

PROFIT AND GAINS FROM BUSINESS / PROFESSION

SECTION 28-44D

As per section 28, income from any Business / Profession shall be taxable under the head Business / Profession.

Business – Section 2(13)

“**Business**” includes any **Trade, Commerce** or **manufacture** or any **adventure** or **concern** in the nature of **trade, commerce or manufacture**

Profession – Section 2(36)

“**Profession**” includes **Vocation**

INCOMES CHARGEABLE TO TAX UNDER THE HEAD BUSINESS / PROFESSION

SECTION 28

1. Income from **speculation business** shall be taxable under head Business / Profession.

Meaning of Speculative Business

Section 43(5)

A Speculative transaction is defined under Section 43(5) to mean a transaction in which a contract for purchase or sale of a commodity including stocks or shares is periodically or ultimately settled otherwise than by actual delivery or transfer of the commodity or scrip.

The following shall not be treated as speculative transaction:

- A contract in respect of Raw material or merchandise entered in the normal course of business to guard against loss due to price fluctuations.
 - A contract in respect of stocks and shares entered into by a dealer or investor to guard against loss through price fluctuations.
 - A contract entered into by a member of forward market or a stock exchange in the course of jobbing or arbitrage to guard against loss in the ordinary case.
3. Any payment received by the employer under **Keyman Insurance Policy** shall be considered to be income under the head Business / Profession.
 4. Any **benefit or perquisite** in connection with Business / Profession
 - **For Example:** ABC Ltd. has engaged one Advocate with regard to its Legal Proceedings. The Company has provided him facilities of free traveling, boarding/lodging and has incurred Rs. 25,000, it will be considered to be professional receipt of the Advocate.
 5. Any payment received **for not pursuing any business activity** shall be taxable under head Business / Profession.
 - **For Example:** If Pepsi Food Ltd. has paid Rs. 100 Crores to Campa Cola for not pursuing business activity, it will be considered to be the income of Campa Cola under the head Business / Profession.

Similarly, if any payment has been given for not sharing any patent right, technical know-how, copy right etc., the amount received is income under the head Business / Profession.

If any payment has been given for closing down any business which is harmful to ozone layer (O₃ Layer), such compensation received shall not be taxable under the head Business / Profession.

6. Any **compensation received:**
 - a. By any person, managing **affairs of an Indian Company**, in connection with the termination of his management or the modification of the terms and conditions.
 - b. By any person, managing the **affairs in India of any other company**, in connection with the termination of his office or the modification of the terms and conditions.
 - c. By any person, **holding any agency in India relating to the business of any other person**, in connection with the termination of the agency or the modification of the terms and conditions.
 - d. By any person, **in connection with the vesting in the Government, or in any corporation owned or controlled by the Government**, of the management of any property or business.
7. If any **trade or profession association has income**, such income is exempt from Income Tax under Section 10(23A), but if such associations are **rendering specific services** to their members on payment basis, the income received shall be Taxable.
 - **For Example:** Chambers of Commerce is providing specialized Training in Export Management and is charging Rs. 30,000 from the participants; in this case income is taxable.
8. If any person has received any export incentive like **Duty Draw Back or profits on sale of Import Entitlement Licenses**, such export incentives shall be considered to be the income under the head Business / Profession.
 - a. **Duty Draw Back:** If any manufacturer has paid excise duty or custom duty in connection with the goods manufactures by him & subsequently such goods have been exported by him, in such cases excise duty or custom duty is refunded to him as an incentive & it is called Duty Draw Back, i.e., drawing back the duty paid by a person.
 - b. **Import Entitlement Licenses:** Exporters are issued import license in which import is allowed without payment of custom duty & further the exporters are allowed to sell it in the market & any profit received on their sale shall be considered to be income under the head Business / Profession.
9. Any interest, salary, bonus, commission or remuneration, by whatever name called, received by partner of a firm from such firm, and shall be considered to be his income under the head Business / Profession subject to the provisions of Section 40(b)

COMPUTATION OF INCOME UNDER THE HEAD BUSINESS / PROFESSION**SECTION 29**

The Income referred to in Section 28 shall be computed in accordance with the provisions contained in Sections 30 to 43D.

EXPENDITURE RELATING TO BUILDING**SECTION 30**

OWNED BY ASSESSEE	TAKEN ON RENT
Current repairs. (Earlier years repairs not allowed)	Current repairs.(Earlier years repairs not allowed) if borne by lessee
Municipal Tax or Local tax or Land Revenue subject to provisions of Section 43B	Municipal Tax or Local tax or Land Revenue subject to provisions of Section 43B if borne by lessee
Premium for Insurance of House	Premium for Insurance of House if borne by lessee
	Rent for the Building.

EXPENDITURE RELATING TO PLANT & MACHINERY/FURNITURE & FIXTURES**SECTION 31**

OWNED BY ASSESSEE	TAKEN ON RENT
Current repairs. (Earlier years repairs not allowed)	Current repairs.(Earlier years repairs not allowed) if borne by lessee
Municipal Tax or Local tax or Land Revenue subject to provisions of Section 43B	Municipal Tax or Local tax or Land Revenue subject to provisions of Section 43B if borne by lessee
Premium for Insurance of House	Premium for Insurance of House if borne by lessee
	Rent for the Plant & Machinery/Furniture & Fixture

DEPRECIATION**(SECTION 32)**

Depreciation under Income Tax Act is allowed on the basis of W.D.V. (**SLM is not allowed**) and further rates of depreciation are as given below:

S.NO.	PARTICULARS	RATE OF DEPRECIATION
	<u>BUILDINGS</u>	
1	Residential Building (<i>Except Hotel and Boarding Houses</i>)	5%
	Other Buildings (<i>Like Commercial Building</i>)	10%
	Temporary Structure Buildings (<i>Wooden Houses, Mud Houses Etc.</i>)	100%
2	Roads, Wells, Tube wells, Bridges Etc.	10%
3	Furniture & Fittings (<i>Including Electrical Fittings</i>)	10%
4	Plant & Machinery	15%
	<u>MOTOR CARS AND VEHICLES</u>	
5	Motor Cars	15%
	Motor Cars for Tourist Purpose	30%
	Commercial Vehicles	40%
	Aero plane	40%
	Ships	20%
6	Computer Including Computer Software	60%
	<u>BOOKS</u>	
7	Books Being Annual Publication	100%
	Books for Purpose of Library	100%
	Other Books	60%
8	Intangible Assets (<i>Trade Marks, Patent Rights, Technical Know-how, Copy Rights, Licenses, Franchises, or any other Similar Right</i>)	25%

- ### Block of Asset

Depreciation on the basis of block of assets shall be computed in the manner given below:

- | | |
|---------------------------------------|------------------|
| Less: Depreciation | <u>11.25 Lac</u> |
| @ 15% | |
| Closing W.D.V. as on 31/3/2008 | 63.75 Lac |

- | | |
|---------------------------------------|-------------------|
| Less: Depreciation | |
| @ 15% on 55 Lac | (8.25 Lac) |
| Less: Depreciation | |
| @ 7.5% on 20 Lac | (1.50 Lac) |
| Closing W.D.V. as on 31/3/2008 | 65.25 Lac |

- | | |
|---------------------------------------|-----------------|
| Less: Depreciation | |
| @ 7.5% on 10 Lac | <u>(75000)</u> |
| Closing W.D.V. as on 31/3/2008 | 9.25 Lac |

