

Income from Business / Profession.

⇒ The provision regarding income chargeable under the income from business and profession are contain in section 28 to 44D of income tax act 1961

• Business [Sec 2(13)]

↳ Business means purchase and sale ~~for~~ exchange of a community with a view to make profits. It includes any trade, commerce or ~~an~~ manufacture or any adventure.

• Profession [Sec 2(36)]

↳ Profession means the activities for earning lively which require inter lecture skill or manual skill.

e.g., Lawyer, Doctor, Auditor, Engineer, Dancer, Actor, etc.

* Income chargeable under the head business / profession (Sec 28)

- 1] Profit and gains of any business or profession which was carried on by the ~~assessee~~ at any time during previous year.
- 2] Any compensation or other payment due to or received by any person specified by [Section 28(2)] i.e., termination or the modification of the terms and condition of any contract.
- 3] Income derived by trade, professions or similar association.
- 4] Export incentives available to the exporters under any schemes of the government of the India.
- 5] The value of any benefit whether convertible into a money.

e.g.,

gift received from patient to doctor
(W.E.F 1st April 2023)

- 6] Any interest, salary, bonus, commission or remuneration due to received by the partner. Any some receive or receivable on account of any capital assets (other than land, good will financial instrument).

* Method of accounting

→ Business profiles are computed in accordance with the method of accounting regularly employed by the assessee.

* There are two method of accounting

① Mercantile System

② Cash System

① Mercantile System

→ Under mercantile system of accounting all the income and expenses are recorded on actual receipt of during the year is not necessary

→ As per the system, the annual net profit is ascertain by preparing profit & loss account, income and expenditure account.

② Cash system

- Under cash system of accounting, record is kept of actual receipt and actual payment receipt of particular year.
- Under this system the receipts & payment account are prepared.

* Expenses expressly allowance as deduction from profits and gains are business and profession.

The following expenses are allowed under the act.

1. Rent, rates, taxes, repair, & insurance.
2. Repair & insurance of machinery, plants & and furniture.
3. Depreciation particular block is applied on return.
4. Expenditure on specific
5. Expenditure on rights & copyrights
6. Insurance premium
7. Bonus and commission to employee.
8. Interest on board capital
9. Employees
10. Employees contribution to employer to extent NPS (4% of salary)
11. Bad Debts

* Depreciation u/s 32 under Income tax act 1961

Name of the Asset	Depreciation, per
1. Machinery, sign good	50%
2. Building, residential purpose	5%
3. Building, official purpose furniture & fixture	10%

• other info.

1. Ad. include ₹500/- as expenses for selling household furniture
2. Salary include ₹16,000/- paid for domestic purpose
3. Compute taxable income for assessment year 2024-25 under old regime

* Computation of taxable income from business of Ms. Nikita.

Particular	₹	₹
Net profit of business		1,05,000/-
Add- Disallowed expenses		
① Salary to domestic purpose	16,000/-	
② Ad. for house furniture	500/-	
③ Nikita's personal expenses	5,000/-	
④ Tax paid	7,000/-	
	28,500/-	28,500/-
		1,33,500/-
Add- income ^{not} mentioned in P&L account		Nil
Less disallowed incomes		
① Gift from father	4,000/-	4,000/-
Less- exp mentioned in P&L account		Nil
Total		1,29,500/-

* The following is the P&L account of Mr. Kaklij for year ending on 31st March 2024

Particular	₹	Particular	₹
To Salary	1,25,000/-	- By gross profit	3,00,000/-
To general expenses	12,500/-	- By commission	30,000/-
To conveyance	1,250/-	- By sundry receipts	3,000/-
To postage	125/-	- By gift from a friend	12,000/-
To depreciation	25,000/-	- By interest on FD	23,075/-
To computer		- By bad debts recovered	10,000/-
stationary	2,500/-		
To construction of			
confin	15,700/-		
To donation to an			
edu. institute	10,500/-		
To GST	25,000/-		
To RDD	2,500/-		
To net profit	1,58,000/-		
Total	3,78,075/-	Total	3,78,075/-

* Other info.

1. Salary includes rupees 12,500/- paid to Mr. Kaklij.
2. General expenses include 5,850/- as though gift given to a friend on his marriage ceremony
3. Depreciation allow as per income tax rule is amounted a rupee 22,000/-
4. GST include ₹2500/- as penalty for evaden of goods and service taxes

- | | |
|--|------|
| 4. Motor cars | 30% |
| 5. Computer and Software | 40% |
| 6. Intangible assets | 25% |
| 7. Books, if books own by assessee carrying on profession being annual publication | 100% |
| 8. Books not being annual publication | 60% |
| 9. Electrical equipments | 10% |

* Draw: P&L A/c for the business of Miss. Nikita for the year ended 2023-24

Particular	₹	Particular	₹
To Salary	1,20,000/-	By gross profit	2,75,000/-
To Fire insurance	8,000/-	By gift from father	9,000/-
To advertisement	10,500/-	By sundry receipt	21,000/-
To office expenses	15,000/-		
To depreciation	40,000/-		
To Nikita's personal expenses	5,000/-		
To tax pay	7,000/-		
To net profit	1,05,000/-		
Total	3,00,000/-	Total	3,00,000/-

