DAY 6

1. Section 36(1)(vii) & 36(viia) [Effective from A.Y.2014-15]

The following are the particulars in respect of Indian Bank

	Particulars	Rs. in lakhs
(i)	*Provision for bad and doubtful debts under section 36(1)(viia) as on 1st April 2013*	200
(ii)	*Gross Total Income of A.Y.2014-15 [before deduction under section 36(1)(viia)]*	1000
(iii)	*Aggregate average advances made by rural branches of the bank (assume that bank opened first time rural branches in previous year 2013-14).*	400
(iv)	*Bad debts written off (for the first time) in the books of account (in respect of urban advances only) during the previous year 2013-14*	350

Bank would like to claim deduction under **section 36(1)(vii) Rs. 75 lakhs**, computation of which is done as under:

In the books of Indian Bank

Provision for Bad-Doubtful Debts A/c [Rural Advances]

Dr. **Cr.**

Particulars	Amount Rs. in lakhs	Particulars	Amount Rs. in lakhs
		By Balance b/f	Nil
To Balance c/f	40	By Profit & Loss A/c [400 x 10%]	40
	40		**40**

Provision for Bad-Doubtful Debts A/c [Others Advances]

Dr. Cr.

Particulars	Amount Rs. in lakhs	Particulars	Amount Rs. in lakhs
		By Balance b/f	200
To Debtors A/c	275	By Profit & Loss A/c [1000 x 7.5%]	75
	275		**275**

Bad-Debts A/c

Dr. Cr.

Particulars	Amount Rs. in lakhs	Particulars	Amount Rs. in lakhs
To Debtors A/c [350-275]	75	**By Profit & Loss A/c [Section 36(1)(vii)**	75
	75		**75**

Whether claim made by bank is correct?

Before, we go to the solution, lets comprehend amendment first.

<u>Section 36(1)(viia):</u>Deduction for Provision for Bad and Doubtful Debts in case of Certain Assessees:

<table>
<tr><th>Assessee</th><th>Amount of Deduction</th><th>Additional Deduction in case of Rural Branches</th></tr>
<tr><td>Any Scheduled, Non- Scheduled or co-operative bank but other than a primary agriculture credit society or a primary co-operative agricultural and rural development bank(Except Foreign Bank)</td><td>Not exceeding 7.5% of its total income*</td><td>10% of aggregate average advances made by rural branches of Bank.</td></tr>
<tr><td>Any Foreign Bank</td><td rowspan="2">5% of its total income*</td><td>Not available</td></tr>
<tr><td>Public Financial Institution or State Financial Corporation or State Industrial Investment Corporation</td><td>Not available</td></tr>
</table>

***Total Income means total income before claiming deduction under this clause and Chapter VIA**

Notes:

(a) Further, any scheduled, non-scheduled, & a co-operative bank but other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank (other than a foreign bank), at its option, is allowed a further deduction of an amount not exceeding the income derived from redemption of securities in accordance with scheme framed by Government. However, this additional deduction can be claimed only if income from such securities has been offered for taxation under the head "Profits and Gains of Business or Profession".

(b) In the case of an assessee to which section 36(1)(*viia*) applies, the amount of the deduction relating to any bad debt or part thereof shall be limited to the amount by which such debt or part thereof exceeds the credit balance in the provision for bad and doubtful debts account made under section 36(1) (viia) **<u>without making any distinction between rural advances and other advances (Inserted by FA 2013, w.e.f. A.Y. 2014-15)</u>**

Thus, as per this amendment, there should be only ***<u>one account in respect of provision for bad and doubtful debts</u>*** *without making any distinction between rural advances and other advances.*

Solution:

In the books of Indian Bank
Provision for Bad-Doubtful Debts A/c
[ONE/SINGLE ACCOUNT]

Dr. Cr.

Particulars	**Amount Rs. in lakhs**	**Particulars**	**Amount Rs. in lakhs**
		By Balance b/f	200
		By Profit & Loss A/c [1000 x 7.5%]	75
To Debtors A/c	315	By Profit & Loss A/c [400 x 10%]	40
	315		**315**

Bad-Debts A/c

Dr. Cr.

Particulars	**Amount Rs. in lakhs**	**Particulars**	**Amount Rs. in lakhs**
To Debtors A/c [350-315]	35	By Profit & Loss A/c	35
	35		**35**

2. Section 36(1)(xvi) [Effective from A.Y.2014-15]

Deduction for commodities transaction tax paid in respect of taxable commodities transactions

An amount equal to the commodities transaction tax paid by the assessee in respect of the taxable commodities transactions entered into in the course of his business during the previous year, if the income arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession".

Explanation— For the purposes of this clause, the expressions "commodities transaction tax" and "taxable commodities transaction" shall have the meanings respectively assigned to them under Chapter VII of the Finance Act, 2013.

