28 Taxable income under head of PGBP

- Profits & Gains of any business or Profession
- Profit on sale of import entitlement licence
- Cash compensatory support/ DBK * DEPB/DFRC
- Key-man Insurance policy, * Non compete fees
- Gift, benefits, perquisite from B or P
- Interest, salary, bonus, commission by partner of firm
- **If Inventory is converted into Capital Asset- FMV on the date of conversion shall be taxable under PGBP**
- **Any compensation received in connection with the termination or modification of the terms and conditions, of any contract relating to BUSINESS shall be taxable under PGBP**

30 Rent, Rates, tax, Repair & insurance of building

Allowed	Disallowed
Rent, rates & Taxes, Insurance, Revenue repairs. (Both= Owner & Tenant)	Capital repair not allowed to both. But Capitalized
	Rent expense not allowed to owner

31 Repair and insurance of P&M & furniture.

Allowed	Disallowed
Rent (u/s 37 to tenant), Insurance, Revenue repairs.	Capital repair not allowed to both. But Capitalized
	Rent exp not allowed to owner

32(1)(i)- Dep for power generating undertaking.
→Optional to follow SLM

32(1)(ii) Depreciation

1. Asset should be used for B or P (Active/passive)
2. Owner (Wholly/partially)
3. Assets used in PY
4. Depreciation on WDV of block of the asset
5. Mandatory to claim dep
6. 50% dep if **put to use** <180 day(yr of acq)
7. Asset should be **PUT to USE** but not ready to use

32(1) (iia) Additional Depreciation

-New P&M (ship & Aircraft- **X**)
-Acquired & Installed
- **MPAT,** Transmission or distribution of power @ 20%
-notified area @ 35% after 01.05.15, for **MPAT** only
- if Put to use for < 180 days (yr of acq)- Dep 50%,balance 50% in next PY
- add depreciation only for **WDV method (not to SLM)**
- **Exceptions- Note 1**

32(2) Unabsorbed Depreciation (set off & C/f)

- **set off** against income under **any head**
- C/F even if buss is closed
-C/F for **Indefinite period**, even if ROI not filed
-Assessee should be same [exceptions)- 72A,72AA,72AB
-priority of set off
1 CY Dep.(depreciation)
2 Brought forward Buss loss
3 Brought forward Dep
4. CE on Scientific research

MPAT= manufacture of production of article or thing
ULF=Unamortised licence fee
T/f= transfer/Transferred
Acq=Acquisition
C/f=Carry forward
GIO=Government of India
Ded= Deduction
Buss=business
SP/SC/SV=Sale consideration
LIP= Lock in period
Dep= Depreciation

32AD Investment in New Plant & machinery by assesses in backward areas of AP, Bihar, Telangana or WB

→**All Assessee** [buss of MPAT]
→from PY **01-04-2015 to 2020**
→**Ded= 15% of actual cost** of such new P&M; **LIP= 5 Years**
→No 50% restriction as 32(1)(1)
→Ded in the year asset installed, PUT to use condition NA(Not applicable)
→Ded not available to Assessee following SLM Method

33 AB Tea/Coffee/Rubber Development account

→**All Assessee**
→**Amount Deposited or 40% of PGBP** } **WEL**
→-Deposit before DD of ROI
→-**Withdrawal** of amount other than specified purpose- **taxable as PGBP** in the year of withdrawal; **LIP= 8 Years**
→- utilise in the year of withdrawal
→Deduction from composite income (Agri +Buss income)

Rule for computing income

Income from	Buz	Agri
Rubber	35	65
Coffee		
*Grown	25	75
*+Roasted	40	60
Tea	40	60

33 ABA Site restoration fund- Petroleum, Natural gas in India

-**Any Assessee**
-**Deposit**- before the end of py
-**Deduction- 20% of profit** Or **-Deposit** } WEL
- Agreement with Govt
- withdrawal- on closure & for specific purpose only
- T/f of asset before 8 years- exemption withdrawn

35 Expenditure on Scientific research

Section	Purpose	Ded	
35(1)(i)	Revenue Expenditure	**100%**	**Incurred** Exp For after or before(3 years) start of buss
35(1)(ii)	Sum **paid to** Research association	**150%**	Object of receiver is **Scientific research** (or) to university, college or others to be used for **research**
35(1)(iii)	**Paid to** University, college or other institute	**100%**	For research in **Social Science or Statistical research** {35(1)(i)/(ii)- must be approved by CG; not buss related}
35(1)(iv)	Capital Expenditure (Except land)	**100%**	**Incurred** On scientific research related to business carried on by Assesse, post exp of 3 years
35(2AA)	approved specified person for scientific res	**150%**	**Paid** to **national laboratory, university, IIT, or specified person** to be used specifically for **Scientific research**
35(2AB)	To Companies for scientific research	**150%**	on an approved **in house research & development facility (except L&B),** Building = 100% under 35(1)(iv)