- Compute taxable income from business of Mr. Kalij for assessment year 2024-25

Particular	₹	₹
Net profit as per P&L account		1,58,000/-
Add-disallowed expenses		
1) Salary to Mr. Kalij	1,25,000/-	
2) General expenses, gift to friend	5,850/-	
3) Excess Depreciation	25,000/-	
	22,000/-	
	3,000/-	
4) Construction of canteen (Capital expenditure)	15,700/-	
5) Donation to educational institute	10,500/-	
6) Penalty of GST	2,500/-	
	50,050	50,050/-
		20,80,50/-
Add-income not mentioned in P&L A/c	Nil	
Less- deduction disallowed income		
1. Gift from friend	12,000/-	
2. Interest on FD	23,075/-	
	35,075	35,075/-
Less-expenses not mentioned in P&L A/c	Nil	
Taxable income from business		17,29,975

Problem 2

The following is P&L a/c of Mr. Virendra, Pune, for year ending on 31/03/2025

Particular	₹	Particular	₹
To Salary	1,60,000/-	By gross profit	4,20,000/-
To rent and taxes	60,000/-	By commission	42,000/-
To commission	16,000/-	By sundry receipt	4,200/-
To advertisement	15,000/-	By interest on FD	35,000/-
To RDD	8,000/-	By gift from friend	2,900/-
To Depreciation	22,000/-		
To Conveyance	8,400/-		
To stationary	15,200/-		
To bonus	16,000/-		
To contribution to RPF	12,500/-		
To interest on capital	13,000/-		
To Net profit	1,58,000/-		
Total	5,04,100	Total	5,04,100

-Adjustment-

1. Depreciation allowable under Income tax rule amounted to ₹ 22,000/-
 2. Rent and taxes include ₹ 8000 as property tax on residential house of Mr. Virendra.
 3. Ad. includes ₹ 12,000/- as cost of permanent signboard fixed on premises.
 4. Sundry receipt ₹ 4,200/- are in respect of recovery of personal loan given to a friend of Mr. Virendra.
- You are required to compute taxable income from business for the A.Y. 2025-26

⇒ Computation of taxable income from business for the A.Y. 2023-24

Particular	₹	₹
Net profit as per P&L A/c		1,58,000/-
Add - disallowed expenses		
1. Rent and taxes (personal property)	8,000/-	
2. Signboard Exp (capital exp)	12,000/-	
3. Depreciation (22000 - 18000)	4,000/-	
4. Interest on capital	13,000/-	
	37,000/-	37,000/-
		1,95,000/-
Add - Income not mentioned in P&L A/c	Nil.	
Less - Disallowed incomes		
1. Sundry receipt (personal loan)	4,000/-	
2. Interest on FD	35,000/-	
3. Gift from friend	2,900/-	-
	41,900/-	41,900/-
Less - expenses mentioned in P&L A/c	Nil.	
Taxable income		1,53,100

* Income from ~~capital gains~~ :-

• Meaning of capital assets :-

Capital assets are define to include property of any kind, whether fixed or circulating, movable or immovable, tangible or intangible.

The following properties are excluded from capital assets :-

a. Any stock in trade, consumable stores or raw materials held for the purpose of business or profession.

b. Personal effect of the assessee, i.e., to say, movable property including wearing apparel or furniture held for his personal use or for the use of any member of his family dependant upon him.

c. Agricultural land in India provided it is not situated
i) In any area within jurisdiction of municipality or cantonment board having a population of 10,000 more.
ii) In any notified area.

d. 6 $\frac{1}{2}$ gold bonds, 1977 or 7 $\frac{1}{2}$ gold bonds, 1980 or National

e. Defense gold bonds, 1980 issued by central government.

f. Gold deposit bonds issued under the gold deposit scheme, 1980.

* Types of capital assets:-

There are 2 types of capital assets

i) Short term capital assets.

ii) Long term capital assets

i) Short term capital asset (STCA):-

↳ Short term capital assets means the capital assets held by assessee for not more than 24 months (2 years) immediately prior to date of transfer.

* Short-term capital assets holding periods

Holding Period	Type of short-term capital asset.
12-month (Following asset held for not more than 12 months is treated as short term capital asset)	<ul style="list-style-type: none"> Listed shares (equity or preference) on recognized exchanges. Mutual Funds Debentures Government securities UTI units Zero coupon bonds
24-months (Following asset held for not more than 24 month is treated as 'short term capital asset')	<ul style="list-style-type: none"> Unlisted shares Immovable property (land/building) Property owned by an individual, whether business-related or not. Securities held by a foreign institutional investor (FII), following SEBI act regulation. Jewellery, archaeological collections, drawing, paintings, sculptures and certain works of art. "Jewellery" includes precious metal ornaments or stones, worked or sewn into apparel.

* Exclusion from definition of short-term capital assets
The following capital asset are not considered as "capital assets" for short term capital gains tax.

- Stock-in-trade (except specified securities), consumable ^{business} raw material for
- Personal effects ~~to~~ that include movable property for personal use except artwork, jewellery, archeology, artefacts, etc.

- Agriculture land in India
- Excludes the version gold bond launched by the government of India.

ii) Long term capital asset (LTCG)

↳ Long-term capital asset is defined as an asset other than short term capital asset. LTCG are the gains that arise when long-term capital asset is transferred. The taxation of LTCG under Income-Tax act, 1961 is categorised into two provision i.e., Section 112 and section 112A.

• Section 112A applied in the case of following assets:

- Equity shares in a listed company
- Unit of equity-oriented funds.
- Unit of business trust.

Section 112 applied to all other cases of long-term capital gains not covered under section 112A.

9/7/2020