- | | |
|---|-----------------|
| W.D.V. as on 1/4/2007 | 70 Lac |
| Less: P ₁ , P ₂ , P ₃ , and P ₄ | <u>(40 Lac)</u> |
| | 30 Lac |

Short Term Loss under Section 50 **Rs. 30 Lac**

8. If there is **Negative Balance**, it will be **Short Term Gain** under **Section 50** and no depreciation is allowed.
- **For Example:** ABC Ltd. has Plant P₁, P₂, P₃, and P₄ as on 1/4/2007 and the combined W.D.V. is. Rs.70 Lac. The company has sold Plant P₁, P₂, P₃, and P₄ on 1/1/2008 for Rs. 80 Lac.
- | | |
|---|-------------------|
| W.D.V. as on 1/4/2007 | 70 Lac |
| Less: P₁, P₂, P₃, and P₄ | (80 Lac) |
| | (10 Lac) |
| Short Term Gain under Section 50 | Rs. 10 Lac |

Depreciation in case of Amalgamation / De merger / Conversion of Proprietary Concern Into Company / Conversion of Partnership Firm Into Company. **Section – fifth proviso to section 32**

In case of Amalgamation, De merger etc. depreciation shall be computed as if no such amalgamation etc. has taken place & the depreciation so computed shall be apportioned between the predecessor & successor on the basis of number of days the asset was used by each one of them.

Depreciation in case of Power generating or generating and distributing of units **Section 32(1)(i)**

Power generating units shall have the option to claim depreciation **either on the basis of W.D.V. or on the basis of S.L.M.** & option once exercised has to be followed **consistently** if the assessee has opted for depreciation on the basis of **W.D.V.**, depreciation shall be allowed on the basis of **block of assets**. If the assessee has opted **SLM**, depreciation shall be allowed on the basis of **individual asset** and further at the prescribed rate. However concept of 180 days shall be applicable.

If the assessee has opted for **depreciation on the basis of SLM** & subsequently the asset was sold by the assessee, any loss shall be called **Terminal Depreciation** & shall be debited to P&L Account.

If the asset has been sold at a profit, it will be considered to be income under head Business / Profession & shall be called **Balancing Charge** under **Section 41(2)**, but only to the extent depreciation has been debited & any excess over it shall be considered to be STCG under **Section 50A**.

- **For Example:** ABC ltd is a power generating unit & the company has purchased one plant on 1.10.2005 for Rs. 10 Lac & rate of depreciation on the basis of SLM is 7.8%, the asset was put to use on 1.11.2005 & subsequently the same asset was sold on 1.05.2005 for Rs. 12 Lac, and accordingly there is a profit of Rs. 317000 **[1200000-(cost)1000000-(depreciation for PY 05-06) 39000-(depreciation for PY 06-07)78000]**, out of which balancing charge under section 41(2) shall be Rs. 117000 **(39000+78000)** and excess over it i.e. Rs. 200000 shall be STCG under section 50A.

Additional Depreciation **Section – 32(1)(ia)**

Additional Depreciation is allowed **@ 20%** to all assesses & further it is allowed if all the given conditions are satisfied:

1. It should be **Plant and Machinery** which has been **acquired** and **installed after the 31.03.2005**.
2. Such Plant and Machinery should be used for the purpose of **manufacturing**.
3. It will be allowed only **once in a year**.

Additional Depreciation is **not allowed** in the following cases:

1. **Second Hand** Plant and Machinery.
2. Plant and Machinery used in **office building** or **residential building**.
3. Any **Machinery** or **Plant**, **the whole of the actual cost** of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head Business / Profession of any one previous year.
4. If the **Plant and Machinery** is being put to use for **less than 180 days** than additional depreciation shall be allowed **@ 10%**, and the **remaining 10% shall not be allowed** in the subsequent year.

Depreciation in case of Slump Sale

Sale of particular unit or division for lump sum consideration is called **“Slump Sale”**

In case of slump sale if any particular asset has been sold, actual depreciation shall be computed for such asset up to assessment year 87-88 and for the subsequent period notional depreciation shall be computed & total depreciation shall be deducted from the original cost of such asset & the WDV shall be computed in this manner and it will be deducted from the WDV of the block of asset.

- **For example:** ABC Ltd has one block of asset of Plant and Machinery with WDV Rs. 18 Lac on 1.04.2008 and the block contains 25 Plant and Machinery. The company has sold one of its units in slump sale for Rs. 75 Lac & there were 10 Plant and Machinery in that particular unit. Original cost of such Plant and Machinery is Rs. 25 Lac & actual depreciation up to A.Y. 87-88 is Rs. 10 Lac & notional depreciation from A.Y. 88-89 onwards is Rs. 11 Lac, in this case WDV of Rs. 10 Plant and Machinery shall be Rs. 4 Lac **(25 – 10 – 11)**
 WDV of Rs. 4 Lac shall be deducted from the WDV of the block of assets. i.e.
 18 Lac – 4 Lac = 14 Lac (WDV of 15 Plant and Machinery)

Basic Conditions for claiming Depreciation

For the purpose of claiming depreciation, the assessee must satisfy the following conditions:

1. The assessee must be the owner of the asset. The ownership may be whole or fractional.
2. The asset must be used for the purpose of carrying on the Business / Profession of the assessee.
3. In the year of acquisition, if the asset is put to use for less than 180 days, then it is eligible for only 50% of the normal depreciation.
4. The asset in respect of which depreciation is claimed should fall within the eligible classification of assets.

Is it Mandatory to claim depreciation?

As per explanation 5 to section 32(1), it is mandatory for every assessee to claim depreciation.

Explanation 5- *For the removal of doubts, it is hereby declared that the provisions of this sub section apply whether or not the assessee has claimed the deduction in respect of depreciation in computing his total income.*

Depreciation in case of assets not owned by the assessee.

If the business of the assessee is carried on in a building not owned by him but in respect of which the assessee holds a lease right of occupancy and any capital expenditure is incurred by the assessee on the construction, renovation, extension, improvement etc. to the building, the assessee shall be eligible for depreciation in the normal manner and it do not matter that the assessee is not the owner.

TEA/COFFEE/RUBBER DEVELOPMENT ACCOUNT
SECTION 33AB

Deduction is allowed to all the assesses who are engaged **in growing & manufacturing of Tea, Coffee or Rubber** & Deduction is allowed equal to the amount deposit in an account open with NABARD. However maximum deduction allowed shall be 40% of profits before debiting any amount under Section 33AB.

- **For Example:** ABC Ltd. is engaged in growing & manufacturing of tea & profits of the company are Rs. 100 Lac, & the company has deposit Rs. 30 Lac in Tea Development Account, in this case deduction allowed shall be Rs. 30 Lac. If in the above case amount deposited is Rs. 45 Lac, deduction allowed shall be Rs. 40 Lac.

Amount shall be **deposited within 6 months** from the end of the previous year or **before the due date of furnishing of return of income whichever is earlier.**

Deduction is allowed subject to the condition that the accounts of the assessee have been audited by a Chartered Accountant.

The amount so deposited should be utilized subsequently as per the scheme of Tea Board/Coffee Board/Rubber Board of India.

