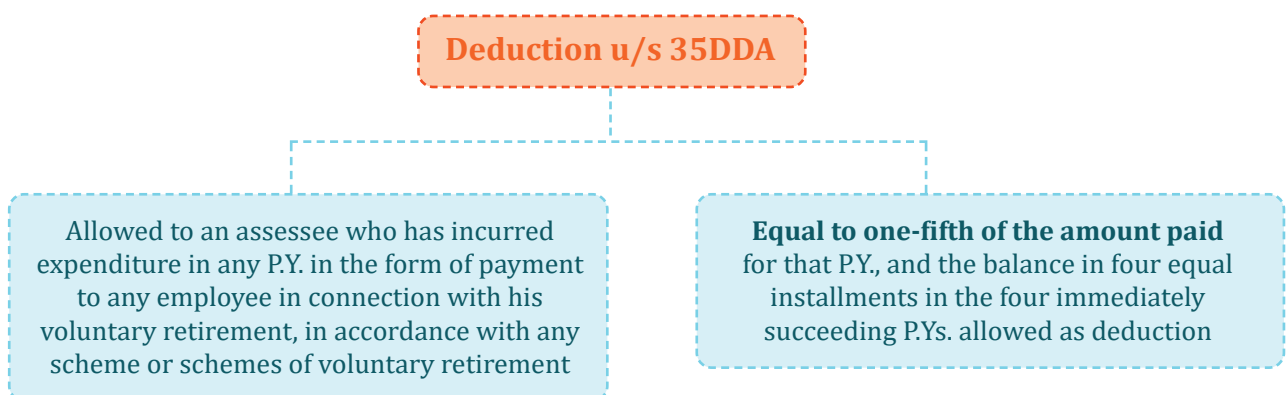




AMORTISATION OF EXPENSE FOR AMALGAMATION/DEMERGER [SECTION 35DD]



AMORTISATION OF EXPENDITURE INCURRED UNDER VOLUNTARY RETIREMENT SCHEME [SECTION 35DDA]





OTHER DEDUCTIONS [SECTION 36]

Premia paid for insurance of stock or stores of business or profession [Section 36(1)(i)]

Premia paid by employer for insurance on the health of employees [Section 36(1)(ib)]

Bonus or commission provided not paid as profits or dividends [Section 36(1)(ii)]

Interest on borrowed capital [Section 36(1)(iii)] [Discussed in ensuing pages]

Discount on Zero Coupon Bonds on pro rata basis [Section 36(1)(iiia)]

Contribution towards a RPF, approved superannuation fund and other funds subject to limits [Section 36(1)(iv) and (v)]

Contribution towards a pension scheme referred to in section 80CCD, to the extent of 14% of salary [Section 36(1)(iva)]

Contribution towards welfare fund (including EPF) only if such amount is credited on or before due date under the relevant Act [Section 36(1)(va)]

Bad debts written off [Section 36(1)(vii)]

Provision for bad and doubtful debts in case of specified banks [Section 36(1)(viiia)] [Discussed in ensuing pages]

100% revenue expenditure/ 1/5th of capital expenditure for 5 years incurred by a company for the purpose of promoting family planning amongst its employees [Section 36(1)(ix)]

Securities transaction tax (STT) paid [Section 36(1)(xv)]

Commodities transaction tax (CTT) paid [Section 36(1)(xvi)]

Expenditure incurred by a co-operative society for purchase of sugarcane at price fixed by the Government [Section 36(1)(xvii)]

Market to market loss computed as per ICDS [Section 36(1)(xviii)]



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Interest on borrowing for acquisition of new capital asset for business or profession [Section 36(1)(iii)]

Interest from the date of borrowing till the date on which such asset was first put to use

Includible in the actual cost of the asset [to be capitalised] [Proviso to section 36(1)(iii)]

Interest for the period after such asset is first put to use

Allowable as deduction u/s 36(1)(iii) while computing business income

Provision for bad and doubtful debts in case of specified banks [Section 36(1)(viia)]

