

# Income From Business / Profession

## Deductions :-

- Revenue Expenditure of Building which used for Business & Profession.

(u/s30)

- Revenue Expenditure of Plant & Machinery which used for Business & Profession.

(u/s 31)

- Depreciation :-

(u/s 32)

✓ Special Points :

- (a) Ownership of Assets;
- (b) Used for Business / Profession;
- (c) Used within previous year.

✓ Chargeability :

- If assets used for  $180 > \text{days}$  = Full Depn. Charged.
- $180 \leq \text{days}$  = Half Depn. Charged.

✓ Sale Of Assets by Power Sector:

| <i>Sale Value &lt; WDV</i> | <i>Sale Value &gt; Actual Cost</i> | <i>Sale Value &gt; WDV</i> |
|----------------------------|------------------------------------|----------------------------|
| Difference = Depn.         | Capital Gain                       | Business Income            |

✓ Block of Assets :

- (i) Group of same % of Depn. Of Assets; &
- (ii) Divided in Tangible & Non-Tangible Assets.

✓ Method of Depreciation :

- Normally = WDV
- Power Sector = SLM

- ✓ Enhance Depreciation :  
→ Additional 20 % Depn. For Manufacturing / Production Factories for specific new Plant & Machinery Purchased.
- ✓ Unabsorbed Depreciation
- ✓ Actual Cost :

| <i>Case</i>                                                                        | <i>Actual Cost</i>                                                                     |
|------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| Assets acquire by Inheritance/Gift                                                 | WDV                                                                                    |
| Assets at Lease                                                                    | WDV                                                                                    |
| Assets tfd. By holding Co. to Subsidiary Co. OR Vice Versa                         | WDV                                                                                    |
| Assets brought to India by Non-Resident assessee in his Business or Profession     | WDV                                                                                    |
| Tfd. of assets of Amalgamation OR Demerger resulted Indian Company                 | WDV                                                                                    |
| Assets acquire for scientific Research subsequently used for Business / Profession | Cost        XXX<br>- Deduction<br>(u/s 35) <u>(X)</u><br>Actual Cost <u>XXX</u>        |
| Assets tfd. By assessee & acquired by him                                          | (a) WDV; OR<br>(b) Repurchase Price.<br>Whichever is LESS.                             |
| Building used for Pvt. Purpose subsequently Business purpose                       | Pur. Cost        XXX<br>- Dprn.(Business Purpose) <u>(X)</u><br>Actual Cost <u>XXX</u> |
| Assets acquire by levy of CENVAT/Custom                                            | Cost                XXX<br>- Duty <u>(X)</u><br>Actual Cost <u>XXX</u>                 |

➤ Deduction for Specific Business : -

✓ Tea, Coffee & Rubber Dept. (u/s 33AB)

- (i) 40 % of Profits; OR
  - (ii) Amt. Deposited in NABARD.
- Whichever is LESS.

✓ Petroleum & Natural Gas Products. (u/s 33BA)

- (i) 20 % of Profits; OR
  - (ii) Amt. Deposited In SBI.
- Whichever is LESS.

➤ Scientific Expenditure : - (u/s 35)

| <i>In-house Research</i> |                      | <i>Contribution to<br/>Approved Institution</i> |
|--------------------------|----------------------|-------------------------------------------------|
| <i>Specific Company</i>  | <i>Other Company</i> |                                                 |
| 150 % of Expenditure     | 100 % of Expenditure | 125 % of Contribution                           |

- “Specific Company” means includes following,
  - 1. Bio-Technology,
  - 2. Drug & Parma,
  - 3. Tele Communication,
  - 4. Equipments,
  - 5. Electronic,
  - 6. Computer Equipments,
  - 7. Chemical & other notified by board.

➤ Amortion of Preliminary Expenses : - (u/s 35D)

- Spread over 5 yrs. i.e. 20 % p.a.
- Ceiling limit 5 % Cost of Production.

➤ Amortion of exp. Of Amalgamation/Demerger :- (u/s 35DD)

- Spread over 5 yrs. i.e. 20 % p.a.

- VRS Compensation : - (u/s 35DDA)
  - Spread over 5 yrs. i.e. 20 % p.a.
  - Applicable also for Part Payment.

- Exp. For Prospecting Minerals : - (u/s 35E)
  - Spread over 10 yrs. i.e. 10 % p.a.

- Expenditure obtaining Telecommunication Service : - (u/s 35ABB)

- ✓ Amt. of Deduction :

$$\frac{\text{Expenditure Incurred}}{\text{No. of Yrs. License}}$$

- ✓ Type of Sale :
  - (A) Entire Sale; &
  - (B) Partly Sale.

(A) Entire Sale:-  
 $\text{Sale Value} < \text{Remaining Cost}$

Then Loss/Deficit Allowed for deduction.

(B) Partly Sale:-

| <i><b>Condition</b></i>     | <i><b>Solution</b></i>                  |
|-----------------------------|-----------------------------------------|
| Sale Value < Remaining Cost | Balancing Fig.<br>Remaining No. of Yrs. |
| Sale Value > Remaining Cost | Business Income *                       |

\* After that not allowed to further deductions.