However, **amount cannot be utilized** for any of the purposes given below:

- a) Expenditure on plant & machinery to be installed in any office premises or residential accommodation or guest house.
- b) Any Office appliances.(Except Computers)
- c) Expenditure on any machinery or plant the cost of which has been debited to P&L Account either as depreciation or otherwise.
- d) Any new machinery or plant to be installed in an industrial undertaking for the purpose of business of construction, manufacture or production of any article or thing specified in the list in the Eleventh Schedule.

If the assessee has already taken deduction and subsequently the amount was utilized for any of the above mentioned purposes, in that case the amount so utilized shall be considered to be the income of the previous year in which the amount has been utilized.

The amount deposited in the special account is allowed to be withdrawn in the circumstances mentioned below:

- a) Closure of Business
- b) Dissolution of Business.
- c) Death of an assessee.
- d) Partition of HUF
- e) Liquidation of a Company

If the amount has been withdrawn on the closure of the business or on the dissolution of the firm, it will be considered to be income of the year in which the amount has been withdrawn but in other cases mentioned above, it will not be considered to be income.

SITE RESTORATION FUND
SECTION 33ABA

Deduction is allowed to all the assesses engaged in prospecting income, extraction or production of mineral oils. Deduction is allowed to the extent amount has been deposited with State Bank. However, maximum deduction allowed shall be 20% of the profits before debiting any amount under Section 33ABA. The amount so deposited should be utilized for restoration of the site which is being abandoned.

EXPENDITURE IN CONNECTION WITH SCIENTIFIC RESEARCH
SECTION 35

If any assessee has incurred expenditure in connection with scientific research, such expenditure is allow to be debited to the P&L A/c provided the research is related to the Business / Profession of the assessee and further even capital expenditure can be debited to P&L Account but expenditure on land is not allowed.

If any assessee has given any donation or contribution to any approved scientific research, university, college, Indian Company etc, deduction is allowed equal to 1.25 times of the donation or contribution & further there is no condition that the research should be related to the Business / Profession of the assessee.

Capital expenditure in connection with scientific research is allow to be debited only to the extent income is available under the head Business / Profession & unadjusted expenditure shall be allow to be set off & carry forward just like unabsorbed depreciation.

If any assessee has incurred any expenditure before commencement of business in connection with scientific research, but within 3 years before the commencement, such expenditure shall be allowed in the year in which the business has commenced. However, revenue expenditure shall be allowed only to the extent it has been permitted by the prescribed authority.

If any perquisite has been allowed to the employees before commencement of business, it will not be allowed.

IF THE COMPANY IS ENGAGED IN **BIO-TECHNOLOGY, MANUFACTURING OF DRUGS, PHARMACEUTICALS, CHEMICALS, COMPUTER, ELECTRONIC EQUIPMENT, TELECOMMUNICATION EQUIPMENT, OR ANY OTHER PRODUCT NOTIFIED BY THE PRESCRIBED AUTHORITY** IN SUCH CASES DEDUCTION IS ALLOWED EQUAL TO 1.5 TIMES OF THE EXPENDITURE INCURRED, HOWEVER IN CASE OF BUILDING EXPENDITURE SHALL BE ALLOWED EQUAL TO THE AMOUNT INCURRED & EXPENDITURE INCURRED ON LAND SHALL NOT BE ALLOWED. IF EXPENSES HAVE BEEN INCURRED BEFORE COMMENCEMENT OF BUSINESS, EXPENDITURE SHALL BE ALLOWED EQUAL TO THE EXPENDITURE INCURRED.

Section 41(3)

If any assessee has incurred capital expenditure in connection with scientific research & subsequently the asset was sold by the assessee, in this case amount recovered shall be considered to be the income under the head Business / Profession as per Section 41(3) but only to the extent amount has been debited to the P&L Account & any excess over it shall be taxable under the head Capital Gains.

If any assessee has incurred capital expenditure in connection with scientific research & the amount was debited to the P&L Account but subsequently the amount was transferred to the normal business, in this case it will be entered in the respective block of assets & its WDV shall be taken to be NIL & if such asset has been sold subsequently, in that case sale price shall be deducted from the WDV of the block.

LICENSE FOR TELECOMMUNICATION **SECTION 35ABB**

If any assessee has incurred expenditure for purchase of license for telecommunication, in such cases expenditure shall be allowed in installments, starting with the year in which the payment has been made & ending with the year in which the license has expired.

- **For Example:** Airtel Ltd. has taken license for cellular services on 1/10/2007 & has paid Rs. 25 Lac being the license fee & the license will expire on 31/03/2012, in this case expenditure shall be allowed in the manner given below:

<u>P.Y.</u>	<u>07-08</u>	<u>08-09</u>	<u>09-10</u>	<u>10-11</u>	<u>11-12</u>
<u>Proportion</u>	25/5	25/5	25/5	25/5	25/5
Presume in the above case license is obtained on 01/10/2007 but payment was made on 01/05/2008, in that case:					
<u>P.Y.</u>	<u>07-08</u>	<u>08-09</u>	<u>09-10</u>	<u>10-11</u>	<u>11-12</u>
<u>Proportion</u>		25/4	25/4	25/4	25/4

If any assessee has made the payment before commencement of business, in such cases installments shall be allowed from the year in which the business has commenced.

If the payment has been made in installments deduction shall be allowed from the year in which the installment has been paid.

- **For Example:** Airtel Ltd. has taken license for cellular services on P.Y. 07-08 & has paid Rs. 10 Lac in 07-08 & again Rs. 10 Lac in 08-09 & Rs. 5 Lac in 09-10 & the license will expire on 11-12, in this case expenditure shall be allowed in the manner given below:

<u>P.Y.</u>	<u>07-08</u>	<u>08-09</u>	<u>09-10</u>	<u>10-11</u>	<u>11-12</u>
<u>Proportion</u>	10/5	10/5	10/5	10/5	10/5
		10/4	10/4	10/4	10/4
			5/3	5/3	5/3

If any assessee has sold the license subsequently, any loss shall be debited to the P&L Account & if there is any income, it will be taxable under the head Business / Profession but only to the extent amount was debited to the P&L Account & any excess over it shall be taxable under the head Capital Gains.

DONATION / CONTRIBUTION FOR ELIGIBLE PROJECT **SECTION 35AC**

Deduction is allowed to all assessee in case of donation or contribution to the notified institutions which are carrying on eligible project.

“Eligible Project” shall include the projects of social or economic importance. For Example: Drinking Water Project, Contribution of Houses for the Poor Persons etc.

A company assessee has the option to incur the expenditure directly also.

DONATION / CONTRIBUTION FOR RURAL DEVELOPMENT
SECTION 35CCA

Deduction is allowed to all assessee in case of donation or contribution to the notified institutions for the purpose of Rural Development. If there is any contribution to national fund for rural development, such contribution is also allowed. Similarly, contribution to national urban poverty eradication fund shall be allowed.

AMORTIZATION OF CERTAIN PRELIMINARY EXPENSES
SECTION 35D

Expenses incurred before commencement of business shall be allowed to be debited in 5 annual equal installments starting the year in which the business has been commenced & further expenditure is allowed only to the resident assesses and to Indian Companies.