**Indian scheduled banks
Non-scheduled banks
Co-operative banks***

Maximum 8.5% of Total Income [before deduction u/s 36(1)(viia) and Chapter VI-A]

+

Maximum 10% of aggregate average advances made by Rural branches

**Foreign Banks
Public Financial Institutions
State Financial Corporations
State Industrial Investment Corporations
Non-Banking Financial Companies**

Maximum 5% of Total Income [before deduction u/s 36(1)(viia) and Chapter VI-A]

* other than a primary agricultural credit society or primary co-operative agricultural and rural development bank



RESIDUARY EXPENSES [SECTION 37]

Revenue expd for the purpose of business or profession, provided

- It is **not** in the nature of expenditure described under **sections 30 to 36;**
- It is **not** in the nature of **capital expenditure;**
- It is **not** a **personal expenditure** of the assessee;
- It is laid out and expended **wholly and exclusively for the purpose of business/profession;**
- It is **not** incurred for any purpose which is an **offence or which is prohibited by law;** and
- It is **not** an expenditure incurred by the assessee on **CSR activities referred to in section 135** of the Companies Act, 2013.

- Advertisement in any souvenir, brochure, tract, pamphlet etc. published by a political party is **not** allowable.

Expenditure incurred by an assessee for any purpose which is an offence or which is prohibited by law" shall include the following:

- for any purpose which is an offence under, or which is prohibited by, any law in India or outside India; or
- to provide any benefit or perquisite, in whatever form, to a person, whether or not carrying on a business or exercising a profession, and acceptance of such benefit or perquisite by such person is in violation of any law or rule or regulation or guideline, governing the conduct of such person; or
- to compound an offence under any law for the time being in force, in India or outside India; or
- to settle proceedings initiated in relation to contravention under such law as may be notified by the Central Government



INADMISSIBLE DEDUCTIONS [SECTION 40]

Amounts not deductible [Section 40(a)]

Section 40(a)(i)

100% of payment which is chargeable to tax in India made outside India or in India to a NCNR or to a foreign company, on which tax deductible at source has not been deducted or after deduction has not been paid on or before the due date specified u/s 139(1).

If TDS has been deducted in subsequent year or has been deducted in the P.Y. but paid in the subsequent year after the due date specified under section 139(1), such sum shall be allowed as deduction in computing the income of the previous year in which such tax is paid

Section 40(a)(ia)

30% of payment to a resident, on which tax deductible at source has not been deducted or after deduction has not been paid on or before the due date specified u/s 139(1).

If TDS has been deducted in subsequent year or has been deducted in the P.Y. but paid in the subsequent year after the due date specified under section 139(1), 30% of such sum shall be allowed as deduction in computing the income of the previous year in which such tax is paid

Section 40(a)(ib)

100% of consideration paid or payable to a non-resident for a specified service on which equalisation levy is deductible, and such levy has not been deducted or after deduction, has not been paid on or before the due date under section 139(1).

If equalisation levy has been deducted in subsequent year or has been deducted in the P.Y. but paid in the subsequent year after the due date specified under section 139(1), such sum shall be allowed as deduction in computing the income of the previous year in which such levy is paid.

Section 40(a)(ii)

Income-tax including surcharge or cess

Section 40(a)(iii)

“Salaries”, if it is payable outside India or to a non-resident, if tax has not been paid thereon nor deducted therefrom

Section 40(a)(v)

“Salaries”, if it is payable outside India or to a non-resident, if tax has not been paid thereon nor deducted therefrom



II. In case of any firm/Limited Liability Partnership (LLP) the following amounts are only deductible subject to specified limits in computing the business [Section 40(b)]:

Remuneration to a working partner, if authorised by the partnership deed is allowed to the extent of

- On the first ₹ 6,00,000 of the book-profit or in case of a loss - ₹ 3,00,000 or 90% of the book-profit, whichever is more.
- On the balance of book-profit - 60%

Interest to any partner is allowed - upto **12% simple interest per annum, if authorised by the partnership deed.**

Meaning of Book profit:

Book profit means the **net profit as shown in the P & L A/c** for the relevant previous year computed in accordance with the provisions for computing income from profits and gains.