Meaning of Certain Terms used in above provision:-

a. "commodities transaction tax" means tax leviable on the taxable commodities transactions under the provisions of Chapter VII of Finance Act, 2013;
b. 'taxable commodities transaction' means a transaction of sale of commodity derivatives in respect of commodities, other than agricultural commodities, traded in recognised associations.
c. "commodity derivative" means—
   (i) a contract for delivery of goods which is not a ready delivery contract; or
   (ii) a contract for differences which derives its value from prices or indices of prices—

(A) of such underlying goods; or
(B) of related services and rights, such as warehousing and freight; or
(C) with reference to weather and similar events and activities, having a bearing on the commodity sector;

3. Section 43(5) [Effective from A.Y.2014-15]

Taxpayer provides following information:

	Particulars	**Rs.**
(i)	Surplus from non-speculative business A (Mfg)	4,80,000
(ii)	Surplus from speculative business B	3,22,000
(iii)	Loss from trading in commodity derivatives	1,22,000
(iv)	Loss from business of buying and selling shares of other companies. (Delivery based trading)	2,22,000
(v)	Surplus from trading in stock derivatives	22,000

Find out Income under head PGBP under following two alternatives:
Alternative 1: Taxpayer is Mr. Surana
Alternative 2: Taxpayer is Surana EXIM private Limited

Before, we go to the solution, lets comprehend amendment first.

Trading in commodity derivatives not a speculative transaction [Section 43(5)]

Meaning : Speculative transaction means a transaction involving a contract for purchase and sale of commodities, including stocks and shares, <u>which is periodically or ultimately settled other than by actual delivery or transfer of commodities or scrips</u> [Section 43(5)].

Exceptions: [Proviso to Section 43(5)]

Following transactions are not regarded as speculative transactions

(a) a contract in respect of raw materials or merchandise entered into by a person in the course of his manufacturing or merchanting business to guard against loss through future price fluctuations in respect of his contracts for actual delivery of goods manufactured by him or merchandise sold by him; [Must refer decision of AAR in case of Sopropha S.A (2004) (AAR – New Delhi) in judicial rulings]

(b) a contract in respect of stocks and shares entered into by a dealer or investor therein to guard against loss in his holdings of stocks and shares through price fluctuations;

(c) a contract entered into by a member of a forward market or a stock exchange in the course of any transaction in the nature of jobbing or arbitrage to guard against loss which may arise in the ordinary course of his business as such member;

(d) an eligible transaction in respect of trading in derivatives referred to in clause [(ac)] of section 2 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956) carried out in a recognised stock exchange;

(e) ***<u>an eligible transaction in respect of trading in commodity derivatives carried out in a recognised association.</u>***

Solution:

Alternative 1

Computation of Income under the head 'PGBP' of Mr. Surana

Particulars	**Amount Rs.**	**Amount Rs.**
<u>Non-Speculative Income</u>		
Surplus from non-speculative business A (Mfg)	4,80,000	
Loss from trading in commodity derivatives	(1,22,000)	
Loss from business of buying and selling shares of other companies. (Delivery based trading)	(2,22,000)	
Surplus from trading in stock derivatives	22,000	1,58,000
<u>Speculative Income</u>		
Surplus from speculative business B		3,22,000
Income under the head "PGBP"		**4,80,000**

Alternative 2

Computation of Income under the head 'PGBP' of Surana EXIM Private Limited

Particulars	**Amount Rs.**	**Amount Rs.**
<u>Non-Speculative Income</u>		
Surplus from non-speculative business A (Mfg)	4,80,000	
Loss from trading in commodity derivatives	(1,22,000)	
Surplus from trading in stock derivatives	22,000	3,80,000
<u>Speculative Income</u>		
Surplus from speculative business B	3,22,000	
Loss from business of buying and selling shares of other companies. (Delivery based trading) **[NOTE]**	(2,22,000)	1,00,000
Income under the head "PGBP"		**4,80,000**

<u>NOTE: Explanation to section 73</u>

Where any part (or whole) of the business of a company **consists in the purchase and sale of shares of other companies,** such company shall be deemed to be carrying on a speculation business to the extent to which the business consists of the purchase and sale of such shares.

4. Section 40(a)(iib) [Effective from A.Y.2014-15]

Disallowance of royalty, licence fee, service fee etc. levied exclusively on State Government Undertakings by the State Government [Section 40(a)(iib)]

New clause (iib) has been inserted in section 40(a) to provide that -

(1) any amount paid by way of royalty, licence fee, service fee, privilege fee, service charge, etc., which is levied exclusively on, or

(2) any amount appropriated, directly or indirectly, from a State Government undertaking, by the State Government (SG), shall not be allowed as deduction while computing the income of such undertakings under the head "Profits and gains of business or profession".

Meaning of Certain Terms:-

A State Government undertaking includes:

a. A corporation established by or under any Act of the State Government
b. A company in which more than 50% of the paid up equity share capital is held by the State Government
c. A company in which more than 50% of the paid up equity share capital is held singly or jointly by (a) or (b)
d. A company or corporation in which the State Government has the right to appoint the majority of directors or to control the management or policy decisions
e. An authority, a board or an institution or a body established or constituted by or under any Act of the State Government or owned or controlled by the State Government.