



Income Tax Department

Government of India

III. Profits and Gains from Business and Profession

3.1 Chargeability:

The following incomes are chargeable to tax under the head Profit and Gains from Business or Profession:

S. No.	Section	Particulars
1.	28(i)	Profit and gains from any business or profession carried on by the assessee at any time during the previous year
2.	28(ii)	Any compensation or other payment due to or received by any specified person
3.	28(iii)	Income derived by a trade, professional or similar association from specific services performed for its members
4.	28(iiia)	Profit on sale of a license granted under the Imports (Control) Order 1955, made under the Import Export Control Act, 1947
5.	28(iiib)	Cash assistance (by whatever name called) received or receivable by any person against exports under any scheme of Government of India
6.	28(iiic)	Any duty of Customs or Excise repaid or repayable as drawback to any person against exports under the Customs and Central Excise Duties Drawback Rules, 1971.
7.	28(iiid)	Profit on transfer of Duty Entitlement Pass Book Scheme, under Section 5 of Foreign Trade (Development and Regulation) Act, 1992
8.	28(iiie)	Profit on transfer of Duty Free Replenishment Certificate, under Section 5 of Foreign Trade (Development and Regulation) Act 1992
9.	28(iv)	Value of any benefits or perquisites arising from a business or the exercise of a profession.
10.	28(v)	Interest, salary, bonus, commission or remuneration due to or received by a partner from partnership firm
11.	28(va)	a) Any sum received or receivable for not carrying out any activity in relation to any business or profession; or b) Any sum received or receivable for not sharing any know-how, patent, copyright, trademark, licence, franchise, or any other business or commercial right or information or technique likely to assist in the manufacture of goods or provision of services.
12.	28(vi)	Any sum received under a Key man Insurance policy including the sum of bonus on such policy
12A.	28(via)	Any profit or gains arising from conversion of inventory into capital asset.
13.	28(vii)	Any sum received (or receivable) in cash or in kind, on account of any capital assets (other than land or goodwill or financial instrument) being demolished, destroyed,

		discarded or transferred, if the whole of the expenditure on such capital assets has been allowed as a deduction under section 35AD
14.	Explanation to section 28	Income from speculative transactions. However, it shall be deemed to be distinct and separate from any other business.
15.	41(1)	<ul style="list-style-type: none"> • Remission or cessation of liability in respect of any loss, expenditure or trading liability incurred by the taxpayers • Recovery of trading liability by successor which was allowed to the predecessor shall be chargeable to tax in the hands of successor. Succession could be due to amalgamation or demerger or succession of a firm succeeded by another firm or company, etc. • Any liability which is unilaterally written off by the taxpayer from the books of accounts shall be deemed as remission or cessation of such liability and shall be chargeable to tax.
16.	41(2)	Depreciable asset in case of power generating units, is sold, discarded, demolished or destroyed, the amount by which sale consideration and/ or insurance compensation together with scrap value exceeds its WDV shall be chargeable to tax.
17.	41(3)	Where any capital asset used in scientific research is sold without having been used for other purposes and the sale proceeds together with the amount of deduction allowed under section 35 exceed the amount of the capital expenditure, such surplus or the amount of deduction allowed, whichever is less, is chargeable to tax as business income in the year in which the sale took place.
18.	41(4)	Where bad debts have been allowed as deduction under Section 36(1)(vii) in earlier years, any recovery of same shall be chargeable to tax.
19.	41(4A)	Amount withdrawn from special reserves created and maintained under Section 36(1)(viii) shall be chargeable as income in the previous year in which the amount is withdrawn.
20.	41(5)	Loss of a discontinued business or profession could be adjusted from the deemed business income as referred to in section 41(1) , 41(3) , (4) or (4A) without any time limit.
20A.	43AA	Any foreign exchange gain or loss arising in respect of specified foreign currency transactions shall be treated as income or loss. Such gain or loss shall be computed in accordance with notified ICDS [subject to Section 43A]
21.	43CA	<p>Where consideration for transfer of land or building or both as stock-in-trade is less than the stamp duty value, the value so adopted shall be deemed to be the full value of consideration for the purpose of computing income under this head.</p> <p>However, no such adjustment is required to be made if value adopted for stamp duty purposes does not exceed 110% of the sale consideration.</p> <p>Note:</p> <p>To boost the demand in the real-estate sector and to enable the real-estate developers to sell their unsold inventory at a lower rate, the safe harbour limit is increased from existing 10% to 20% in case of transfer of residential property during the period from 12-11-2020 to 30-06-2021 by way of the first-time allotment to any person. Further, the consideration received or accruing as a result of such transfer should not exceed Rs. 2 crores.</p>
21A.	43CB	The profits and gains arising from construction contract or a contract for providing service is to be determined on the basis of percentage completion method, in