35ABB Amortisation of telecom license fee / 35ABA Exp. for obtaining right to use telecom services

→ CE of licence fee(paid) is allowed as deduction from the year of payment to end of licence. for before commencement exp, ded = year of start to end of PY(licence last date) in no of years

T/f of licence	SP< ULF=Loss	SP> ULF=Gain
Whole licence is transferred	Deduction in the year of Transfer (ULF –SP)	**Taxable as PGBP** in **the year of sale** **Least** of the following
Part of licence is transferred	Deduction allowed in balance life (ULF- SP)/ bal life	a) SP – ULF b) Deduction allowed till date

35AD Deduction of expenditure on specified business

- **Capital expenditure** (other than Land/ Goodwill/ financial Instrument)
- - 35AD loss set off with 35AD
- post/ after commencement, capital or revenue exp = **100% deduction ;LIP=** 8 years
- If sold or destroyed, entire SP or Insurance Compensation **taxable as PGBP; NO CG**

-Cold chain facility
-Warehousing (agri)
-affordable housing project
-production of fertilisers
-hospital (100 beds)
-X country pipeline oil gas
-Hotel 2**
-slum redevelopment housing
-Inland container depot
-Bee –honey & Bee wax

- warehousing of sugar
-pipeline- iron ore
-Semiconductor- m/f unit
- **Developing/& maintaining /& operating a new infrastructure facility (w.e.f 1/04/17)**

→**No other ded for same exp.**
→**CE In cash > 10,000 in a day to one person is disallowed**

35CCC Expenditure on Agricultural extension project

-**Any Assesse**
-Any Expenditure
-**Ded= 150% of expenditure**
-Condition
*for training, education of farmers
*Prior approval of GOI, ministry of agriculture
*Exp should be **>25L** (Except Land & Building)

35CCD Expenditure of Skill development project

-Eligible Assessee- **Company**
-**Any exp except L & B)**
-Eligible co means any co engaged in MPAT except alcohol, tobacco.
-Training Institute- for new employee < 6 months exp only
-**Ded= 150% of exp**

35D Preliminary expenses

*** Resident person**
*Indian Co. QE= 5% of COP
5% of COP or
5% of CE } **WEH**
Above amount (or)
Actual amount } **WEL= QE**
→ **Ded= $1/5^{th}$ of QE in each of 5 successive PY`s**
→CE= capital Exp →

35DD Amortization of Exp in case of amalga. or demerger

→**Indian Co**
→**Ded= $1/5^{th}$ of such expenditure for each of 5 successive PY`s**
→From the PY in which amalgamation or demerger takes place

COP=Cost of project

35DDA Amortisaiton of expenditure on VRS.

→ **Any Assesse**
→**Ded= $1/5^{th}$ of the amount so paid deductable in 5 succeeding PY`s**
→From the PY in which amount paid

35E Expenditure on prospecting, etc for minerals

→**Indian Co**
→Any Exp of **5 YR** (Yr of start + 4 years prior to start)
→**Ded= equally in 10 years**
$1/10^{th}$ of QE } **WEL**
Income of PY

36 Other deduction as specified

→Insurance premium of stocks
→Ins premium on life of cattle
→Insurance on Health of emp
→Bonus or commission to emp
→Interest on borrowed capital
→Discount on ZC Bond
→Employer contribution to RPF/ Approved superannuation fund

→Contribution towards pension scheme u/s 80CCD
→Employer contribution to an approved Gratuity fund
→Allowance in respect of dead or permanently useless animals
→Bad debts
→Provisions for Bad & Doubtful debts

→Special reserve created by specific entity carrying on eligible business
→**Revenue Exp** on promoting family planning amongst the employee of **company only (CE=Equal amount in 5 years)**
→STT, CTT paid
→Expenditure incurred for purchase of sugarcane

