



S.P. SAH

ASSISTANT PROFESSOR

DEPARTMENT OF ACCOUNTANCY

D.H.S.K.COMMERCE COLLEGE

MOBILE NO. 9706208462

Business & Profession



Business



Business means the purchase and sale or manufacture of a commodity with a view to make profit. It includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture. It is not necessary that there should be a series of transactions in a business and that it should be carried on permanently. Neither repetition nor continuity of similar transactions is necessary. Profit of an isolated transaction is also taxable under this head, provided that it is a venture in the nature of business or trade. In this connection, it is important that the intention of purchase or manufacture should be to sell at a profit.(Sec. 2(13)]

Profession



Profession means the activities for earning livelihood which require intellectual skill or manual skill, e.g., the work of a lawyer, doctor, auditor, engineer and so on, are in the nature of profession. Profession includes vocation. Vocation means activities which are performed in order to earn livelihood, e.g., brokerage, insurance agency, music, dancing, etc. As the rules for the assessment of business, profession or vocation are the same, there is no importance of making any distinction between them for income tax purposes. [Sec. 2(36)]

**The following incomes are chargeable to income tax under the head
'Profits and Gains of Business or Profession'**



(1) Revenue profits from business or profession



The profits and gains of any business or profession which was carried on by the assessee at any time during the previous year;

(2) Any compensation due to or received by



(a) Any person, managing the whole or substantially the whole of the affairs of an Indian Company in connection with the termination of his management or the modification of the terms and conditions relating thereto;

(b) Any person, managing the whole or substantially the whole of the affairs in India of any other company in connection with the termination of his office on modification of the terms and conditions relating thereto;

(c) any person, holding an agency in India for any part of the activities relating to business or any person in connection with the termination of agency or the modification of the terms and conditions relating thereto;

(d) Any person, for or in connection with the vesting in the Government, or in any corporation owned or controlled by the Government, under any law for the time being in force, of the management of any property or business.

Compensation received by person on cancellation of consultancy agreement is capital receipt and not assessable u/s 28(ii)(c). [CIT vs. Seshasayee Bros. (P.) Ltd. (1999) 239 ITR 471 (Mad..)]

Any person at or in connection with the termination or the modification of the terms and conditions, of any contract relating to his business. (w.e.f. A.Y. 2019-20)]

(3) Income of trade association etc



Income derived by a trade, professional or similar association from specific services performed for its members;

(4) Receipts in connection with foreign trade



- (a) Profit on sale of a licence granted under the Imports Control Order, 1955;
- (b) Cash assistance received or receivable by any person against exports under any scheme of the Government of India;
- (c) Repayment of any customs or excise duty to any person against exports.
- (d) Any profit on the transfer of the Duty Entitlement Pass Book Scheme, being Duty Remission Scheme, under the export and import policy;
- (e) Any profit on the transfer of the Duty Free Replenishment Certificate, being the Duty Remission Scheme, under the export and import policy;

(5) Value of any benefit or perquisite



The value of any benefit or perquisite whether convertible into money or not, arising from business or the exercise of a profession, e.g., where a lawyer in consideration of his services to a company gets free accommodation, the value will be assessable in the hands of the assessee as his income under the head 'Profits and Gains of Business or Profession'.

(6) Receipts of a partner from the firm



Any interest, salary, bonus, commission or remuneration due to or received by a partner of a firm from the firm provided that it has been allowed as deduction in computing the taxable profits of such firm.

(7) Interest on securities

Interest on
Securities



Interest on securities, if the business of the assessee is to invest in securities, otherwise interest on securities shall be chargeable to income tax under the head 'Income from Other Sources'.

(8) Keyman Insurance Policy

[(8A)] fair market value of inventory



(8) Any sum received under a Keyman Insurance Policy including bonus.