		<p>accordance with the notified ICDS.</p> <p>In case of contract for providing services with duration of not more than 90 days, the profits and gains shall be determined on basis of project completion method.</p> <p>While as in case of contract for providing services with indeterminate number of acts over a specified period of time shall be determined on basis of straight line method.</p>
22.	43D	<p>As per RBI Guidelines, Interest on bad and doubtful debts of Public Financial Institution or Scheduled Bank or [a co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank] or State Financial Corporation or State Industrial Investment Corporation, shall be chargeable to tax in the year in which it is credited to Profit and Loss A/c or year in which it is actually received, whichever happens earlier.</p> <p>With effect from Assessment Year 2020-21, the Finance (No. 2) Act, 2019 has covered 'Deposit Taking NBFCs' and 'Systemically Important Non-deposit Taking NBFCs' in the ambit of 43D. Hence, such NBFCs shall be able to recognize interest on bad and doubtful debts in the year in which it is credited to Profit and Loss A/c or year in which it is actually received, whichever happens earlier.</p> <p>Deposit Taking NBFC' means a NBFC which is accepting or holding public deposits and is registered with the RBI.</p> <p>'Systemically Important Non-deposit Taking NBFC' means a NBFC which is not accepting or holding public deposits and having total assets of not less than Rs. 500 crore as per the last audited balance sheet and is registered with the RBI.</p>
23.	43D	<p>Similarly as per NHB Guidelines, Interest on bad and doubtful debts of housing finance company, shall be chargeable to tax, in the year it is credited to P & L A/c or year in which it is actually received by them, whichever is earlier.</p>
24	—	<p>Assistance in the form of a subsidy or grant or cash incentive or duty drawback or waiver or concession or reimbursement (by whatever name called) by the Central Govt. or State Govt. or any authority or body or agency to the assessee would be included in definition of income as referred to in Section 2(24). However, in the following cases subsidy or grant shall not be treated as income:</p> <p>i) The subsidy or grant or reimbursement which is taken into account for determination of the actual cost of the asset in accordance with the provisions of Explanation 10 to clause (1) of Section 43;</p> <p>ii) The subsidy or grant by the Central Government for the purpose of the corpus of a trust or institution established by the Central Government or a State Government, as the case may be.</p>

[3.2 Deductions under Sections 30 to 37](#)

Amount deductible, while computing, Profits and Gains of Business or Profession are:-

Section	Nature of expenditure	Quantum of deduction	Assessee
30	Rent, rates, taxes, repairs (excluding capital expenditure) and insurance for premises	Actual expenditure incurred excluding capital expenditure	All assessee
31	Repairs (excluding capital expenditure) and insurance of machinery, plant and furniture	Actual expenditure incurred excluding capital expenditure	All assessee
32(1)(i)	Depreciation on	Allowed at prescribed percentage on Straight Line	Assessee engaged in business of generation

	<p>i) buildings, machinery, plant or furniture, being tangible assets;</p> <p>ii) know-how, patents, copyrights, trademarks, licenses, franchises, or any other business or commercial rights of similar nature not being goodwill of business or profession, being intangible assets</p>	<p>Method for each asset</p> <p>Provided that where an asset is acquired by the assessee during the previous year and is put to use for a period of less than one hundred and eighty days in that previous year, the deduction in respect of such asset shall be restricted to fifty per cent of the amount calculated at the percentage prescribed for an asset.</p>	<p>or generation and distribution of power</p> <p>Note:</p> <p>Taxpayers engaged in the business of generation or generation and distribution of power shall have the option to claim depreciation either on basis of straight line basis method or written down value method on each block of asset.</p>
32(1)(ii)	<p>Depreciation on</p> <p>i) buildings, machinery, plant or furniture, being tangible assets;</p> <p>ii) know-how, patents, copyrights, trademarks, licenses, franchises, or any other business or commercial rights of similar nature not being goodwill of business or profession, being intangible assets</p>	<p>Allowed at prescribed percentage on WDV method for each block of asset</p> <p>Provided that where an asset is acquired by the assessee during the previous year and is put to use for a period of less than one hundred and eighty days in that previous year, the deduction in respect of such asset shall be restricted to fifty per cent of the amount calculated at the percentage prescribed for an asset.</p>	All assesseees
32(1)(ia)	<p>Additional depreciation on new plant and machinery (other than ships, aircraft, office appliances, second hand plant or machinery, etc.).</p> <p>(subject to certain conditions)</p>	<p>Additional depreciation shall be available @20 % of the actual cost of new plant and machinery.</p> <p>Provided that where an asset is acquired by the assessee during the previous year and is put to use for a period of less than one hundred and eighty days in that previous year, then deduction of additional depreciation would be restricted to 50% in the year of acquisition and balance 50% would be allowed in the next year</p>	<p>All assessee engaged in</p> <ul style="list-style-type: none"> - manufacture or production of any article or thing; or - generation, transmission or distribution of power (if taxpayer is not claiming depreciation on basis of straight line method)
<p>Proviso to Section 32(1)(ia)</p>	<p>Additional depreciation on new plant and machinery (other than ships, aircraft, office appliances, second hand plant or machinery, etc.))</p> <p>(Subject to certain conditions)</p>	<p>Additional depreciation shall be available @35 % of the actual cost of new plant and machinery.</p> <p>Provided that where an asset is acquired by the assessee during the previous year and is</p>	<p>All assesseees- where an assessee sets up an undertaking or enterprise for production or manufacture of any article or thing in any</p>