The expenses which are allowed under Section 35D are as given below:

1. Expenditure in connection with project report, feasibility report, engineering services, conducting market survey provided the work has been taken up by the assessee himself or by any organization approved by the board.
2. Expenses incurred in connection with legal agreements relating to the business or profession.
3. Expenses being incorporation fee of the company.
4. Expenses on drafting & printing of memorandum & articles of association.
5. Expenses on issue of share capital & debentures including expenses on drafting and printing of prospectus and also expenses being commission paid to the underwriters.
6. Any other expense prescribed for this purpose.

Expenses incurred before commencement of business is allowed, but maximum to the extent of 5% of the project cost. However, an Indian Company has the option to take 5% of capital employed.

“PROJECT COST” = Total of actual cost of all the fixed assets as on the last day of the year in which the business was commenced.

“CAPITAL EMPLOYED” = Total of issued share capital, debentures and long term borrowings as on the last day of the year in which the business was commenced.

If there is expansion or extension of an existing business, in that case also expenditure shall be allowed in the similar manner.

If there is amalgamation or De merger, in that case remaining installments shall be allowed to the amalgamated company or the resulting company.

EXPENDITURE IN CONNECTION WITH AMALGAMATION / DE MERGER
SECTION 35DD

Expenditure is allowed only to Indian Company and allowed for the expenditure incurred in connection with amalgamation / de merger & expenditure is allowed in 5 annual equal installments.

EXPENDITURE IN CONNECTION WITH VOLUNTARY RETIREMENT
SECTION 35DDA

Deduction shall be allowed to all the assesses with regard to the expenditure incurred in connection with Voluntary Retirement & expenditure shall be allowed in 5 annual equal installments.

[In case of amalgamation / de merger, remaining installments shall be allowed to the amalgamating or the resulting company]

PREMIUM FOR INSURANCE OF STOCKS
SECTION 36(1)(i)

If any assessee has paid premium for the insurance of Raw Material, Finished Goods etc, premium paid is allowed.

PREMIUM FOR INSURANCE OF CATTLE
SECTION 36(1)(ia)

If any Cooperative Society has paid premium for insurance of cattle owned by the members of society, such premium shall be allowed to be debited.

PREMIUM FOR MEDICLAIM POLICY
SECTION 36(1)(ib)

If any assessee has paid premium in connection with Mediclaim Policy taken in the name of employees, premium shall be allowed to be debited. However payment should be made in cash.

PAYMENT OF BONUS / COMMISSION TO EMPLOYEES

SECTION 36(1)(ii)

Bonus / Commission to the employees is allowed but subject to the provision of Section 43B. Such Bonus / Commission should not have been payable to the employees otherwise as share out of profits.

INTEREST ON LOAN TAKEN FOR BUSINESS / PROFESSION

SECTION 36(1)(iii)

If any assessee has taken a loan for the **purpose of Business / Profession**, in such case interest is **allowed without any restriction**.
[No interest is allowed to the proprietor on his capital]

If the loan has been taken for the purpose of capital asset, interest up to the date of putting the asset to use shall be capitalized & depreciation shall be allowed on capitalized amount & interest for the subsequent period shall be debited to the P&L Account as per Section 43(1).

DISCOUNT ON ZERO COUPON BOND

SECTION 36(1)(iiia)

Discount on Zero Coupon Bond shall be allowed on pro-rata basis taking into consideration life of such bond in months.

“ZERO COUPON BONDS” means such bonds for which no return is allowed till the maturity of such bond.

“DISCOUNT” means difference between the amount received and the amount paid.

- **For Example:** ABC Ltd. has issued Zero Coupon Bond of Rs. 20 Lac and the maturity shall be after 15 years & amount payable on maturity is Rs. 50 Lac, in this case amount of Discount shall be Rs. 2 Lac (**30 Lac / 15 yrs**) and the company shall be allowed Rs. 20 Lac every year under Section 36(1)(iiia).

In the hands of the holder of such bond, additional amount received shall not be considered to be interest income rather there will be capital gains of Rs. 30 Lac.

EMPLOYER’S CONTRIBUTION TO PF / GRATUITY FUND ETC.

SECTION 36(1)(iv)/(v)

Employer’s Contribution to RPF, approved Gratuity fund or other similar funds is allowed but subject to the provision of Section 43B.

EMPLOYEE’S CONTRIBUTION TO PF ETC.

SECTION 36(1)(va)

Employee’s contribution received by the employer shall be considered to be the income of the employer. However, subsequently the employer shall be allowed to debit the amount to the P&L Account provided the amount has been credited to the PF account latest by the due date.

EXPENDITURE ON PURCHASE OF ANIMALS

SECTION 36(1)(vi)

If any assessee has incurred any expenditure on purchase of animals for the purpose of Business / Profession, the expenditure shall be allowed to be debited at the time of death of animal or when the animal has been discarded.

If the animals are Stock-in-trade, the amount shall be allowed to be debited.

BAD DEBTS / PROVISION FOR BAD DEBTS

SECTION – 36(1)(vii), 36(1)(viia) and 41(4)

If any assessee has incurred any bad debt in **connection with Business / Profession**, such bad debt shall be **allowed to be debited**. If the bad debts debited by an assessee are recovered subsequently, in this case any deficiency shall be allowed as bad debt and any excess shall be considered to be Income under the head Business / Profession under **Section 41(4)**. However, if the bad debt were not allowed, in that case recovery shall not be considered to be income under the head Business / Profession.

- **For Example:** Mr. X has sold goods on credit amounting to Rs. 3,00,000 and has debited Rs. 50,000 as bad debts and subsequently but in final settlement he has received Rs. 2,10,000, in this case deficiency of Rs. 40,000 shall be allowed as bad debt and if amount received is Rs. 2,60,000, excess of Rs. 10,000 shall be considered to be the income under Section 41(4)

Provision for bad debt is not allowed (provision or reserve even for any other purpose is not allowed) , but as a special case provision is allowed as per **Section 36(1)(viiia)** in the cases given below:

- a. In case of **Indian Banks**, provision is allowed maximum up to 7.5% of G.T.I + 10% of average monthly advances of the rural branches of the bank.

- **For Example:** PNB bank has GTI of Rs. 1000 Lac and monthly advances of the rural branches of the bank is Rs. 3000 Lac, in this case maximum provision allowed shall be,

7.5% of 1000 Lac	75 Lac
10% of 3000 Lac	300 Lac
	<u>375 Lac</u>

- b. In case of **Foreign Banks, Indian Financial Institutions, State Financial Corporation, State Industrial Investment Corporation** provision shall be allowed maximum up to 5% of G.T.I.

If any assessee was allowed provision for bad debt under Section 36(1)(viiia), bad debt shall be first debited to the provision for bad debts and only after that balance amount shall be allowed to the P&L Account.

- **For Example:** If a particular Bank has provision for Bad debts Rs. 20 Lac and actual Bad debts are Rs. 21 Lac, in this case only Rs. 1 Lac can be debited to P&L Account as Bad debt.

EXPENDITURE ON PROMOTION OF FAMILY PLANNING NORMS

SECTION 36(1)(ix)

Expenditure is **allowed only to the company assessee** who is promoting family planning among its employees & further revenue expenditure is allowed to be debited in the same year.

Capital expenditure is allowed in 5 annual installments. Expenditure is **allowed to be debited only to the extent income is available under the Business / Profession** & unadjusted expenditure shall be allowed to be set-off and carried forward just like unabsorbed depreciation.