[(8A) The fair market value of inventory as on the date on which it is converted into, or treated as, a capital asset. (w.e.f. A.Y. 2019-20)]

(9) Any sum, whether received or receivable in cash or kind,
under an agreement for



(a) Not carrying out any activity in relation to any business or profession; or

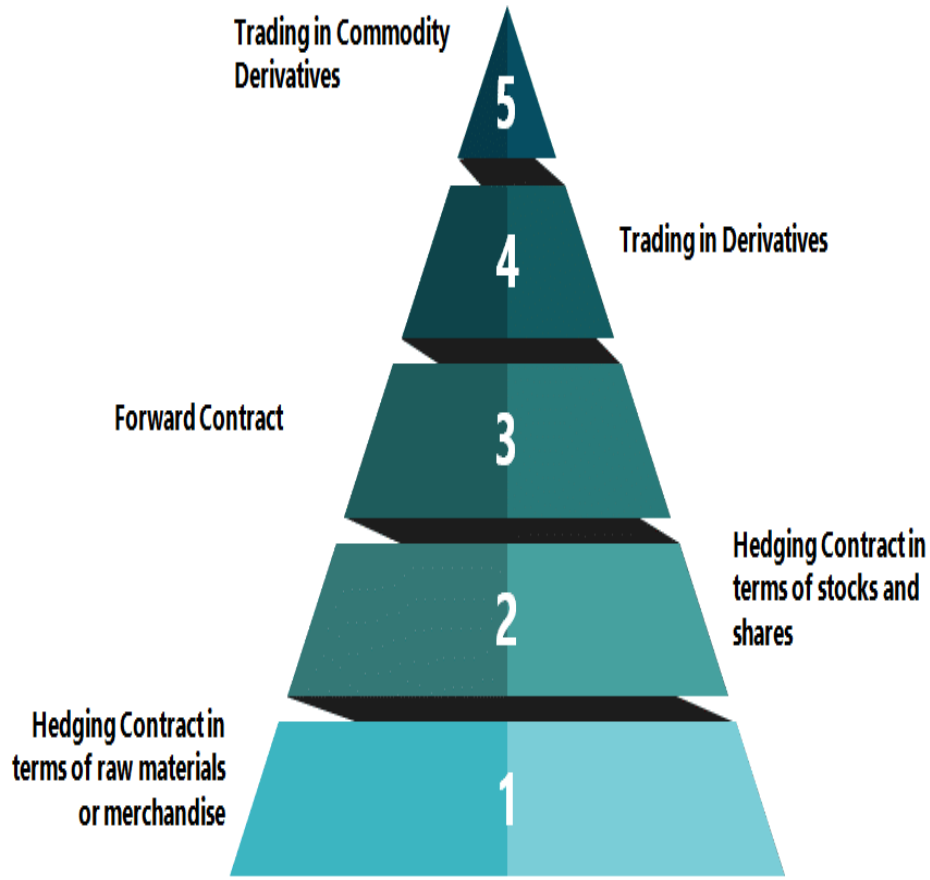
(b) Not sharing any know-how, patent, copyright, trade-mark, licence, franchise or any other business or commercial right of similar nature or information or technique likely to assist in the manufacture or processing of goods or provision of services.

(10) Any sum, whether received or receivable, in cash or kind



(10) Any sum, whether received or receivable, in cash or kind, on account of any capital asset (other than land or goodwill or financial instrument) being demolished, destroyed, discarded or transferred, if the whole of the expenditure on such capital asset has been allowed as a deduction u/s 35AD.

(11) Income from speculative transactions



However, any sum, whether received or receivable, in cash or kind, on account of transfer of the right to manufacture, produce or process any article or thing or right to carry on any business or profession, which is chargeable under the head 'Capital Gains' shall not be treated as income under this clause.