		<p>put to use for a period of less than one hundred and eighty days in that previous year, then deduction of additional depreciation would be restricted to 50% of actual cost in the year of acquisition and balance 50% would be allowed in the next year</p> <p>Note:</p> <ol style="list-style-type: none"> 1. Manufacturing unit should be set-up on or after 1st day of April, 2015. 2. New plant and machinery acquired and installed during the period beginning on the 1st day of April, 2015 and ending before the 1st day of April, 2020 	<p>notified backward area in state of the state of Andhra Pradesh, Bihar, Telangana or West Bengal.</p>
32AC	<p>Deduction under section 32AC is available if actual cost of new plant and machinery acquired and installed by a manufacturing company during the previous year exceeds Rs. 25/100 Crores, as the case may be.(Subject to certain conditions)</p>	<p>15% of actual cost of new asset</p>	<p>Company engaged in business or manufacturing or production of any article or thing</p>
32AD	<p>Investment allowance for investment in new plant and machinery if manufacturing unit is set-up in the notified backward area in the state of Andhra Pradesh, Bihar, Telangana or West Bengal(Subject to certain conditions)</p>	<p>Investment allowance shall be available @15 % of the actual cost of new plant and machinery in the year of installation of new asset.</p> <p>Note:-</p> <ol style="list-style-type: none"> 1) New asset should be acquired and installed during the period beginning on the 1st day of April, 2015 and ending before the 1st day of April, 2020. 2) Manufacturing unit should be set-up on or after 1st day of April, 2015. 3) Deduction shall be allowed under Section 32AD in addition to deduction available under Section 32AC if assessee fulfils the specified conditions 	<p>All assessee who acquired new plant and machinery for the purpose of setting-up manufacturing unit in the notified backward area in the state of Andhra Pradesh, Bihar, Telangana or West Bengal</p>

33AB	Amount deposited in Tea/Coffee/Rubber Development Account by assessee engaged in business of growing and manufacturing tea/Coffee/Rubber in India	Deduction shall be lower of following: a) Amount deposited in account with National Bank for Agricultural and Rural Development (NABARD) or in Deposit Account of Tea Board, Coffee Board or Rubber Board in accordance with approved scheme; or b) 40% of profits from such business before making any deduction under section 33AB and before adjusting any brought forward loss. (Subject to certain conditions)	All assessee engaged in business of growing and manufacturing tea/Coffee/Rubber
33ABA	Amount deposited in Special Account with SBI/Site Restoration Account by assessee carrying on business of prospecting for, or extraction or production of, petroleum or natural gas or both in India	Deduction shall be lower of following: a) Amount deposited in Special Account with SBI/Site Restoration Account; or b) 20% of profits from such business before making any deduction under section 33ABA and before adjusting any brought forward loss. (Subject to certain conditions)	All assessee engaged in business of prospecting for, or extraction or production of, petroleum or natural gas or both in India
35(1)(i)	Revenue expenditure on scientific research pertaining to business of assessee is allowed as deduction (Subject to certain conditions).	Entire amount incurred on scientific research is allowed as deduction. Expenditure on scientific research within 3 years before commencement of business (in the nature of purchase of materials and salary of employees other than perquisite) is allowed as deduction in the year of commencement of business to the extent certified by prescribed authority.	All assessee
35(1)(ii)	Contribution to approved research association, university, college or other institution to be used for scientific research shall be allowed as	100% of sum paid to such association, university, college, or other institution is allowed as deduction.	All assessee

	deduction (Subject to certain conditions)		
35(1)(ia)	Contribution to an approved company registered in India to be used for the purpose of scientific research is allowed as deduction (Subject to certain conditions)	100% of sum paid to the company is allowed as deduction	All assessee
35(1)(iii)	Contribution to approved research association, university, college or other institution with objects of undertaking statistical research or research in social sciences shall be allowed as deduction (Subject to certain conditions)	100% of sum paid to such association, university, college, or other institution is allowed as deduction	All assessee
35(1)(iv) read with 35(2)	Capital expenditure incurred during the year on scientific research relating to the business carried on by the assessee is allowed as deduction (Subject to certain conditions)	Entire capital expenditure incurred on scientific research is allowed as deduction. Capital expenditure incurred within 3 years before commencement of business is allowed as deduction in the year of commencement of business. <i>Note:</i> i. Capital expenditure excludes land and any interest in land; ii. No depreciation shall be allowed on such assets.	All assessee
35(2AA)	Payment to a National Laboratory or University or an Indian Institute of Technology or a specified person is allowed as deduction. The payment should be made with the specified direction that the sum shall be used in a scientific research undertaken under an approved programme.	100% of payment is allowed as deduction (Subject to certain conditions).	All assessee
35(2AB)	Any expenditure incurred by a company on scientific research (including capital expenditure other than on land and building) on in-house scientific research and development facilities as approved by the prescribed authorities shall be allowed as deduction (Subject to certain conditions). Expenditure on scientific research in relation to Drug and Pharmaceuticals	100% of expenditure so incurred shall be allowed as deduction. <i>Note:</i> i. Company should enter into an agreement with the prescribed authority for co-operation in such research and development and fulfils conditions with regard to	Company engaged in business of bio-technology or in any business of manufacturing or production of eligible articles or things