\* Business Income = Surplus

\* If the Surplus > Previous Deductions = Capital Gain

Surplus < Previous Deductions = Admissible Income

- Expenditure on eligible for scheme/projects or contributing to any projects/scheme approved by National Committee allowed for deduction.  
(u/s 35AC)
- Contributing to rural Development programs allowed for deduction but approved by National Committee.  
(u/s 35CCA)



### INADMISSIBLE EXPENDITURE :-

- Disallowed in all Cases : [u/s 40(a)]
  - ✓ Interest, Royalty, Fees for technical services or any other sum paid to 'NR' without TDS.
  - ✓ Interest, Commission/Brokerage, Royalties, Fees for Technical / Professional services, Rent, Contractor / Sub- Contractor to 'Resident' without TDS.
  - ✓ All Direct Taxes not allowed for deduction.
  - ✓ Tax born by Employer on behalf of Employee in respect of Non-Monitory perquisite because exempt (u/s 10 (10CC)).
- Assessment of Firms : - [u/s 40(b)]
  - ✓ Book Profit  
= Profits as per I. Tax Provisions + Remuneration paid to Partner.
  - ✓ Interest on Capital is Disallowed :
    - (i) More than 12 % p.a.;
    - (ii) Not authorized by Deed; OR
    - (iii) Interest before Partnership Firm.

- ✓ Salary, Bonus, Remuneration, Commission to Partner is Disallowed if:
  - (i) Not allowed by Deed;
  - (ii) Before the Partnership;
  - (iii) Not paid to working Partner;
  - (iv) Excess Prescribed limit.

- ✓ Prescribed Limit :

| <b>Book Profit</b>          |                            | <b>Remuneration<br/>To Partner</b>                          |
|-----------------------------|----------------------------|-------------------------------------------------------------|
| <b>Professional Firm</b>    | <b>Other Firm</b>          |                                                             |
| 1 <sup>st</sup> Rs. 1 Lakhs | 1 <sup>st</sup> Rs. 75 Th. | Rs. 50 Th. OR<br>90 % of Book Profit<br>Whichever is Higher |
| Next Rs. 1 Lakhs            | Next Rs. 75 Th.            | 60 %                                                        |
| Balance                     | Balance                    | 40 %                                                        |

- Disallowed in case of AOP / BOI : - [u/s 40(ba)]
  - Interest, Salary, Bonus, Commission, Remuneration paid to member is disallowed if,
    - ✓ Difference between paid & Receive to member is Disallowed.
    - ✓ Interest paid due to individual capacity is Disallowed.
- Excess Payment to Specific Member : - [u/s 40A(2)]
  - ✓ Applicable if excess payment to specific member.
  - ✓ Computation:
 

|                              |            |
|------------------------------|------------|
| Actual Payment               | XXX        |
| - FMV of Such Payment        | <u>(X)</u> |
| Amount allowed for Deduction | <u>XXX</u> |
- Cash Payment Excess of Rs. 20 Th. : - [u/s 40A(3)]
  - ✓ Entire amount Disallowed.

✓ Allowed only if payment by “A/c payee” Cheque / Draft.

➤ Provision for Gratuity : - [u/s 40A(7)]

- ✓ Deduction only if actual payment Basis.
- ✓ No deduction only for Provision.

➤ Deduction for Actual Payment : - (u/s 43B)

Following payments are allowed only if it is actually paid:

- ✓ Tax / Duty to Govt.;
- ✓ Contribution in RPF/SPF/Gratuity/any other recognized welfare Funds;
- ✓ Interest on Loans & Advances from:
  - (i) Financial Institutions,
  - (ii) State Finance Corporation,
  - (iii) State Industrial Investment Corporation,
  - (iv) Scheduled Banks;{Note – If unpaid Interest converted in to Loan allowed for deduction at time of payment.}
- ✓ Any advance payment not allowed as Deduction.

➤ Presumptive Business Income:

| Provision                       | u/s 44AD                                                     | u/s 44AE                                                                            | u/s 44AF                                        | u/s 44B                                    | u/s 44BB                                                                                    | u/s 44B                                                    | u/s 44BBB                                                                                                                                                       |
|---------------------------------|--------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------|--------------------------------------------|---------------------------------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Nature &amp; Eligibility</b> | Civil construction business having Turnover $\leq$ 40 lakhs. | Transport business having No. of vehicles $\leq$ 10.                                | Retail Traders having Turnover $\leq$ 40 lakhs. | Non-resident engaged in shipping business. | Non-resident supplying Plant & Machinery used in prospection or extraction of mineral oils. | Non-resident engaged in business of operation of aircraft. | Foreign company engaged in Civil construction or extraction of Plant & Machinery or testing or commissioning thereof in connection with turnkey power projects. |
| <b>Income</b>                   | 8% or more of turnover.                                      | Heavy vehicle = Rs.3,500/- or<br>Other vehicle = Rs.3,150/-<br>(p.m. & per vehicle) | 5 % or more of turnover.                        | 7.5% or more of turnover.                  | 10% or more of turnover.                                                                    | 5 % or more of turnover.                                   | 10% or more of turnover.                                                                                                                                        |

→ Notes: In above table, taxable income treated as Actual Income & Presumptive Income whichever is higher.