The above amount should be **increased by the remuneration** paid or payable to all partners of the firm if the same has been deducted while computing net profit.

**EXPENSES OR PAYMENTS NOT DEDUCTIBLE IN CERTAIN CIRCUMSTANCES**

Payments to relatives and associates [Section 40A(2)]	<ul style="list-style-type: none"> • where the assessee incurs any expenditure in respect of which a payment has been or is to be made to a specified person [See column (2) of Table below] • so much of the expenditure as is considered to be excessive or • unreasonable shall be disallowed by the Assessing Officer. While doing so he shall have due regard to: <ol style="list-style-type: none"> a) the fair market value of the goods, service of facilities for which the payment is made; or b) the legitimate needs of the business or profession carried on by the assessee; or c) the benefit derived by or accruing to the assessee from such a payment.
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Assessee (1)	Specified Person (2)
Individual	1. Any relative of the individual assessee 2. Any person who carries on a business or profession, if <ul style="list-style-type: none"> • the individual has a substantial interest in the business of that person or • any relative of the individual has a substantial interest in the business of that person
Company, Firm, HUF or AOP	1. Any director, partner of the firm or member of the family or association or any relative of such director, partner or member or 2. In case of a company assessee, any individual who has substantial interest in the business or profession of the company or any relative of such individual or 3. Any person who carries on a business or profession, in which the Company/ Firm/ HUF/ AOP or director of the company, partner of the firm or member of the family or association or any relative of such director, partner or member has substantial interest in the business of that person

**All assesseees**

The following are specified persons:

Person who has substantial interest in the assessee's business Other related persons of such person, who has a substantial interest in the assessee's business

Company/
Firm/ HUF

AOP/

- Any director of such company, partner of such firm or the member of such family or association or

- any relative of such director, partner or member or

- Any other company carrying on business or profession in which the first mentioned company has a substantial interest

a director, partner or
member

- Company/ Firm/ AOP/ HUF of which he is a director, partner or member or

- Any other director/ partner/ member of the such Company/ Firm/ AOP/ HUF or

- Any relative of such director, partner or member

Relative in relation to an Individual means the spouse, brother or sister or any lineal ascendant or descendant of that individual [Section 2(41)].

Substantial interest in a business or profession

A person shall be deemed to have a substantial interest in a business or profession if -

- in a case where the business or profession is carried on by a company, such person is, at any time during the previous year, the beneficial owner of equity shares carrying not less than 20% of the voting power and
- in any other case, such person is, at any time during the previous year, beneficially entitled to not less than 20% of the profits of such business or profession.

**Payments in excess of ₹ 10,000 made otherwise than through prescribed modes
[Section 40A(3)]**

Expenditure for which payment made to a person in a single day otherwise than by an A/c payee cheque or A/c payee bank draft or ECS or through such other prescribed electronic modes exceeds, ₹10,000/ ₹35,000 in case of payments made to transport operator for plying, hiring or leasing goods carriages would not be allowed.

Exceptions covered in Rule 6DD: For example,

Payment to RBI, SBI, Co-operative banks
Payment made to Government, which according to its Rules, has to be made in legal tender
Payment for purchase of agricultural produce, forest produce, fish and fish products, productions of horticulture or apiculture to the cultivator, grower or producer of such produce or products.



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Section 40A(3A)

If an expenditure has been allowed as deduction on accrual basis in any P.Y., and payment is made in a subsequent P.Y. otherwise than by A/c payee cheque or A/c payee bank draft or ECS or through such other prescribed electronic modes and such payment is in excess of the limits of ₹ 10,000/ ₹ 35,000 specified above, the payment so made shall be deemed as profits and gains of the business or profession and charged to tax as income of the subsequent previous year.