	shall include expenses incurred on clinical trials, obtaining approvals from authorities and for filing an application for patent.	maintenance of accounts and audit thereof and furnishing of reports in such manner as may be prescribed.	
35ABA	Capital expenditure incurred and actually paid for acquiring any right to use spectrum for telecommunication services shall be allowed as deduction over the useful life of the spectrum.	Deduction will be available in equal installments starting from the year in which actual payment is made and ending in the year in which spectrum comes to an end. Note: If spectrum fee is actually paid before the commencement of business, the deduction will be available from the year in which business is commenced.	All assessee engaged in telecommunication services
35ABB	Capital expenditure incurred for acquiring any license or right to operate telecommunication services shall be allowed as deduction over the term of the license.	Deduction would be allowed in equal installments starting from the year in which such payment has been made and ending in the year in which license comes to an end.	All assessee engaged in telecommunication services
35AC	Expenditure by way of payment of any sum to a public sector company/local authority/approved association or institution for carrying out any eligible scheme or project (Subject to certain conditions).	Actual payment made to prescribed entities. However, a company can also claim deduction for expenditure incurred by it directly on eligible projects. Note:- No deduction in any A.Y. commencing on or after the 1st day of April, 2018	All assessee. However, deduction for direct expenditure is allowed only to a company
35AD	Deduction in respect of `expenditure on specified businesses, as under: a) Setting up and operating a cold chain facility b) Setting up and operating a warehousing facility for storage of agricultural produce c) Building and operating, anywhere in India, a hospital with at least 100 beds for patients d) Developing and building a housing project under a notified scheme for affordable housing e) Production of fertilizer in India (Subject to certain conditions)	150% of capital expenditure incurred for the purpose of business is allowed as deduction provided the specified business has commenced its operation on or after 01-04-2012. 100% of capital expenditure will be allowed to be deducted from the assessment year 2018-19 onwards Note: If such specified businesses commence operations on or before 31-03-2012 but after prescribed dates, deduction shall be	All assessee

		<p>limited to 100% of capital expenditure.</p> <p>Note: No deduction of any capital expenditure above Rs 10,000 shall be allowed if it is incurred in cash.</p>	
35AD	<p>Deduction in respect of expenditure on specified businesses, as under:</p> <ol style="list-style-type: none"> Laying and operating a cross-country natural gas or crude or petroleum oil pipeline network for distribution, including storage facilities being an integral part of such network; Building and operating, anywhere in India, a hotel of two-star or above category; Developing and building a housing project under a scheme for slum redevelopment or rehabilitation Setting up and operating an inland container depot or a container freight station Bee-keeping and production of honey and beeswax Setting up and operating a warehousing facility for storage of sugar Laying and operating a slurry pipeline for the transportation of iron ore Setting up and operating a semi-conductor wafer fabrication manufacturing unit Developing or maintaining and operating, or developing, maintaining and operating a new infrastructure facility <p>(Subject to certain conditions)</p>	<p>100% of capital expenditure incurred for the purpose of business is allowed as deduction provided specified businesses commence operations on or after the prescribed dates.</p> <p>Note: No deduction of any capital expenditure above Rs 10,000 shall be allowed if the payment for such expenditure is made otherwise than by an account payee cheque/draft or ECS or through prescribed electronic mode of payment.</p>	<p>All assessee</p> <p>Note: Such deduction is available to Indian company in case of following business, namely:-</p> <ol style="list-style-type: none"> Business of laying and operating a cross-country natural gas or crude or petroleum oil pipeline network Developing or maintaining and operating or developing, maintaining and operating a new infrastructure facility.
35CCA	<p>Payment to following Funds are allowed as deduction:</p> <ol style="list-style-type: none"> National Fund for Rural Development; and Notified National Urban Poverty Eradication Fund 	Actual payment to specified funds	All assessee
35CCC	Expenditure (not being cost of land/building) incurred on notified agricultural extension project for the	100% of the expenditure (Subject to certain conditions)	All assessee

	purpose of training, educating and guiding the farmers shall be allowed as deduction, provided the expenditure to be incurred is expected to be more than Rs. 25 lakhs (Subject to certain conditions).		
35CCD	Expenditure incurred by a company (not being expenditure in the nature of cost of any land or building) on any notified skill development project is allowed as deduction (Subject to certain conditions).	100% of the expenditure (Subject to certain conditions) <i>Note:</i> (i) No deduction shall be allowed to a company engaged in manufacturing alcoholic spirits or tobacco products.	Company engaged in manufacturing of any article or providing specified services
35D	An Indian company can amortize certain preliminary expenses (up to maximum of 5% of cost of the project or capital employed, whichever is more) (Subject to certain conditions and nature of expenditures)	Qualifying preliminary expenditure is allowable in each of 5 successive years beginning with the previous year in which the extension of undertaking is completed or the new unit commences production or operation.	Indian Company
35D	Non-corporate taxpayers can amortize certain preliminary expenses (up to maximum of 5% of cost of the project) (Subject to certain conditions and nature of expenditures)	Qualifying preliminary expenditure is allowable in each of 5 successive years beginning with the previous year in which the extension of undertaking is completed or the new unit commences production or operation.	Resident Non-corporate assessee
35DD	Expenditure incurred after 31-3-1999 in respect of amalgamation or demerger can be amortized by an Indian Company	Expenditure is allowed as deduction in five equal installments in 5 previous years starting with the year in which amalgamation or demerger took place.	Indian Company
35DDA	Expenditure incurred under Voluntary Retirement Scheme is allowed as deduction.	Each payment under VRS is allowed as deduction in five equal installments in 5 previous years.	All assessee
35E	Qualifying expenditure incurred by resident persons on prospecting for the minerals or on the development of mine or other natural deposit of such minerals shall be allowed as deduction (Subject to certain conditions).	Eligible expenditure is allowed as deduction in ten equal installments in 10 previous years.	Resident persons