	37(1) General deduction	37(2B) Contribution to political party	40(a)(i) Amount paid to Non-resident without deducting tax	40(a)(ia) Amount paid to resident without deducting tax	Below expenses are not deductable	40(a)(iib) Amount paid by of royalty, licence fee appropriated from State Govt
→**Recoveries from Employees** towards welfare fund are **Deemed buss income.** **Deduction** allowed only if the same is **paid before filing ROI** u/s 139(1)- AIMIL Delhi HC →**Marked to market loss or other expected loss as per ICDS [refer 40A(3)]**	→ exp not allowed u/s 30 to 36 →Not a Capital expenditure →Not a prior period, personal →Only for business purpose →Not contrary to prov of law →CSR exp is not allowed	→For expense not allowed as deduction u/s 37 →For donation, Deduction allowed u/s 80GB, 80GGC **40(a)(1b)-** Non compliance with **Equalisation levy- Disallowed** if not deducted or paid **@ 6%** before DD of RO **Ceiling limit = 1L (aggregate)**	→Interest, royalty, fee for technical services **paid to NR/FC o/s India or NR/FC in India** without deducting/ payment of TDS →**100% of Exp disallowed** →Allowed in PY TDS deducted or Paid	→Amount paid to Resident on which TDS Not deducted/paid **30% of exp disallowed** →Allowed in PY TDS deducted or Paid →Palam Gas Services 2017(SC) U/s 40(a)(1a)(/1), word "payable" means **amount yet to be paid or actually paid**	**40(a)(ii)** Payment of IT **40(a)(iia)** Payment of wealth tax **40(a)(iii)** Payment made to non-resident as salary without deducing TDS- **100%** **40(a)(v)** Payment of taxes in respect of non-monetary perquisites	→Any exclusive payments in form of royalty, licence fee, service fee, privilege fee, other charges paid to state govt by SG undertaking **the same shall be disallowed.** If levied by CG then No disallowance.

40(b) Deduction in respect of payment to partner		40 A(2) payment made to relatives	40A(3) Exp not deductible under certain if exp > 10,000	40A (7) Provision for Gratuity
→<u>Remuneration paid to Partner</u> • Non working partner - **X** • Not authorised by deed - **X** • Not as per deed - **X** • For prior period - **X** →<u>Maximum remuneration</u> (As per Book profit U/s 28) a) First 3L or Loss- **Rs. 1.5 L or 90 % of BP WEH** b) On bal BP = **60 %** • Remuneration paid to HUF as a partner – **X**	→ <u>Interest paid to partners</u> • Not authorised by deed - **X** • Prior period interest - **X** • Max interest-_ **12%** • Allowed to HUF as partner **40(ba)** Disallowance applicable to AOP/BOI Fully disallowed -Interest- Net disallowed -Int paid to non member capacity allowed -Salary disallowed	→ **Disallowed** to the extent such expense is considered by the Assessing officer to be excessive or unreasonable. →No disallowance if such T/s is at **ALP** →NA to domestic Transfer pricing →Applies to Expenditure only →NA to Trade discounts **NA= Not Applicable**	→Payment of aggregate of payment made to a person in a day, other than the account payee cheque **exceeding Rs. 10,000/-** per day per person **Is Disallowed** (whole amount) → In case of **Transporter** the limit is Rs. **35,000/-** →**Exception** to this section are given in Rule **6D** →For Section 40A(3A) Same limit as above	Is **disallowed** **Except** →Provision for contribution to **recognised fund** (or) **Actual payment** Ex. Annual premium **paid to LIC** for Gratuity- **Allowed** **40 A (9)** →Contribution by employer to unrecognised/ NON Statutory Fund is **Disallowed** to RPF, SF, AGF or approved pension fund **– u/s 36(iv)**

41 Profit chargeable to tax	Taxable in PY
41(1) Taxability of Recovery of Exp & Remission & cessation of trading liabilities	Amount recovered
41(2) Balance Charge	Asset is sold/ TF, **SC> WDV** (SLM method asset)
41(3) Surplus**=(SC+ Deduction- cost) or Deduction WEL**	Sale took place
41(4A) Special Reserve	When It is recovered
41 (4) Recovery of Bad Debts	When it is recovered
41(5) Adjustment for Loss of PY in which business is discontinued	Can be adjusted against the above income [41(1) to 41 (iv)] in any subsequent year