DEEMED PROFITS CHARGEABLE TO TAX [SECTION 41]

Section 41(1)	Section 41(3)	Section 41(4)
Where deduction was allowed in respect of loss, expenditure or trading liability for any year and subsequently, during any previous year, the assessee or successor of the business has obtained any amount in respect of such loss or expenditure or some benefit in respect of such trading liability by way of remission or cessation thereof, the amount obtained or the value of benefit accrued shall be deemed to be income of the P.Y. in which such benefit was obtained.	<ul style="list-style-type: none"> Amount realized on transfer of an asset used for scientific research without being used for other purposes is taxable as business income in the year of sale to the extent of lower of – deduction allowed under section 35(1)(iv); and sale proceeds 	Any amount recovered by the assessee against bad debt earlier allowed as deduction shall be taxed as income in the year in which it is received



Certain Deductions to be made only on actual payment [Section 43B]

Certain Deductions to be allowed if actual payment done on or before the due date of filing of return u/s 139(1) [Section 43B]

Tax, duty, cess or fee, under any law for the time being in force; or	Contribution to any provident fund or superannuation fund or gratuity fund or any other fund for the welfare of employees; or	Bonus or commission provided not paid as profits or dividend; or	Interest on any loan or borrowing from any public financial institution or a State Financial Corporation or a State Industrial Investment Corporation; or	Interest on any loan or borrowing from notified class of NBFC; or	Interest on any loan or advance from a scheduled bank or cooperative bank other than a primary agricultural credit society or a primary cooperative agricultural and rural development bank; or	Payment in lieu of any leave at the credit of his employee; or	Any sum payable to the Indian Railways for use of Railway assets.
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However, any sum payable by the assessee to a micro or small enterprise beyond the time-limit specified in section 15 of the Micro, Small and Medium Enterprises Development Act, 2006 would be allowed as deduction only in the P.Y. in which the sum is actually paid



STAMP DUTY VALUE OF LAND AND BUILDING TO BE TAKEN AS THE FULL VALUE OF CONSIDERATION IN RESPECT OF TRANSFER, EVEN IF THE SAME ARE HELD BY THE TRANSFEROR AS STOCK-IN-TRADE [SECTION 43CA]

Circumstance	Deemed Full Value of consideration for computing Business Income
(1) If Stamp Duty Value > 110% of consideration received or accruing as a result of transfer	Stamp Duty Value
(a) If date of agreement is different from the date of transfer and whole or part of the consideration is received by way of account payee cheque or bank draft or ECS or through such other prescribed electronic mode (IMPS, UPI, RTGS, NEFT, Net banking, debit card, credit card or BHIM Aadhar Pay) on or before the date of agreement	Stamp Duty Value on the date of agreement
(b) If date of agreement is different from the date of transfer but the whole or part of the consideration has not been received by way of account payee cheque or bank draft or ECS or through such other prescribed electronic mode (IMPS, UPI, RTGS, NEFT, Net banking, debit card, credit card or BHIM Aadhar Pay) on or before the date of agreement	Stamp Duty Value on the date of transfer
However, if the stamp duty value on the date of agreement or the date of transfer, as the case may be \leq 110% of the sale consideration received.	Actual consideration so received
(2) Where the Assessing Officer refers the valuation to a Valuation Officer, on the assessee's claim that the stamp duty value exceeds the FMV of the property on the date of transfer and the stamp duty value has not been disputed in any appeal or revision or no reference has been made before any other authority, court or High Court	
(a) If Valuation by Valuation Officer > Stamp Duty Value	Stamp Duty Value
(b) If Valuation by Valuation Officer < Stamp Duty Value	Valuation by Valuation Officer



MANDATORY AUDIT OF ACCOUNTS OF CERTAIN PERSONS [SECTION 44AB]