36(1)(i)	Insurance premium covering risk of damage or destruction of stocks/stores	Actual expenditure incurred	All assessee
36(1)(ia)	Insurance premium covering life of cattle owned by a member of co-operative society engaged in supplying milk to federal milk co-operative society	Actual expenditure incurred	All assessee
36(1)(ib)	Medical insurance premium paid by any mode other than cash, to insure employee's health under (a) scheme framed by GIC of India and approved by Central Government; or (b) scheme framed by any other insurer and approved by IRDA	Actual expenditure incurred	All assessee
36(1)(ii)	Bonus or commission paid to employees which would not have been payable as profit or dividend if it had not been paid as bonus or commission	Actual expenditure incurred	All assessee
36(1)(iii)	Interest on borrowed capital (Subject to certain conditions)	Interest paid in respect of capital borrowed for the purposes of the business or profession shall be allowed as deduction. However, if capital is borrowed for acquiring an asset, then interest for any period beginning from the date on which capital was borrowed till the date on which asset was first put to use, shall not be allowed as deduction.	All assessee
36(1)(iiia)	Discount on Zero Coupon Bonds (Subject to certain conditions)	Pro-rata amount of discount on zero coupon bonds shall be allowed as deduction over the life of such bond	Specified Assessee
36(1)(iv)	Employer's contributions to recognized provident fund and approved superannuation fund [subject to certain limits and conditions]	Actual expenditure incurred	All assessee
36(1)(iva)	Any sum paid by assessee-employer by way of contribution towards a pension scheme, as referred to in section 80CCD , on account of an employee.	Actual expenditure not exceeding 10% of the salary* of the employee *Salary = Basic Pay + Dearness Allowance (to the extent it forms part of retirement benefits)+ turnover based commission	All assessee - Employer

36(1)(v)	Employer's contribution towards approved gratuity fund created exclusively for the benefit of employees under an irrevocable trust shall be allowed as deduction (Subject to certain conditions).	Actual expenditure not exceeding 8.33% of salary of each employee	All assessee - Employer
36(1)(va)	Deposit of employee's contributions in their respective provident fund or superannuation fund or any fund set up under Employees' State Insurance Act, 1948	Actual amount received if credited to the employee's account in relevant fund on or before due date specified under relevant Act	All assessee - Employer
36(1)(vi)	Allowance in respect of animals which have died or become permanently useless (Subject to certain conditions)	Actual cost of acquisition of such animals <i>less</i> realization on sale of carcasses of animals	All assessee
36(1)(vii)	Bad debts which have been written off as irrecoverable (Subject to certain conditions)	Actual bad debts which have been written off from books of accounts Note:- However, if amount of debt or part thereof has been taken into account in computing the income of assessee on basis of income computation and disclosure standards notified under Section 145(2) without recording the same in accounts then, such debt shall be allowed in the previous year in which such debt or part thereof becomes irrecoverable. It shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts.	All assessee
36(1)(viii)	Deductions for provision for bad and doubtful debts created by certain banks, financial institutions and non-banking financial company (Subject to certain conditions). Note Deduction in respect of bad debts actually written off under section 36(1)(vii) shall be limited to that amount of bad debts which exceed the provision for bad and doubtful debts created under section 36(1)(viii) .	Deductions for provision for bad and doubtful debts shall be limited to following: (a) <i>In case of scheduled and non-scheduled banks:</i> Sum not exceeding aggregate of 8.5% of total income (before any deductions under this provision and Chapter VI-A) and 10% of aggregate average advances made by rural branches of such bank; (b) <i>In case of Financial Institutions:</i> Up to 5% of	Banks, Public Financial Institutions, Non-banking financial company, State Financial Corporation, State Industrial Investment Corporations