IMPORTANT RULES/ PRINCIPLE REGARDING ASSESSMENT OF PROFITS AND GAINS OF BUSINESS OR PROFESSION



(1) Business or Profession carried on by the assessee



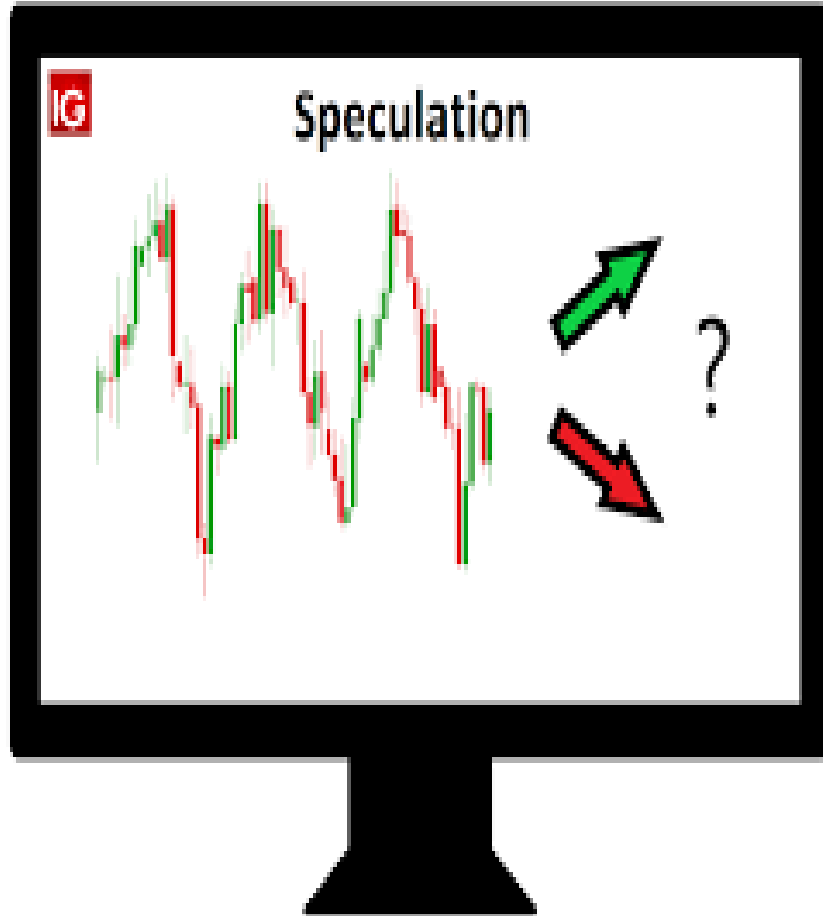
Tax is chargeable from the persona carries on the business or profession. It is immaterial if the assessee (owner of the business) carries on the business through a manager or other servant, or any other agent duly authorized by him.

(2) Tax is chargeable on the aggregate income from all businesses or professions carried on by an assessee



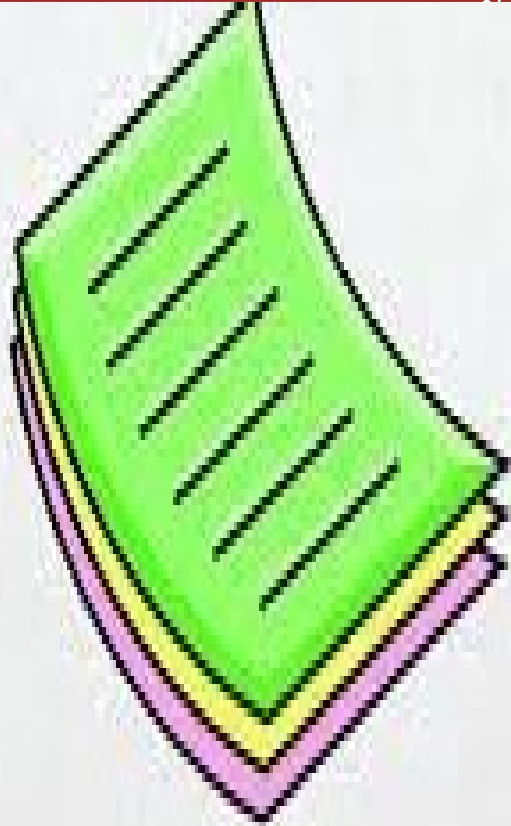
The profits and gains of different businesses or professions carried on by an assessee are not taxable separately; but tax is chargeable under one head on the aggregate income from all businesses or professions carried on by the assessee.

(3) Profits and Losses of speculation business are kept separate



Profits and losses of speculation business carried on by an assessee are kept separate, i.e., if there is a loss in a speculation business it can be set-off only against profits of speculation business.

(4) The business or profession is carried on by an assessee for any time during the previous year.



The assessee should have carried on the business or profession for any time during the business year, i.e., whether for full year or for a part of previous year only.

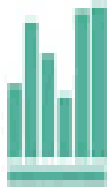
(5) Profits on sale of assets on the winding up of a business



Profits made in winding up of a business by the sale of assets in one lot are not taxable as business profit but as capital gain.

(6) No tax is payable on anticipated or notional profits

Notional Value



Notional Value = Total Units in the Contract x Spot Price



Tax is levied on the actual profit of the previous year and not on the anticipated profits. If in a business there is an expectation of earning some profits in the near future no tax can be levied on such profits.

(7) Expenses of an isolated transaction



An isolated transaction of purchase and sale is in the nature of trade. For determining the profit earned by the assessee in such a transaction, the expenses incurred by him in respect of that transaction during the years prior to the year of account shall be allowed as a deduction.