If any capital asset has been purchased for the purpose of promotion of family planning norms among the employees and subsequently the asset was sold, the **sale proceeds shall be considered to be the income under the head Business / Profession** as per Section 41(3) but maximum to the extent of the amount debited to the P&L Account. If the business is not in existence at that time, even then it will be considered to be income under the head Business / Profession.

If subsequently there is **amalgamation or de merger**, the above provisions shall apply in case of resulting company as they would have applied to the amalgamating company or the parent company.

BANKING CASH TRANSACTION TAX (BCTT)

SECTION 36(1)(xiii)

If any assessee has paid BCTT, it will be allowed to be debited to the P& Account. BCTT is not payable in case of withdrawal from savings bank A/c.

If the amount has been withdrawn from any other account, BCTT is payable @ 0.1% of the amount withdrawn & further in case of individual & HUF, amount withdrawn should exceed Rs. 50,000 on a single day and in case of any other person, it should exceed Rs. 10 Lac.

Similarly, if any person has received payment on the maturity of a term deposit, BCTT shall be payable.

[BCTT HAS BEEN ABOLISHED W.E.F. A.Y. 2010-11]

COMMODITIES TRANSACTION TAX

SECTION 36(1)(xv)

If any assessee has paid CTT in connection with Sale/Purchase of various commodities, it will be allow to be debited to the P&L Account.

GENERAL EXPENDITURE

SECTION 37(1)

If any expenditure is neither allowed nor disallowed specifically, such expenditure is allowed under Section 37(1), provided it is revenue in nature & is related to the Business / Profession of the assessee.

The expenses which may be allowed under Section 37(1) are as given below:-

1. Expenditure being payment of salary to employees.
2. Expenditure in connection with advertisement (like diaries, calendars etc.) but if the assessee has incurred capital expenditure, depreciation shall be allowed
 - **For Example:** ABC Ltd has incurred Rs. 20,000 on Sign Board, in this case depreciation shall be allowed.
3. Expenditure incurred in connection with traveling relating to Business / Profession of the assessee including expenditure incurred on stay in hotels etc.

4. Expenditure incurred in connection with opening economy
5. Expenditure incurred on the occasion of Diwali provided the expense is not personal nature or religious nature i.e. it should be in the nature of Business / Profession.
6. Security Deposit under Own Your Telephone Scheme (OYT) or Tatkal Telephone Scheme or Telex Connection shall be allowed to be debited.
7. Expenditure being loss due to embezzlement of funds by the employees.
8. Expenditure due to theft.
9. Expenditure in connection with legal proceedings.
10. Any other expenditure relating to the Business / Profession & is revenue in nature.

If the assessee has incurred any illegal expense, it will not be allowed. ANY FINE OR PENALTY IS NOT ALLOWED.

ADVERTISEMENT IN NEWSPAPER ETC. OF A POLITICAL PARTY **SECTION 37(2B)**

If any assessee has incurred any expenditure in connection with advertisement in newspaper of a political party is disallowed.

ASSETS IN MIX USE **SECTION 38**

If any assessee has any asset in the use of Business / Profession & also in personal use, in such cases, expenses shall be allowed only to the extent the asset is in the use of Business / Profession.

PAYMENT OF INCOME TAX OR WEALTH TAX ETC. **SECTION 40(a)**

If any assessee has paid Income tax, Wealth Tax, FBT, Additional Income tax(CDT), it will not be allowed to be debited to the P&L Account, but if any person has paid Sales Tax, Excise Duty, Custom Duty, Service Tax etc. it will be allowed to be debited to the P&L Account but subject to the provisions of Section 43B

If any person has taken any loan for payment of Income Tax etc, interest is not allowed but if loan has been take for the payment of sales tax etc, interest is allowed.

If any person has paid interest for late payment of Income Tax etc, interest is not allowed but if any person has paid interest for late payment of sales tax etc., interest is allowed.

If there is any income tax refund or wealth tax refund etc., it will not be considered to be income of the assessee. If there is sales tax refund et., it will be considered to be income under head Business / Profession.

If there is interest on refund of income tax etc., it will be income under the head Other Sources, but if the interest is on the refund of sales tax etc., it is income under the head Business / Profession.

If any assessee has incurred expenditure in connection with filing of return of income the expense is allowed. Similarly, if salary has been paid to an employee who is looking after income tax matters, salary is allowed. Similarly if there is any expenditure in connection with audit, it is allowed.

Payment of Income Tax by the employer on behalf of employee in connection with Non-monetary perquisite

If the employer has paid Income Tax on behalf of the employee in connection with Non-monetary perquisite, such Income tax shall not be considered to be Income of the employee under Section 10(10CC) and the employer shall not be allowed to debit the amount to the P&L Account.

If the employer has paid Income Tax on behalf of the employee in general(i.e. not for Non-monetary perquisite), such Income tax is shall be considered to be the income in the hands of the employee under Section 17(2)(iv) & employer shall be allowed to debit the amount to the P&L Account as salary to the employees under Section 37(1).

PAYMENTS OUTSIDE INDIA WITHOUT DEDUCTING TAX AT SOURCE **SECTION 40(a)(i)**

If any assessee has made payment of interest, technical fees etc. outside India or to any NR or any foreign company in India without deducting tax at source, in such cases expenditure is disallowed.

If the assessee has deducted the tax at source & payment was made till the last day of the relevant previous year or it was paid in the subsequent year but within the time allowed under Section 200, in such cases expenditure shall be allowed otherwise expenditure shall be allowed in the year in which the payment has been made.

- **For Example:** ABC Ltd has paid interest outside India on 10/01/2008 after deducting tax at source but payment was made by the company to the Government on 07/04/2008, in this case, interest is allowed but if the tax was paid to the Government on 08/04/2008, expenditure shall be allowed in the Previous Year 08-09.
Similarly, if in the above case payment was made and tax has been deducted on 31/03/2008 & tax was paid to the Government on 31/05/2008, interest is allowed in Previous Year 07-08.

PAYMENTS IN INDIA TO ANY RESIDENT WITHOUT DEDUCTING TAX AT SOURCE**SECTION 40(a)(ia)**

FOR A.Y. 08-09: Similar provisions as per Section 40(a)(i)

FOR A.Y. 09-10: If any assessee has made payment in India to any resident person and tax has been deducted at source up to the end of February of the relevant Previous year, in such cases amount of TDS shall be paid to the Government up to 31 March of such P.Y.. If the TDS is deducted during month of March, tax should be deposited up to the last date of filing of return of income.

PAYMENT OF SALARY OUTSIDE INDIA WITHOUT TDS**SECTION 40(a)(iii)**

If any assessee has paid salary outside India or salary has been paid in India to any NR and the assessee has neither deducted tax at source nor the tax has been paid to government, in such cases salary is disallowed. But if either the TDS has been deducted or TDS has been paid to the Government, in such cases salary is allowed to be debited.

PAYMENT OF SALARY AND INTEREST TO THE PARTNER.**SECTION 40(b)**

Salary and Interest to the partner is allowed but only to the extent given below:-

1. Interest is allowed but maximum @ 12% p.a. simple interest.
2. Salary, Bonus, Commission etc. is allowed, but only to the working partners & maximum salary allowed shall be as given below:-
 - a. If the partnership firm has specified profession under section 44AA, maximum salary allowed shall be as given below:-

BOOK PROFITS**SALARY ALLOWED AS
PERCENTAGE OF BOOK PROFITS**

Up to 1 Lac
Next 1 Lac
Balance amount

90% or Rs. 50000 whichever is higher
60%
40%

“Book Profits” means profit & gains of the Business / Profession but before debiting any salary to the partners. If the firm is paying salary less than from the salary calculated by above formula, in that case lesser salary shall be allowed.