		<p>total income before any deductions under this provision and Chapter VI-A; and</p> <p>(c) <i>In case of foreign banks:</i> Up to 5% of total income before any deductions under this provision and Chapter VI-A</p> <p>(d) <i>In case of non-banking financial company:</i> Up to 5% of total income before any deduction under this provision and chapter VI-A</p>	
36(1)(viii)	<p>Deduction under this provisions is allowed to following entities in respect of amount transferred to special reserve account:</p> <p>a) Financial Corporation which is engaged in providing long-term finance for industrial or agricultural development or development of infrastructure facility in India; or</p> <p>b) Public company registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of residential houses in India.</p> <p>[Subject to certain conditions]</p>	<p>Deduction shall be allowed to the extent of lower of following:</p> <p>a) Amounts transferred to special reserve account</p> <p>b) 20% of profits derived from eligible business</p> <p>c) 200% of paid-up capital and general reserve (on last day of previous year) <i>minus</i> balance in special reserve account (on first day of previous year)</p>	Specified financial corporations or public company
36(1)(ix)	Expenditure incurred by a company on promotion of family planning amongst employees is allowed as deduction	<p>1) Entire revenue expenditure is allowed as deduction</p> <p>2) Capital expenditure shall be allowed as deduction in five equal installment in five years</p>	Company
36(1)(xii)	Any expenditure incurred by a notified corporation or body corporate constituted or established by a Central, State or Provincial Act, for the objects and purposes authorized by the respective Act is allowed as deduction	Actual expenditure incurred (not being in the nature of capital expenditure)	Notified corporations
36(1)(xiv)	Contribution to Credit Guarantee Trust Fund for micro and small industries is allowed as deduction	Actual expenditure incurred	Public Financial Institutions
36(1)(xv)	Securities Transaction Tax paid	Actual expenditure incurred if corresponding income is	All assessee

		included as income under the head profits and gains of business or profession	
36(1) (xvi)	Amount equal to commodities transaction tax paid by an assessee in respect of taxable commodities transactions entered into in the course of his business during the previous year is allowed as deduction	Actual expenditure incurred if corresponding income is included as income under the head profits and gains of business or profession	All assessee
36(1) (xvii)	Amount of expenditure incurred by a co-operative society engaged in the business of manufacture of sugar for purchase of sugarcane.	Deduction would be allowed the extent of lower of following: a) Actual purchase price of sugarcane, or b) Price of sugarcane fixed or approved by the Government	Co-operative society engaged in the business of manufacture of sugar
36(1) (xviii)	Marked to market loss or other unexpected loss as computed in accordance with notified ICDS	Actual losses incurred	All assessee
37(1)	Any other expenditure [not being personal or capital expenditure and expenditure mentioned in sections 30 to 36] laid out wholly and exclusively for purposes of business or profession Note: With effect from assessment year 2022-23, a new Explanation 3 has been inserted in section 37(1) to clarify that expenditure incurred to provide perquisite, in whatever form to any person, irrespective of whether the recipient is engaged in any business or profession, where the acceptance of such benefit or perquisite is a violation of any rule, law or regulation, which governs the recipient, shall be deemed to have not been incurred for business or profession and accordingly, the deduction for the same shall not be available. Furthermore, the expenditure, whether constituting an offence as per the prevailing laws in India or outside India, or prohibited by any law in force – whether in India or outside India, shall not be eligible for deduction under section 37(1) .	Actual expenditure incurred	All assessee
37(2B)	Expenditure on advertisement in any souvenir, brochure etc. published by a	Not Allowed	All assessee

political party shall not be allowed as deduction		
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3.3 Amount expressly disallowed under the Act

Section	Description
40(a)(i)	Any sum (other than salary) payable outside India or to a non-resident, which is chargeable to tax in India in the hands of the recipient, shall not be allowed to be deducted if it was paid without deduction of tax at source or if tax was deducted but not deposited with the Central Government till the due date of filing of return. Where deductor has failed to deduct the tax and he is not deemed to be an assessee in default under first proviso to section 201(1) , then it shall be deemed that the deductor has deducted and paid the tax on the date on which the payee has furnished his return of Income. However, if tax is deducted or deposited in subsequent year, as the case may be, the expenditure shall be allowed as deduction in that year.
40(a)(ia)	Any sum payable to a resident, which is subject to deduction of tax at source, would attract 30% disallowance if it was paid without deduction of tax at source or if tax was deducted but not deposited with the Central Government till the due date of filing of return. However, where in respect of any such sum, tax is deducted or deposited in subsequent year, as the case may be, the expenditure so disallowed shall be allowed as deduction in that year. Where deductor has failed to deduct the tax and he is not deemed to be an assessee in default under first proviso to section 201(1) , then it shall be deemed that the deductor has deducted and paid the tax on the date on which the payee has furnished his return of Income.
40(a)(ib)	Any sum paid or payable to a non-resident which is subject to a deduction of Equalisation levy would attract disallowance if such sum was paid without deduction of such levy or if it was deducted but not deposited with the Central Government till the due date of filing of return. However, where in respect of any such sum, Equalisation levy is deducted or deposited in subsequent year, as the case may be, the expenditure so disallowed shall be allowed as deduction in that year. Note: This provision has been inserted by the Finance Act, 2016, w.e.f. 1-6-2016
40(a)(ii)	Any sum paid on account of any rate or tax levied on the profits and gains of business or profession is not deductible Note: Tax shall include 'surcharge or cess'.
40(a)(iia)	Wealth-tax or any other tax of similar nature shall not be deductible
40(a)(iib)	Amount paid by way of royalty, license fee, service fee, privilege fee, service charge or any other fee or charge, by whatever name called, which is levied exclusively on (or any amount appropriated) a State Government undertaking by the State Government shall not be deductible.
40(a)(iii)	Salaries payable outside India, or in India to a non-resident, on which tax has not been paid/deducted at source is not deductible.
40(a)(iv)	Payments to provident fund or other funds for employees' benefit shall not be deductible if no effective arrangements have been made to ensure deduction of at source from payments made from such funds to employees which shall be chargeable to tax as 'salaries'.
40(a)(v)	Tax paid by the employer on non-monetary perquisites provided to employees is not deductible if the tax so paid is not taxable in the hands of employees by virtue of Section 10(10CC) .