Category of person	Condition for applicability of section 44AB
I In case of a person carrying on business	
(a) In case of a person carrying on business	If his total sales, turnover or gross receipts in business > ₹1 crore in the relevant P.Y. Note – The requirement of audit u/s 44AB does not apply to a person who declares profits and gains for the previous year on presumptive basis u/s 44AD(1)
If in case of such person carrying on business –	If his total sales, turnover or gross receipts in business > ₹ 10 crore in the relevant PY
(i) Aggregate cash receipts in the relevant PY ≤ 5% of total receipts (incl. receipts for sales, turnover, gross receipts); and	
(ii) Aggregate cash payments in the relevant PY ≤ 5% of total payments (incl. amount incurred for expenditure)	
Note – For this purpose, the payment or receipt, as the case may be, by a cheque drawn on a bank or by a bank draft, which is not account payee, would be deemed to be the payment or receipt, as the case may be, in cash.	
(b) In case of an assessee covered u/s 44AE i.e., an assessee engaged in the business of plying, hiring or leasing goods carriages who owns not more than 10 goods carriages at any time during the P.Y.	If such assessee claims that the profits and gains from business in the relevant P.Y. are lower than the profits and gains computed on a presumptive basis u/s 44AE [i.e., ₹ 1000 per ton of gross vehicle weight or unladen weight in case of each heavy goods vehicle and ₹ 7,500 for each vehicle, other than heavy goods vehicle, for every month or part of the month for which the vehicle is owned by the assessee].
(c) In case of an eligible assessee carrying on business, whose total turnover, sales, gross receipts ≤ ₹ 200 lakhs, and who has opted for section 44AD in any earlier PY	If he declares profit for any of the five successive PYs not in accordance with section 44AD (i.e., he declares profits lower than 8% or 6% of total turnover, sales or gross receipts, as the case may be, in that year), then, he cannot opt for section 44AD for five successive PYs after the year of such default. For the year of default and five successive previous years, he has to maintain books of account u/s 44AA and get them audited u/s 44AB, if his income exceeds the basic exemption limit.



In case of an eligible assessee carrying on business, whose aggregate cash receipts in the relevant PY \leq 5% of total turnover or gross receipts and whose total turnover, sales, gross receipts \leq ₹ 300 lakhs, and who has opted for section 44AD in any earlier PY

II In case of persons carrying on profession

- (a) In case of a person carrying on profession If his gross receipts in profession $>$ ₹ 50 lakh in the relevant PY

Note – The requirement of audit u/s 44AB does not apply to a person who declares profits and gains for the previous year on presumptive basis u/s 44ADA(1).

- (b) In case of an assessee carrying on a notified profession under section 44AA(1) i.e., legal medical, engineering, accountancy, architecture, interior decoration, technical consultancy, whose gross receipts \leq ₹ 50 lakhs. If such resident assessee claims that the profits and gains from such profession in the relevant PY are lower than the profits and gains computed on a presumptive basis u/s 44ADA (50% of gross receipts) and his income exceeds the basic exemption limit in that PY.

In case of an assessee carrying on a notified profession under section 44AA(1) i.e., legal medical, engineering, accountancy, architecture, interior decoration, technical consultancy, whose aggregate cash receipts in the relevant PY \leq 5% of total gross receipts and whose gross receipts \leq ₹ 75 lakhs.

The persons mentioned above would have to furnish by the specified date a report of the audit in the prescribed forms.

“**specified date**” means the date one month prior to the due date for furnishing the return of income under section 139(1).

PRESUMPTIVE INCOME PROVISIONS

Particulars	Section 44AD	Section 44ADA	Section 44AE
(1) Eligible Assessee	Resident individual, HUF or Partnership firm (but not LLP) engaged in eligible business and who has not claimed deduction under section 10AA or Chapter VIA under "C – Deductions in respect of certain incomes" Non-applicability of section 44AD in respect of the following persons: - A person carrying on profession specified u/s 44AA(1); - A person earning income in the nature of commission or brokerage; - A person carrying on any agency business.	Resident individual or resident partnership firm (but not LLP) engaged in any profession specified u/s 44AA(1), namely, legal, medical, engineering, architectural profession or profession of accountancy or technical consultancy or interior decoration or notified profession (authorized representative, film artist, company secretary, profession of information technology)	An assessee owning not more than 10 goods carriages at any time during the P.Y.
(2) Eligible business/ profession	Any business, other than business referred to in section 44AE, whose total turnover/ gross receipts in the P.Y. \leq ₹ 200 lakhs Any business, other than business referred to in section 44AE, whose total turnover/gross receipts in the P.Y. \leq ₹ 300 lakhs in the relevant P.Y., if aggregate cash receipts in the relevant PY \leq 5% of total turnover or gross receipts.	Any profession specified under section 44AA(1), whose gross receipts \leq ₹50 lakhs in the relevant P.Y. Any profession specified u/s 44AA(1), whose gross receipts \leq ₹ 75 lakhs in the relevant P.Y., if aggregate cash receipts in the relevant PY \leq 5% of total gross receipts.	Business of plying, hiring or leasing goods carriages

Note: For this purpose, the receipt of amount or aggregate of amounts by a cheque drawn on a bank or by a bank draft, which is not account payee, would be deemed to be the receipt in cash.