43A Foreign exchange fluctuation	43B Disallowance of unpaid liability	43C Special provision for computation of COA of certain Assets (on T/F in case of)	43CA Full Value of Consideration for Transfer of L & B Held as Stock in trade	43D Special Provision in case of income of PFI,public co etc	43(1) Actual cost of assets
• Asset acquired O/s India • Loan taken in foreign currency • Payment made actually in PY • Amount paid – amount recorded in books= **difference to add/ sub to WDV of block** Foreign exchange gain or loss Except above w.r.t Debtor or creditor to be taken as if • **Gain** = PGBP income or • **Loss**= deduction u/s 37(1)	• Employers Contribution to RPF or other Emp.(e) welfare fund • Tax. Duty, cess etc. • Bonus or commission to Emp. • Int. payable to PFI or Banks • Leave salary(Leave encash.) • Payment to Indian Railways for use of railway Assets →**Allowed if paid on or before filing of ROI**. Otherwise allowed in the year paid	• Amalgamation • Partition of HUF • Assets by Gift or will • Irrevocable trust **COA=** COA to previous owner + cost of improvement + expenditure on transfer	• Sale consideration = $\left.\begin{array}{l}\textbf{Sale consideration}\\ \textbf{Or}\\ \textbf{Stamp duty value}\end{array}\right\}$ **WEH** **SDV**= on the date of agreement (if any amount paid on or before date of agreement) or else date of transfer. (refer CG Chapter)	Income by way of interest in relation to bad & doubtful debts **taxable in PY** in which $\left.\begin{array}{l}\text{Interest received or}\\ \textbf{Credited}\end{array}\right\}$ **WEE** Exp for acquisition of asset full or part, **paid in cash exceeding 10K** in a day to a person to be **ignored for COA u/s 43(1)** →	• Scientific research asset *By gift, will, inheritance * Second hand asset • Reacquisition of asset • Sale & Lease back, 35 AD asset • Building used for non business purpose , T/f by HC to sub co *Amalgamation, demerger *Int. on borrowing, subsidy • Adjustment of CENVAT credit • Asset by NR brought in India • **If Inventory is converted into CA- FMV on the date of conversion = COA of CA**

43(6)
WDV= Cost – Depreciation

	Sec 50	Sec 50A
For	**Block of assets**	**SLM method**
When	Block ceases	T/f of asset
COA	Op WDV + CY pur	WDV+ BC WDV- TD
CG	**Always STCG**	STCG/LTCG

44A Special provision for deduction in case of Trade	44AA Compulsory maintenances of accounts	44AB Audit of books of accounts	44AD Presumptive income **other than transport business**	44ADA Presumptive income of **profession**	44AE Presumptive income of **transport business**	
Professional or similar association <u>Deficiency allowed U/s 44A</u> • **Deficiency** = Rs. 25,000/- **or** • **50% of other income**= 37,500 (75,000 * 50%) **WEL is allowed u/s 44A**	professional or similar association	Compulsory audit for • **Business- TO > 1 Cr** • **Profession- TO > 50L** • 44AE , BB, BBB ,ADA, AD **showing lower income** than prescribed under relevant section	• **Individual(R),HUF,Firm(no LLP)** • **TO shall not exceed 2 Crore** • **Estimated income= 8% of gross receipts or higher claim** • Declared income as per 44AD in PY then bound to declare income u/s 44AD for next 5 years. No other exp deduction • **For non cash receipt = 6%** • Can set off business loss	• **All Resident Assessee** • **Gross receipts < 50Lacs** • **50% of gross receipts are deemed as income U/H PGBP** • No deduction of exp allowed • Not required to maintain books of accounts • Not required to get audited	• **Any Assessee** *Own vehicles **<= 10** goods carriage during PY (anytime) • **<u>For Heavy Vehicles</u> (i.e. Gross vehicle weight/unladen weight > 12,000 Kgs) income =Rs.1,000 / ton of gross vehicle weight/unladen weight PM (part month =full) per truck or actual WEH** • **<u>Other than Heavy Vehicle</u>** $\left.\begin{array}{l}\textbf{Income= Rs. 7,500 PM/part}\\ \textbf{or actual income}\end{array}\right\}$ **WEH**	**BC**= Balance charge **TD**= terminal Depreciation **COA**= Cost of acquisition **TO**= Turnover; **INT**= Interest **O/s** = Outside **NR**= Non Residence **FC**= Foreign Company **Co**= Company **Agri**= Agriculture **ROI**= Return of Income

43CB- Income from Construction & Service contract [FA 2018]

- The **profits & gains** [P&G] from a construction contract(cc) or a contract for providing services shall be determined **on the basis of POCM** as pre ICDS
- P&G from contract for service is determined as given below
  1) **Duration<= 90 days**-P&G on the basis of **PCM**
  2) involves **indeterminate no of acts** over specified period- P&G on the basis of Straight line method (**SLM method**)

- For the purpose of POCM, PCM, SLM methods
  1. Contract revenue shall **include- Retention money**
  2. Contract cost **shall not be reduced by incidental income** like interest, dividend or CG

- POCM=percentage completion method
- PCM=project completion method

Valuation of Inventory- 145A

For the purpose of determining PGBP, valuation shall be as under.