40(b)	<p>Following sum paid by a partnership firm to its partners shall not be allowed to be deducted:</p> <ol style="list-style-type: none"> 1) Salary, bonus, commission or remuneration paid to non-working partners; 2) Remuneration or interest paid to the partners is not in accordance with the terms of the partnership deed; 3) Remuneration or interest to partners is in accordance with the terms of the partnership deed but relates to any period prior to the date of the deed; 4) Interest to partners is in accordance with the terms of the partnership deed but exceeds 12% per annum; 5) Remuneration to partners is in accordance with the terms of the partnership deed but exceeds the following permissible limit: <ol style="list-style-type: none"> a) On first Rs. 3 Lakhs of book profit or in case of loss - Rs. 1,50,000 or 90% of book profit, whichever is more; b) On the balance of the book profit - 60% of book profit
40(ba)	Interest, salary, bonus, commission or remuneration paid by Association of Persons or Body of Individuals to its members shall not be allowed as deduction (Subject to certain conditions).
40A(2)	Any payment to related parties (relatives, directors, partner, member of HUF/AOP, person who has substantial interest in business of the taxpayer, etc.) in respect of any expenditure shall be disallowed to the extent such expenditure is considered excessive or unreasonable by the Assessing Officer having regard to its fair market value.
40A(3)/(3A)	An expenditure, which is otherwise deductible under any provision of the Act, shall be disallowed if payment thereof has been made otherwise than by account payee cheque/bank draft or use of electronic clearing system through a bank account or through other prescribed electronic mode of payment and it exceeds Rs. 10,000 (Rs. 35,000 in case of payment made for plying, hiring or leasing goods carriages) in a day (Subject to certain conditions and exceptions).
40A(7)	<p>Provision for payment of gratuity to employees, other than a provision for contribution to approved gratuity fund, shall not be allowed as deduction (Subject to specified conditions).</p> <p>Gratuity actually paid (or payable) during the year and contribution to approved gratuity fund is allowed as deduction.</p>
40A(9)	Any sum paid as an employer for setting up or as contribution to any fund, trust, company, AOP, BOI, Society or other institution (other than recognized provident fund, approved superannuation fund, approved gratuity fund or pension scheme referred to in section 80CCD) shall not be allowed as deduction if such contribution or payment is not required by any law.
40(A)(13)	No deduction shall be allowed in respect of marked to market loss or other unexpected loss except as allowable under section 36(1)(xviii) .

3.4 Expenses deductible on actual payment basis

The following expenses shall be allowed as deduction if such expenditure are actually paid on or before the due date of filing of return of income:-

Section	Particulars
43B(a)	Any Tax, Duty, Cess or Fees under any Law
43B(b)	Any contribution to Provident Fund/Superannuation Fund/Gratuity Fund/Welfare Fund
43B(c)	Bonus or Commission paid to employees which would not have been payable as profit or dividend

43B(d)	Interest on Loan or Borrowings from Public Financial Institutions/State Financial Institutions etc.
43B(da)	Interest on loan from a deposit taking NBFC or systemically important non-deposit taking NBFC
43B(e)	Interest on loan or advance from bank
43B(f)	Payment of Leave Encashment
43B(g)	Sum payable to the Indian Railways for the use of railway assets.
43B(h)	Sum payable to a micro or small enterprise beyond the time limit specified in section 15 of the Micro, Small and Medium Enterprises Development Act, 2006

Notes :

- 1) No deduction shall be allowed under [section 43B](#) if any interest has been converted debenture or any other instrument by which liability to pay interest is deferred to a future date.
- 2) Any sum payable by the assessee to a micro or small enterprise beyond the time limit specified in Section 15 of MSMED Act shall be allowed in the previous year in which such sum is actually paid.

[3.5 Other provisions](#)

Section	Particulars	Provision
42	Special allowance in case of business of prospecting etc. for mineral oil (including petroleum and natural gas) in relation to which the Central Government has entered into an agreement with the taxpayer for the association or participation (Subject to certain conditions).	Following deductions shall be allowed as deductions: a) Any infructuous exploration expenditure b) Expenditure on drilling or exploration activities or services, etc. c) Allowance in relation to depletion of mineral oil, etc.
43A	Special provisions consequential to changes in rate of exchange of Currency (Subject to certain conditions).	Any increase or decrease in the liability incurred in foreign currency (to acquire a capital asset) pursuant to fluctuation in the foreign exchange rates shall be adjusted with the actual cost of such asset only on actual payment of the liability.
43C	Acquisition of any asset (except stock-in-trade) by the taxpayer in the scheme of amalgamation or by way of gift, will etc.	Cost of acquisition of any asset (except stock-in-trade) acquired by the taxpayer in the scheme of amalgamation or by way of gift, will etc. from the transferor (who sold it as stock-in-trade) shall be the cost of acquisition in the hands of transferor as increased by cost of any improvement made

[3.6 Provisions applicable to Non-Resident/Foreign Company](#)