(8) Income of illegal business or profession



Tax is payable on the income of every business or profession whether legal or illegal. The expenses incurred to earn income from illegal business which are incidental to such business are to be allowed as deduction out of the income earned from illegal business. However, penalties levied for infraction of law and expenses incurred in defence of criminal proceedings are not allowed. Loss computed under illegal business cannot be set-off against the profits of legal business.

(9) Expenses incurred before setting up a business



These expenses are not admissible. In the case of a company expenses incurred before incorporation are not allowable but those incurred after incorporation but before commencement of business are allowable. However, specified preliminary expenses incurred by an Indian Company or any other resident person is allowed under section 35D.

(10) General commercial principles to be kept in view while determining the real profits of a business



It is essential to keep in view the general commercial principles while determining the real profits of a business.

(11) Deductible Business Losses



Business losses which are not of a capital nature and which have been sustained during the previous year and which are incidental to the business carried on by the assessee are deductible while computing income under the head 'Business or Profession'.

(12) Sums previously allowed as deduction are taxable if recovered during the previous year.



If an assessee receives during the previous year any sum connected with the business, which during any preceding year was allowed as a deduction (being in the nature of loss, expenditure or a liability) then while computing the taxable profits of that year, it will be as a business income during the previous year in which they are recovered.

(13) Dharmada



‘Dharmada’ collected from customers is not a trading receipt and hence not liable to tax.

(14) The underwriting commission



Underwriting

[an-dar-ri-ŋg]

The process through which an individual or institution takes on financial risk for a fee.

The underwriting commission earned by the assessee on the share subscribed by the public is assessable as business income whereas the underwriter commission on shares subscribed by the underwriter himself reduces the cost of shares and is not taxable.

Depreciation



Depreciation

Depreciation means a decrease in the value of assets by wear and tear, caused by their use in the business over a period of time. Its cost is spread over its anticipated life by charging depreciation every year against the profits of the business.

In other words, it is the process of allocating the cost of long –term asset to the time periods in which it is used in a systematic and rational manner.

Type of Assets



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graph LR; Root[Type of Assets] --- A[A. Buildings]; Root --- B[B. Furniture]; Root --- C[C. Plant and machinery]; Root --- D[D. Intangible assets]
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A. Buildings

B. Furniture

C. Plant and
machinery

D. Intangible assets

RULES REGARDING GRANT DEDUCTION OF DEPRECIATION



(1) Assets eligible for depreciation [sec 32(1)]

A. Tangible assets: (i) Building, (ii) Machinery or Plant, and (iii) Furniture.

B. Intangible assets : (i) Know-how, (ii) Patents, (iii) Copyrights, (iv) Trademarks, (v) Licences, (vi) Franchises, (vii) Any other business or commercial rights of similar nature.

Other assets such as investments, goodwill, etc., do not qualify for depreciation allowance.

Building means only the superstructure and does not include the land on which it is constructed, as the land does not depreciate by use. Building includes roads, bridges, culverts, wells and tube wells. Building need not be a full compact and independent building. It may be a part of a building also.

The term 'plant' includes ships, vehicles, books, scientific apparatus and surgical equipments used for the purpose of the business or profession. Plant does not include animals, tea bushes, buildings, furniture or fittings.

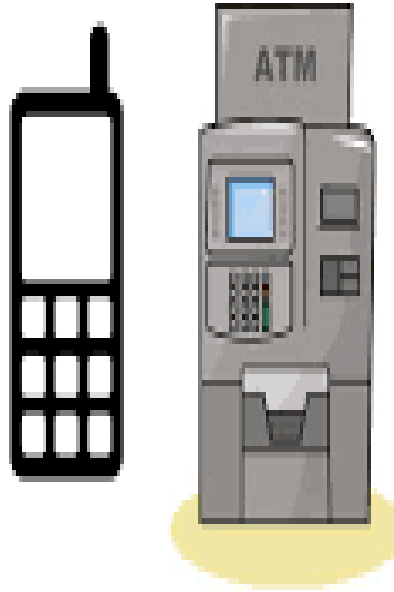
(2) Conditions for allowance of depreciation



The two essential conditions to be fulfilled for claiming depreciation allowance are:

- (i) Asset should be owned, wholly or partly by the assessee.
- (ii) It should be used for the purpose of the assessee's business or profession.