- b. If any partner ship firm has business or non-specified profession, in that case maximum salary allowed shall be as given below:-

BOOK PROFITS**SALARY ALLOWED AS
PERCENTAGE OF BOOK PROFITS**

Up to 75000
Next 75000
Balance amount

90% or Rs. 50000 whichever is higher
60%
40%

SALARY AND INTEREST IS ALLOWED ONLY IF IT IS PERMITTED AS PER THE PARTNERSHIP DEED.

PAYMENTS TO RELATIVES / RELATED PARTY**SECTION 40A(2)**

If any person has made payment whether revenue or capital and such payment has been made to any relative / related person and it is unreasonable / excessive, in such cases it is disallowed to the extent the payment is unreasonable / excessive.

The term “**Relative**” shall include:

1. In case of individual, any relative of individual.
2. If the assessee is company, firm etc. it will include their directors, partners etc. & also their relatives.
3. If the assessee has made payment to any person who has substantial interest in the business of the assessee or the assessee has substantial interest in the business of such person.
4. If the payment is being made to any company or firm etc. holding 20% of equity shares, in that case it will include the directors or partners etc. also and also their relative and if the person having substantial interest is a director or partner etc. in some company or firm etc., it will include such company or firm etc. and their other directors and partners etc. and also their relatives.

PAYMENT IN EXCESS OF RS. 20,000

SECTION 40A (3) RULE 6DD

If any assessee has incurred **Revenue Expenditure** (i.e. these provisions are not applicable in case of capital expenditure) & payment with regard to such expenditure has been made in a sum exceeding Rs. 20,000 & such payment was made otherwise than through account payee cheque or account payee bank overdraft, in such cases entire expenditure is disallowed & further amount shall be disallowed only if the **individual expenditure** as well as **individual payment** is exceeding Rs. 20,000.

[w.e.f. A.Y. 09-10, aggregate payments during a particular day to a particular person shall be taken into account.]

- **Examples:** 1. ABC Ltd. has incurred an expenditure of Rs. 15000 on 01/10/07 & payment is given in cash to Mr. X & on the same day the company has incurred one more expenditure of Rs. 18000 & payment was given to Mr. X in cash, in this case, entire expenditure is allowed. *[For A.Y. 09-10 disallowed]*
- 2. One assessee has incurred Rs. 35000 & payments were made in two installments of Rs. 17500 each & the payment was made in cash & the payments were made on the same day, amount disallowed in A.Y. 08-09 shall be NIL *[Amount disallowed in A.Y. 09-10 shall be Rs. 35000.]*
- 3. ABC Ltd. has incurred an expenditure of Rs. 40000 out of which 27000 paid in cash & Rs. 13000 by account payee cheque, in this case amount disallowed shall be Rs. 27000 in A.Y. 08-09. *[Same in A.Y. 09-10]*
- 4. Mr. X has incurred one expenditure of Rs. 150000 & payment was given in cash in 10 installments of Rs. 15000 each & payment were made in a single day, in this case expenditure disallowed in A.Y. 08-09 shall be NIL *[Amount disallowed in A.Y. 09-10 shall be Rs. 150000]*
- 5. ABC Ltd. has purchased one plant for Rs. 100000 and the payment was made in cash, in this case **nothing is disallowed** because Section 40A(3) is not applicable in case of **Capital Expenditure**.

If any assessee has claimed expenditure on due basis & after filing the return of income the payment was made in cash, in such cases, it will be considered to be income of the assessee of the year in which the payment is given in cash.

- **For Example:** ABC Ltd. has incurred one expenditure of Rs. 30,000 on 01/10/07 & the company has claimed the expenditure on due basis, but subsequently payment was made in cash by the company on 01/01/09, in this case it will be considered to be income of the assessee for A.Y. 09-10

The above provisions are also applicable in case of Stock-in-trade.

As per **Rule 6DD** payment in cash or by bearer cheque or by crossed cheque shall be allowed in following cases:

- If the payment is being made to the **Government's financing Institutions (like LIC, UTI etc.) or the Government Banks** etc.
- If the payment is being made for purchasing
 - i) **Agricultural produce or forest produces.**
 - ii) **Products of dairy farming, poultry farming, fisheries etc.** & further the payment should be made to the **producer or cultivator.**
 - iii) **Products of cottage industries** & goods have been produce without the aid of power.
 - iv) **Products of Horticulture or Apiculture.**
- If the payment is being made in a **village / town & there is no bank in that village or town on the date of making the payment** & further payment is being made to a **person who has Business / Profession** at that place or the **person ordinarily resides** at that place.
- If the payment is being made on a day when the **banks are closed due to strike or otherwise.**
- If the payment is being made to **Central / State Government**, which as per rules has to be in legal tender.
- Payments of **terminal benefits like gratuity, retrenchment compensation etc. to low paid employees (Drawing less than Rs. 7,500 annually)** or the families.
- Where the payment is **made by any person to his agent who is required to make payment in cash for goods and services on behalf of such person.**
- Where the payment is made **by an assessee by way of salary to his employee after deducting the Income-Tax** from salary in accordance with the provisions of Section 192 of the Act, and when such employee –
 - i) Is temporarily posted for a continuous period of fifteen days or more in a place other than his normal place of duty or on a ship
 - ii) Does not maintain any account in any bank at such place or ship.

PROVISION FOR GRATUITY

SECTION 40A(7)

In general provision or reserve is not allowed . However, provision for Gratuity is allowed provided the amount has become due for payment.

- **For Example:** Mr. X is retired from ABC Ltd on 28/03/2008 and gratuity of Rs. 3 Lac has become due for payment. The employee has not completed formalities till 31/03/2008 and the company has created a provision for Gratuity, such provision is allowed.

CONTRIBUTION TO VARIOUS FUNDS

SECTION 40A(9)

Employer's Contribution to RPF, SPF, Approved Superannuation Fund, Approved Gratuity fund or any other fund required under any other Act shall be allowed.

Employer's Contribution to URPF, Unapproved Superannuation Fund, Unapproved Gratuity fund etc. shall not be allowed.

For Example: Employer's Contribution to Staff welfare Fund or other similar fund is not allowed.

DEEMED INCOME

SECTION 41(1)

If any assessee has debited any expenditure and subsequently such expenditure was recovered by him, amount so recovered shall be considered to be his income under the head Business / Profession under Section 41(1)

BALANCING CHARGE

SECTION 41(2)

In case of power generating unit if any asset has been sold or destroyed etc. and depreciation was claimed on SLM basis, any amount received on sale etc. shall be considered to be income under the head Business / Profession and shall be called Balancing Charge but only to the extent depreciation was debited to the P&L Account & any excess over it shall be taxable under the head Capital Gains.

SALE OF CAPITAL ASSET – SCIENTIFIC RESEARCH

SECTION 41(3)

If any assessee has incurred capital expenditure in connection with scientific research & subsequently the asset was sold by the assessee, in this case amount recovered shall be considered to be the income under the head Business / Profession as per Section 41(3) but only to the extent amount has been debited to the P&L Account & any excess over it shall be taxable under the head Capital Gains.