Section	Particulars	Limit of exemption or Computation of income/deduction	Available to
44B read with 172	Income from shipping business shall be computed on presumptive basis (Subject to certain conditions).	7.5% of specified sum shall be deemed to be the presumptive income	Non-resident engaged in shipping business
44BB	Income of a non-resident engaged in the business of providing services or facilities in connection with, or supplying plant and machinery on hire used, or to be used, in the prospecting for, or extraction or	10% of specified sum shall be deemed to be the presumptive income	Non-resident engaged in activities connected with

	production of, mineral oils shall be computed on presumptive basis (Subject to certain conditions).		exploration of mineral oils
44BBA	Income of a non-resident engaged in the business of operation of aircraft shall be computed on presumptive basis (Subject to certain conditions).	5% of specified sum shall be deemed to be the presumptive income	Non-resident engaged in the business of operating of aircraft
44BBB	Income of a foreign company engaged in the business of civil construction or the business of erection of plant or machinery or testing or commissioning thereof, in connection with turnkey power projects shall be computed on presumptive basis (Subject to certain conditions).	10% of specified sum shall be deemed to be the presumptive income	Foreign Company
44C	Deduction for Head office Expenditure (Subject to certain conditions and limits)	<p>Deduction for head-office expenditure shall be limited to lower of following:</p> <p>a) 5% of adjusted total income*</p> <p>b) Head office exp. as attributable to business or profession of taxpayer in India</p> <p>* In case adjusted total income of the assessee is a loss, adjusted total income shall be substituted by average adjusted total income</p> <p>** Adjusted total income or average adjusted total income shall be computed after prescribed adjustments i.e. unabsorbed depreciations, carry forward losses, etc.</p>	Non-resident
44DA	Deduction of expenditure from royalty and FTS received under an agreement made after 31-03-2003 which is effectively connected to the PE of non-resident in India (Subject to certain conditions)	Expenditure incurred wholly and exclusively for the business of PE or fixed place of profession in India shall be allowed as deduction.	Non-resident

3.7 Accounts and Audit

Section	Particulars	Threshold
44AA	Compulsory maintenance of prescribed books of account - Specified Profession (Subject to certain conditions and circumstances)	Persons carrying on specified profession and their gross receipts exceed Rs. 1,50,000 in all the three years immediately preceding the previous year

44AA	Compulsory maintenance of books of account - Other business or profession (Subject to certain conditions and circumstances)	1) If total sales, turnover or gross receipts exceeds Rs. 25,00,000 in any one of the three years immediately preceding the previous year; or 2) If income from business or profession exceeds Rs. 2,50,000 in any one of the three years immediately preceding the previous year
44AB	Compulsory Audit of books of accounts (Subject to certain conditions and circumstances)	1) If total sales, turnover or gross receipts exceeds Rs. 1Crore in any previous year, in case of business; or Note: The threshold limit of Rs. 1 crore shall be increased to Rs. 10 crore in case where the cash receipt and payment made during the year does not exceed 5% of total receipt or payment the business 2) If gross receipts exceeds Rs. 50 Lakhs in any previous year, in case of profession. Note: a) The provisions of this section is not applicable to the person, who declares profits and gains in accordance with presumptive taxation Scheme under Section 44AD/44ADA

[3.8 Presumptive Taxation](#)

Section	Nature of business	Presumptive income
44AD	Income from eligible business can be computed on presumptive basis if turnover of such business does not exceed two crore rupees. Note: If the amount of cash received during the previous year does not exceed 5% of the total turnover or gross receipt of such year then the threshold limit for total turnover or gross receipt shall be taken as Rs. 3,00,00,000 instead of Rs. 2,00,00,000. Note: If an assessee opts out of the presumptive taxation scheme, after a specified period, he cannot choose to revert back to the presumptive taxation scheme for a period of five assessment years thereafter. [section 44AD(4)] (Subject to conditions)	Presumptive income of eligible business shall be 8% of gross receipt or total turnover. Note: Presumptive income shall be calculated at rate of 6% in respect of total turnover or gross receipts which is received by an account payee cheque or draft or use of electronic clearing system or through any other electronic mode as may be prescribed.
44ADA	Income from eligible profession u/s 44AA(1) can be computed on presumptive basis if the total gross receipts from such profession do not exceed fifty lakh rupees in a previous year. Note: If the amount of cash received during the previous year does not exceed 5% of the total gross receipt of such year then the threshold limit for total gross receipt shall be taken as Rs. 75,00,000 instead of Rs. 50,00,000. (Subject to conditions)	Presumptive income of such profession shall be 50% of total gross receipt.
44AE	Presumptive income from business of plying, hiring or leasing of goods carriage if assessee	For Heavy Goods Vehicle:

	does not own more than 10 goods carriage.	<p>Rs. 1,000 per ton of gross vehicle weight for every month or part of a month during which the heavy goods vehicle is owned by assessee.</p> <p>For Other Goods Vehicle:</p> <p>Rs. 7,500 for every month or part of a month during which the goods carriage is owned by assessee.</p> <p><i>Note:</i> 'Heavy goods vehicle' means goods carriage vehicle the gross vehicle weight of which exceeds 12,000 kilograms.</p>
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[As amended by Finance Act, 2023]