- **Inventory=** @Actual cost or NRV WEL
- **Purchase & Sale** of goods & services & **Inventory** shall **include taxes, cess and expenses** incurred to bring goods/ services to the location on the date of valuation
- **Unlisted**, listed but **unquoted** inventory of **security** = **@ Actual cost** as given in ICDS
- **Listed Security** = @ **Actual cost or NRV WEL** As given in ICDS. **Comparison** of Actual cost & NRV shall be done **Category wise**

145B

- **Interest** received on compensation/enhanced compensation deemed to be the **income of PY** in which **it is received**
- The **claim for escalation of price** in a contract or **export incentives** shall be deemed to be the income of PY in which it is **reasonable certainly** of its realisation is achieved.
- **Governments grants** excluding, grants related to specific fixed asset or grants or subsidy for the purpose of corpus of a trust shall be deemed to be the income of the previous year in which it is **received**, if not charged to income-tax in any earlier previous year

40A(13) MTM losses or expected loss [FA 2018]

- No deduction of allowance shall be allowed in respect of any marked to market loss or other expected loss, except as allowable U/s 36
- Expected losses **allowable** & marked to market losses allowable as per ICDS
  - **Inventory=** @Actual cost or NRV WEL
  - **Unlisted**, listed but **unquoted** inventory of **security** = **@ Actual cost** as given in ICDS
  - **Listed Security** = @ **Actual cost or NRV WEL** As given in ICDS. **Comparison** of Actual cost & NRV shall be done **Category wise**
  - Foreign exchange fluctuation losses
  - Losses on construction contracts

MTM losses not allowed are

- Write down of investment.
- Impairment loss on FA
- Loss on Derivative instrument, where contract is not settled
- Financial assets/ liabilities where Fair value measurement losses policy is adopted.

Rate of Depreciation

- **Buildings**
  - Residential **= 5%**
  - General **= 10%**
  - Temporary Structure **= 40%**
- **Furniture & Fixtures = 10%**
- **Plant & Machinery**
  - P&M- General **= 15%**
  - Renewal energy (Wind mill)**=40%**
  - Motor Cars (non business)**= 15%**
  - Motor car, buses, lorries etc. used in hiring business **= 30%**
  - Books for profession **= 40%**
  - Books for running library **= 40%**
  - **Aeroplanes= 40%**
  - Air/water Pollution control equipments**= 40%**
  - Computers(but not s/w)**= 40%**
  - Ships= 20%
  - Oil Wells**= 15%**
- **Intangible Assets**
  Know-how, patents, copy-rights, trade marks, licence, franchises or any other business or commercial rights of similar nature **= 25%**

Note-1

No deduction to be allowed (for additional deprecation in respect of:

- Second- Hand P or M (Indian/imported)
- P or M – installed at Office/residence/ guest house
- Office appliances or road transport vehicles
- P or M on which deduction U/s 35(1)(iv) is allowed (whole cost)

36(1)(viia) Provision for Bad & doubtful debts of Banks/NBFC

Indian bank	**Public Financial, State financial corporation etc.**	**Foreign Bank**	**NBFC**
Amount of deduction allowable in respect of provision for bad and doubtful debts.			
8.5% of Total Income **+** **10%** of aggregate average advances made by rural branches	**5%** of Total Income	**5%** of Total Income	**5%** of Total Income

36(viii)- Transfer to Special reserve

- **Eligible Assessee-** Financial Corporation's (ICICI, IDBI, PFC, REC etc), Banking Co including co-operative banks.
- **Quantum of deduction-lower of**
  - Amount **transferred in PY** in special reserve A/c, or
  - **20%** of the profits derived from the business activities (specified)
  - **200% of** the

Paid share capital(last day of PY)	XXX
Add :General reserve (last day of PY)	XXX
Less: Balance of Special reserve A/c (1^{st} day of PY)	(XXX)
	XXX

(Amount withdrawn from reserve is taxable as PGBP)

Deduction in respect of Expenditure on production of Feature films in case of film Producer/ Distributor

Situations	**Films released before 1st Jan, 19**	**Films released after 1st Jan, 19**
Film Producer/ Distributer **sells all rights** of exhibition of the film in PY	**Deduction** = entire Cost of production	**Deduction** = entire Cost of production
Film Producer/ Distributer - Himself Exhibits film or -sells rights in some areas or - Himself exhibits the film or sells the rights in some/all the areas	**Deduction** = entire Cost of production	**Deduction** = entire Cost of production **Or** Amount realised by exhibiting the film & sale of rights of exhibition **WEL**

Notes

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