GENERAL DEDUCTIONS [Sec. 37]

Any expenditure (not being expenditure of the nature described in sec. 30 to 36) means Any kind of revenue expenditure will normally come in this category. Loss through embezzlement by an employee is allowed as deduction.

Not allowed as deduction :-

Expenses made in personal, social or religious nature like diwali bonus or something…..

Any expenditure incurred by an assessee for any purpose which is an offence

ADVERTISEMENT EXPENDITURE like Brochure, Pamphlet

INADMISSIBLE EXPENDITURE [Sec. 40, 40A, 43B]

SECTION 40(a)

• Interest, salary, royalty, fees for beneficial services or any other sum payable outside India is not deductible
unless tax is deducted at source or tax is paid.

• Income Tax and Wealth Tax are not deductible.
• Any tax paid by the employer on the perquisites not provided by way of monetary payment is not deductible
in computing business income of the employer.

DISALLOWANCE IN THE CASE OF PARTNERSHIP FIRMS

- Interst and Remuneration should be allowed in the partnership deed.
- Interst should not exceed 12% per annum.
- Remuneration should be given on the basis of book profit.

- If book profit are upto Rs.3lakh then remuneration can be 1.5lakh or 90% of book profits.
- If book profit are above Rs.3lakh then remuneration can be 60% of book profits.
- If can be given only to working partner.

DISALLOWANCE IN THE CASE OF ASSOCIATION OF PERSONS AND BODY OF INDIVIDUALS

Any payment by way of interest, salary, bonus, commission or remuneration paid by an association of persons
or body of individuals to any of its members shall be disallowed

If a person is a member in his representative capacity in the AOP or BOI and if he received interest in his individual capacity from the AOP or BOI such interest should not be disallowed

Specified Persons :-
Where an assessee incurs any expenditure and whose payments is given to specified employee then it shall not be allowed as deduction upto the AO thinks it excessive .

Example :- A co. buys furniture from B who is A's wife and pay her Rs.50000. But AO says that 10000 are paid in excess of the market value. Then such 10000 Rs. Will not allowed as deduction.

DISALLOWANCE OF CASH EXPENDITURE EXCEEDING ` 20,000

- **If payment made in excess of 20000 from the way other than account payee cheque drawn /draft.**
- **Then whole deduction will be disallowed.**

- **Limit for transporters is Rs.35000**
- **This section is subject to the rules of 6DD.**

Exceptions under 6DD:-

- Payment made to Govt, in any form
- Payment is made in a villege where there is no bank.
- Payment is made in respect of gratutity , retrenchment compensation or similar terminal benefits where salary of the employee doesn't exceed Rs. 7500
- payment is made by an authorised dealer
- Payment made for purchase of goods which are made without the aid of power.
- Payments made by way of any Letter of Credit, telegraphic transfer or Bill of Exchange payable to a bank.

PROVISION FOR GRATUITY - No deduction unless made from approved gratuity fund.

NON STATUTORY/UNRECOGNISED WELFARE FUND CONTRIBUTIONS - No deductions.

DEEMED PROFIT/DEEMED INCOME :-

Where deduction has been made in respect of loss, expenditure or trading liability for any year and subsequently
the assessee or successor of the business has obtained any amount will be called deemed profit/income.

Example :-

- stock is destroyed by fire and insurance received.
- credit purchase of raw material is made and claimed as deduction but later, a lesser amount is settled for payment. Then such difference will be deemed profit.

- Balancing charge.
- Any amount realised on transfer of an asset used for scientific research is taxable as business income to the extent of deduction.
- bad debt earlier allowed as deduction subsequently recovered.
- Any income received even after discontinued business.
- any sum is found cash credited in the books, unexplained investment and others found for which assessee has no explanation will be taxable.

SECTION 43B

Certain expenses are allowed only on payment basis within a stipulated time period irrespective of method of accounting and the evidence of such payment is furnished alongwith the return of income.

Nature of expense such as :-

I. tax, duty, cess or fee or by whatever name called.
II. Bonus or commission for services rendered.
III. Interest paid to any public financial institutional/ schedule bank.
IV. contribution to any provident fund of superannuation fund or gratuity fund

Regards
Renu