RECOVERY OF BAD DEBTS

SECTION 41(4)

If any amount was allowed as bad debt and subsequently it was recovered in the subsequent years, in such cases the amount so recovered shall be considered to be income under the head Business / Profession of the year in which the amount has been recovered.

[In general a person may have income under the head Business / Profession only if such person has Business / Profession but if the assessee has income under Section 41(1), 41(2), 41(3) or 41(4), such income is taxable under the head Business / Profession even if the assessee has closed down his Business / Profession.]

LOSSES OF DISCONTINUED BUSINESS / PROFESSION

SECTION 41(5)

If any assessee has closed down his Business / Profession and there is losses relating to such Business / Profession, the losses shall be allowed to be carried forward even after expiry of the period of 8 years but such losses can be set off only from income under Section 41(1), 41(3) and 41(4).

(The above provisions shall not be applicable in case of Speculation Business)

CERTAIN EXPENDITURE ALLOWED ONLY ON ACTUAL PAYMENT BASIS

SECTION 43B

Write a short note on method of accounting as per Section 145

As per **Section 145** every assessee has the option to maintain the books of accounts either on the basis of mercantile system of accounting or on the cash basis.

If the books are maintained on the basis of mercantile basis of accounting, all the expenses are allowed on due basis and all incomes are taxable on accrual basis. If the books are maintained on cash basis, all expenditures are allowed on actual payment basis & all incomes are taxable on actual receipt basis.

Any system of accounting once adopted has to be followed consistently & it can be changed with the permission of assessing officer.

If any assessee has violated the provisions of **Section 145**, in such cases assessing officer may complete assessment in the manner given under **Section 144**.

Section 43B

If any assessee is maintaining books of accounts on the basis of mercantile system of accounting, all expenditures are allowed on due basis, however expenses listed below shall be allowed only on actual payment basis: -

- b) Sales tax, Custom Duty, Excise Duty, Service Tax, Municipal tax or License Fee Etc.
- c) Employer's Contribution to RPF, approved superannuation fund, statutory provident fund, approved gratuity fund or any other approved fund for employee's welfare.
- d) Bonus or Commission to the employees.
- e) Leave salary to the employees.
- f) Interest on loan taken from Public Financial Institutions, State Financial Corporations, State Industrial Investment Corporation.
- g) Interest on loan or advance from Banks.

The expenses listed above shall be allowed only on actual payment basis. However payment can be made till the last date of filing of return of income, otherwise expenditure shall be allowed in the year in which the payment has been made.

- **For Example:** ABC Ltd. has incurred excise duty of Rs. 25 Lac during the P.Y. 07-08 & entire amount was debited to the P&L account & Net Profit is Rs. 11 Lac. The company has paid excise duty of Rs. 12 Lac on 29/09/2008 & balance on 10/05/2009. Determine the amount allowed to be debited in different years.

<u>Solution:</u>	<u>P.Y. 07-08</u>	<u>P.Y. 08-09</u>	<u>P.Y. 09-10</u>
Excise Duty Allowed	12 Lac	Nil	13 Lac
Excise Duty Disallowed	13 Lac	Nil	Nil

Expenditure listed under **Section 43B** shall be allowed only if the assessee has made the actual payment, further proof of having made the payment should be enclosed.

If any assessee has not paid interest on a particular loan and such interest has been converted into fresh loan, in such cases, it will not be considered to be payment of interest & deduction shall not allowed, but whenever, such converted loan has been repaid, deduction shall be allowed in that year.

[Some of the state government have a scheme to permit the assessee to retain the amount of sales tax etc. for some period, in such cases, deduction shall be allowed on due basis.]

ACTUAL COST **SECTION 43(1)**

In case of depreciable assets, depreciation shall be allowed on the actual cost which means total of expenditure incurred up to the date of putting the asset to use.

If the assessee has incurred expenditure in connection with transportation of the capital asset, expenditure on loading and unloading, transit insurance, payments given to the experts for installation of such asset, interest on loan taken for purchase of such asset (but only for the period between purchase of asset and put to use of such asset) etc., it shall be capitalized.

If the assessee has received any subsidy from the Government or similar agency, it will be deducted while computing actual cost.

- **For Example:** ABC Ltd has purchased a P&M and the Government has given subsidy of Rs. 10 Lac because it is a non polluting P&M, in that case, actual cost of the P&M shall be reduced by Rs. 10 Lac.

If any assessee has any building in his personal use and subsequently the building was transferred to the Business / Profession of the assessee, in such cases building shall be considered to be in Business / Profession of the assessee from the date of its purchase and depreciation shall be computed accordingly, but depreciation shall be allowed only for the current year.

- **For Example:** Mr. X purchased one building on 01/11/2005 for Rs. 10 Lac and subsequently the building was transferred to the business of the assessee on 01/12/2007, in this case WDV and depreciation shall be computed in the manner given below:

Actual Cost	10 Lac
Depreciation for P.Y. 05-06 @ 5%(< 180 days)	(50000)
Depreciation for P.Y. 06-07 @ 10% of (10 Lac – 50000)	(95000)
Depreciation for P.Y. 07-08 @ 10%(950000-95000)	(85500)
	7,69,500

The above provision is applicable only in case of building (i.e. in case of other capital assets, the actual cost of the assessee shall be taken into consideration)

- **For Example:** Mr. X purchased one motor car on 01/11/2005 for Rs. 10 Lac and subsequently the building was transferred to the business of the assessee on 01/12/2007, in this case WDV and depreciation shall be computed in the manner given below:

Actual Cost	10 Lac
Depreciation for P.Y. 07-08 @ 15%	(150000)
	8,50,000

[15% because asset purchased in one year and put to use in subsequent year]

If any assessee has purchased any capital asset for the purpose of Business / Profession and has paid excise duty or sales tax etc. but he has taken VAT credit for such excise duty or sales tax etc., in such cases while computing actual cost, such sales tax or excise duty etc. shall be deducted.

If any manufacturer has purchased capital goods and has paid sales tax or excise duty etc., in such cases VAT credit shall be allowed on such capital goods because otherwise cost of the capital goods and also the amount of sales tax etc. shall be distributed in the cost price of the product manufactured by the manufacturer and accordingly there will be two anomalies i.e. taxing the same product twice, thrice and cascading effect hence VAT credit is allowed.

If VAT credit has been allowed for capital goods, it will be deducted while computing actual cost.

BOOKS OF ACCOUNTS

SECTION 44AA RULE 6F

In case of Specified Profession

Any person having specified profession has to maintain any books of accounts which may help the assessing officer in computing his income but if the gross receipt has exceeded Rs. 1,50,000 during all the 3 years immediately preceding the relevant P.Y., in such cases assessee should maintain prescribed books of accounts.

“Prescribed Books of Accounts” shall include Cash Book, Journal, Ledger, Bills Received, Copies of Bills issued etc.

If any person is required to maintain prescribed books of accounts, such person must retain such books of accounts for a period of at least 6 years from the end of the relevant A.Y.

“Specified profession” shall include:

1. Medical Profession
2. Architectural Profession
3. Legal Profession
4. Profession of Accountancy
5. Interior Decoration
6. Technical Consultancy
7. Authorized representative
8. Film artist.