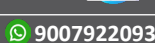
(3) Presumptive income	8% of total turnover/ sales/gross receipts or a sum higher than the aforesaid sum claimed to have been earned by the assessee. 6% of total turnover/ gross receipts in respect of the amount of total turnover/ sales/ gross receipts received by A/c payee cheque/ bank draft/ ECS through a bank account or through such other prescribed electronic modes (credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay) during the P.Y. or before due date of filing of return u/s 139(1) in respect of that P.Y. (or) such higher sum claimed to have been earned by the assessee.	50% of gross receipts of such profession or a sum higher than the aforesaid sum claimed to have been earned by the assessee.	For each heavy goods vehicle ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, for every month or part of a month; For each vehicle, other than heavy goods vehicle: ₹ 7,500 per month or part of a month during which such vehicle is owned by the assessee or an amount claimed to have been actually earned from such vehicle, whichever is higher.
(4) Nonallowability of deductions while computing presumptive income	Deductions allowable under sections 30 to 38 shall be deemed to have been given full effect to and no further deduction shall be allowed. Even in case of a firm, salary and interest paid to partners is not deductible.	Even in case of a firm, salary and interest paid to partners is not deductible.	In case of a firm, salary and interest paid to partners is deductible subject to the conditions and limits specified in section 40(b).



(5)	Requirement of maintenance of books of account u/s 44AA and audit u/s 44AB	If eligible assessee declares profits and gains in accordance with the provisions of section 44AD, he is not required to maintain books of account u/s 44AA or get them audited u/s 44AB. However, if after declaring profits on presumptive basis u/s 44AD, nondeclaration of profits on presumptive basis for any of the 5 successive A.Y.s thereafter, would disentitle the assessee from claiming profits on presumptive basis for five successive AYs subsequent to the AY relevant to the PY of such nondeclaration. In such a case, the assessee would have to maintain books of account and other documents u/s 44AA(2) and get his accounts audited u/s 44AB, if his total income exceeds the basic exemption limit in those years.	If eligible assessee declares profits and gains in accordance with the provisions of section 44ADA, he is not required to maintain books of account u/s 44AA or get them audited u/s 44AB. However, if the assessee claims his profits to be lower than the profits computed by applying the presumptive rate, he has to maintain books of account and other documents u/s 44AA(1) and get his accounts audited u/s 44AB, if his total income > basic exemption limit for that year.	If eligible assessee declares profits and gains in accordance with the provisions of section 44AE, he is not required to maintain books of account u/s 44AA or get them audited u/s 44AB. However, if the assessee claims his profits to be lower than the profits computed by applying the presumptive rate, he has to maintain books of account u/s 44AA(2) and get his accounts audited u/s 44AB.
(7)	Advance tax obligation	The eligible assessee opting for section 44AD is required to pay advance tax by 15th March of the financial year (F.Y.).	The eligible assessee opting for section 44ADA is required to pay advance tax by 15th March of the F.Y.	The eligible assessee has to pay advance tax in four instalments.

TAXABILITY IN CASE OF COMPOSITE INCOME

Rule	Nature of composite income	Business Income (Taxable)	Agricultural Income (Exempt)
7A	Income from sale of rubber products derived from rubber plants grown by the seller in India	35%	65%
7B	Income from sale of coffee - grown and cured by the seller in India	25%	75%



	- grown, cured, roasted and grounded by the seller in India	40%	60%
8	Income from sale of tea grown and manufactured by the seller in India	40%	60%