If any person has started specified profession during the year, he must maintain prescribed books of accounts if the gross receipts are likely to exceed Rs. 1,50,000

In case of Business or Non-Specified Profession

If any assessee has Business or Non-Specified Profession, in such cases no books of accounts are required. However, if the gross receipt is exceeding Rs. 10 Lac or the income is exceeding Rs. 1,20,000 in any of the 3 years immediately preceding the relevant P.Y., in such cases the assessee should maintain any books of accounts which may help the assessing officer in computing his income. *(Prescribed Books are required only if the Books are required to be Audited)*

If the Business or the Non-Specified Profession has been setup during the year, in that case assessee should maintain any books of accounts if the Gross Receipt is likely to exceed Rs. 10 Lac or the income is likely to exceed Rs. 1,20,000.

If income of any person is to be computed on presumptive basis under Section 44AD, 44AE and 44AF and such person has rejected presumptive income, in that case, such person should maintain any books of accounts which may help the assessing officer in computing his income.

If any assessee has violated the provisions of Section 44AA, penalties may be imposed amounting to Rs. 10,000.

COMPULSORY AUDIT

OR

TAX AUDIT

SECTION 44AB

If any person is engaged in a business and his turnover during the year has exceeded Rs. 40 Lac, in such cases such person must get his accounts audited in that particular year.

If any person is engaged in specified or non-specified profession and his gross receipt during the year has exceeded Rs. 10 Lac, in such cases, such person must get his accounts audited in that particular year.

If income of any person is to be computed on presumptive basis under Section 44AD, 44AE and 44AF but such person has rejected the presumptive income, in such cases such person shall be required to get his accounts audited.

Any *Kachha Arahitia* shall be considered to be carrying Non-Specified profession and *Pucca Arahitia* shall be considered to be carrying on business.

If any person is required to get his accounts audited, such person must submit the audit report maximum up to the last date of filing of return of income.

If any assessee has violated the provision of Section 44AB, in that case penalties shall be imposed equal to 0.5% of the turnover but subject to a maximum of Rs. 1 Lac.

PRESUMPTIVE INCOME IN CASE OF PERSONS ENGAGED IN CIVIL CONSTRUCTION

SECTION 44AD

If any person is engaged in the business of civil construction or in the business of supply of labor for civil construction & his turnover during the year is not exceeding Rs. 40 Lac, in that case his income under the head Business / Profession shall be 8% of the Gross Receipt and no other expenditure shall be allowed under Section 28-44D and such person shall be exempt from maintaining the books of account.

If the assessee is a partnership firm, in that case salary and interest to the partners is allowed as per Section 40(b).

The assessee has the option to reject the presumptive income but in that case the assessee has to maintain books of accounts and also he should get the books of accounts audited. If the assessee has unadjusted losses, such loss shall be allowed to be set off, but if the assessee has unabsorbed depreciation, it will not be allowed to be set off. The assessee has the option to declare a higher income

“Civil Construction” means construction of roads. Dams, bridges, sea port, airport etc.

Deduction under Section 80C-80U shall be allowed.

PRESUMPTIVE INCOME IN CASE OF PERSONS ENGAGED IN THE BUSINESS OF PLYING, HIRING OR LEASING GOODS CARRIAGES**SECTION 44AE**

If any person is engaged in the business of plying, hiring or leasing goods carriages and such person do not have more than 10 goods carriages in his name at any time during the year, in such cases his income shall be presumed to be:

FOR HEAVY GOODS VEHICLES: Rs. 3500 p.m.

FOR LIGHT OR MEDIUM GOODS VEHICLES Rs. 3150 p.m.

And while computing Income under the head Business / Profession, no further expenditure shall be allowed under Section 28-44D

If the assessee is a partnership firm, in that case salary and interest to the partners is allowed as per Section 40(b).

The assessee has the option to reject the presumptive income but in that case the assessee has to maintain books of accounts and also he should get the books of accounts audited. If the assessee has unadjusted losses, such loss shall be allowed to be set off, but if the assessee has unabsorbed depreciation, it will not be allowed to be set off. The assessee has the option to declare a higher income

Deduction under Section 80C-80U shall be allowed.

PRESUMPTIVE INCOME IN CASE OF PERSONS ENGAGED IN RETAIL TRADE**SECTION 44AF**

If any assessee in the business of retail trade and turnover is not exceeding Rs. 40 Lac, in such cases income shall be presumed to be 5% of the Gross Receipt.

While computing Income under the head Business / Profession, no further expenditure shall be allowed under Section 28-44D

If the assessee is a partnership firm, in that case salary and interest to the partners is allowed as per Section 40(b).

The assessee has the option to reject the presumptive income but in that case the assessee has to maintain books of accounts and also he should get the books of accounts audited. If the assessee has unadjusted losses, such loss shall be allowed to be set off, but if the assessee has unabsorbed depreciation, it will not be allowed to be set off. The assessee has the option to declare a higher income

Deduction under Section 80C-80U shall be allowed.

PRESUMPTIVE INCOME IN CASE OF NON-RESIDENTS ENGAGED IN SHIPPING BUSINESS**SECTION 44B**

If any NR is engaged in shipping business, income shall be presumed to be 7.5% of the following amounts:-

1. Amount received in India in connection with loading of goods etc. outside India.
2. Income received / receivable in connection with loading of goods etc. in India.

PRESUMPTIVE INCOME IN CASE OF NON-RESIDENTS ENGAGED IN AIRCRAFT BUSINESS**SECTION 44BBA**

If any NR is engaged in shipping business, income shall be presumed to be 5% of the following amounts:-

1. Amount received in India in connection with loading of goods etc. outside India.
2. Income received / receivable in connection with loading of goods etc. in India.

REBATE UNDER SECTION 88E

If any assessee is holding **equity shares or equity oriented mutual fund as Stock-in-trade & has paid STT**, in such cases rebate shall be allowed under Section 88E, which will be equal to the amount of STT or the amount of Income Tax computed at average rate whichever is less & further assessee shall not be allowed to debit the amount of STT to the P&L Account.

[w.e.f. A.Y. 09-10, rebate under Section 88E shall not be allowed and further STT shall be allowed to be debited as per Section 36(1)(xv)]

- **For Example:** Mr. X has income under the head Business / Profession Rs. 20 Lac after debited STT of Rs. 2 Lac. Income under the head Business / Profession includes income of Rs. 7 Lac from sale of Equity Shares on which STT has been paid & the shares were held as Stock-in-trade. Compute his Tax Liability for the A.Y. 08-09 and 09-10.

<u>A.Y. 08-09</u>	
Net Profit	20 Lac
+ STT	<u>2 Lac</u>
	<u>22 Lac</u>
Tax	609000
(-) Rebate u/s 88E	<u>193773</u>
	<u>415227</u>
+ Surcharge	41522.7
+ Edu. Cess	<u>13702.49</u>
	<u>470452.19</u>
Rounded Off	
U/s 288B	4,70,450

<u>A.Y. 09-10</u>	
Net Profit	20 Lac
Tax	5,72,170
(including surcharge and Edu. Cess)	

Calculation of Rebate u/s 88E <u>6,09,000</u> x 7 Lac = 193773 22 Lac OR STT Paid = 2,00,000 Whichever Is less
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