(3) Block of Assets [Sec. 2(11)]



The term 'Block of Assets' means a group of assets falling within a class of assets comprising

(a) tangible assets, being buildings, machinery, plant or furniture,

(b) intangible assets, being know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature, acquired or after 1.4.1998, in respect of which the same percentage of depreciation is prescribed.

(4) Methods of Depreciation



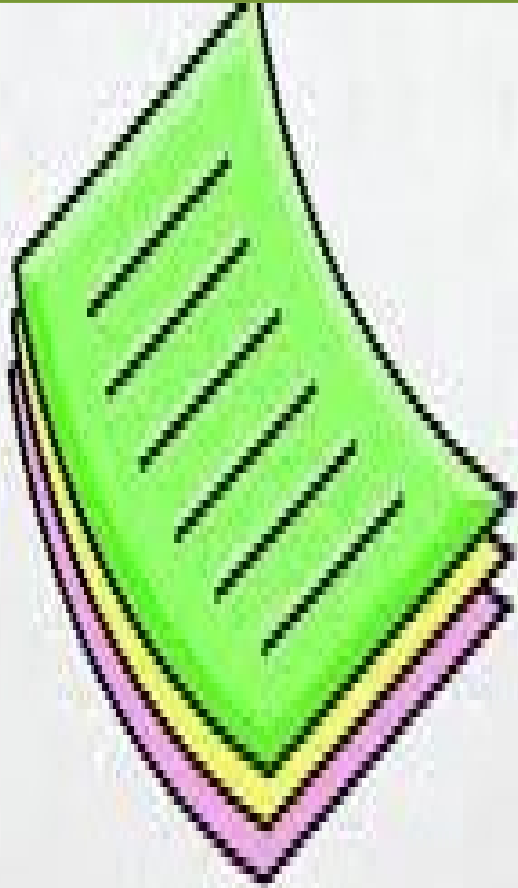
DEPRECIATION

methods

(i) In the case of assets of an undertaking engaged in generation or generation distribution of power, depreciation may be claimed at the prescribed rates on the actual cost thereof, i.e., on the basis of Straight Line Method. (w.e.f. Assessment Year 1998-99)

(ii) In any other case on any block of assets at the prescribed rates on the written value of such block of assets.

(5) Assets acquired and put to use during the previous year



In the case of an asset acquired and put to use in the business during the previous only 50% of the normal depreciation will be allowed if it is used in the business for less than 180 days during the previous year. (This provision is applicable in both the methods of depreciation, i.e., Straight Line Method and W.D.V. Method.)

(6) Compulsory deduction for depreciation



The amount of depreciation shall be deducted in computing income, whether or not the assessee has claimed the deduction in respect of depreciation.

(7) Motor Car Manufactured outside India



If a motor car manufactured outside India is acquired after 31.3.2001 and used for business or profession of the assessee in India, depreciation shall be allowed on such car w.e.f. Assessment year 2002-2003.

(8) Depreciation Allowance to assessee carrying on their business in lease or rented premises

Lease vs Rent

Which one should you pick?



Asset

No depreciation is allowable in respect of building taken on lease or rent and use for the purposes of his business as the assessee is not the owner of such building. However, where an assessee incurs capital expenditure on the construction of any structure or renovation or extension of or improvement to any building held by him under a lease or other right of occupancy and used for purposes of his business or profession, he will be eligible for the grant of depreciation in respect of such capital expenditure.

ADMISSIBLE EXPENSES



While computing profits of business or profession the following deductions are expressly allowed by sections 30 to 37:

Section	Deduction in relation to
30	Rent, rates, taxes, repairs (not being capital in nature) and insurance for buildings premises, used for the purpose of business or profession
31	Repairs and insurance of machinery, plant and furniture used for the purpose of business or profession
32	Depreciation (discussed later in detail)
35	Expenditure on scientific research (discussed later in detail)
35ABA	Any capital expenditure incurred and actually paid for acquisition of any right to use spectrum for telecommunication services by paying spectrum fee - Deductible in equal installments over the period for which the right to use spectrum remains in force
35ABB	Expenditure for obtaining licence to operate telecommunication services - Deductible in equal instalments over the period starting from the year in which such payment has been made and ending in the year in which the licence comes to an end
35AD	Deduction for capital expenditure incurred for specified businesses (discussed later in detail)
35CCA	Expenditure for carrying out Rural Development Programmes by way of payments to National Fund for Rural Development or National Urban Poverty Eradication Fund - Fully Admissible
35CCC	150% of expenditure incurred on agricultural extension project
35D	Amortization of preliminary expenses - The qualifying amount is deductible equally over five successive years commencing from the year in which the business commences Note: Qualifying amount is the lower of 'actual preliminary expenses incurred' or '5% of Cost of Project'. For this purpose, 'Cost of Project' refers to the total value of fixed assets in the Balance Sheet as on the last day of the year in which the business was commenced
36(1)(i)	Premium paid in respect of insurance against risk of damage or destruction of stocks or stores used for the purposes of business or profession
36(1)(ib)	Insurance premium on health of employees paid by any mode other than by way of cash under a scheme framed by the General Insurance Corporation of India or any other insurer approved by IRDA and approved by the Government of India
36(1)(ii)	Bonus or commission paid to employees, subject to fulfillment of condition under Section 43B

36(1)(ii)	Bonus or commission paid to employees, subject to fulfillment of condition under Section 43B
36(1)(iii)	Interest paid on capital borrowed for business or profession, subject to fulfillment of condition under Section 43B
36(1)(iv)	Employer's contribution to a recognized provident fund or approved superannuation fund, subject to fulfilment of condition under Section 43B
36(1)(iva)	Employer's contribution towards notified pension scheme in the name of employee up to 10% of 'Salary' ('Salary' includes basic salary and dearness allowance, if it enters into retirement benefits)
36(1)(v)	Employer's contribution to an approved gratuity fund subject to fulfillment of condition under Section 43B
36(1)(va)	Sums received from employees towards certain welfare schemes if credited to their accounts before the due date
36(1)(vi)	Allowance in respect of dead or permanently useless animals - admissible in the year in which the animal dies or becomes permanently useless for the business or profession. The Admissible amount is Expenditure on purchase of animals (-) any amount realized on the sale of carcasses or the animals.
36(1)(vii)	<p>Bad Debts</p> <p>Bad debts are admissible when the following conditions are fulfilled:</p> <p>(a) It must be a debt or part thereof,</p> <p>(b) Such debt must be revenue in nature,</p> <p>(c) Such debt must have been taken into account in computing the income of the assessee OR it represents money lent in the ordinary course of business or banking or money lending which is carried on by the assessee,</p> <p>(d) Such debt must be incidental to the business or profession of the assessee and (e) Such debt must have been written off as irrecoverable in the accounts of the assessee for the previous year.</p>
37(1)	<p>Any other expenditure</p> <p>(a) not covered u/s 30 to 36,</p> <p>(b) not capital,</p> <p>(c) not personal,</p> <p>(d) incurred wholly and exclusively for business or profession,</p>

Note

Expenditure on Corporate Social Responsibility (CSR) is not to be allowed as deduction u/s 37(1). However, CSR expenditure which is of the nature described in Sections 30 to 36 shall be allowed as deduction under those sections subject to fulfillment of conditions, if any, specified therein.

General Deduction [Section 37(1)]

Apart from the deductions discussed, other expenses unless expressly disallowed is deductible under Section 37 on fulfillment of the following conditions:

- (a) The expenditure should not be covered under Section 30 to 36
- (b) It should not be capital expenditure
- (c) It should not be personal expenditure
- (d) It should have been incurred during the previous year
- (e) It should have been incurred wholly and exclusively for the business or profession of the assessee and
- (f) It should not have been incurred for any purpose which is an offence or is prohibited by any law.

List of expenses either deductible or not deductible

LIST OF EXPENSES

The following is the list of expenses either deductible or not deductible based on fulfillment or non-fulfillment of conditions under Section 37(1). The list given here mainly covers provisions pertaining to individuals and proprietary concerns. The tax treatment for most of the provisions given below is on the basis of judgments, decisions and verdicts given in various cases.

1. **Personal expenses** of proprietor are inadmissible.
2. Any **payment from business to proprietor** is inadmissible. Hence, salary or any other remuneration to proprietor, interest on capital, rent paid for premises owned by proprietor etc. are inadmissible. The inadmissibility for interest on capital is always the net of interest on drawings.
3. **Charities and donations** are inadmissible.
4. **Donations** made, which are directly in the **interest of business**, if proved to the satisfaction of income tax authorities, are admissible.
5. **Donation** by the assessee to a **trust** set up to provide education for children of employees etc. is deductible.
6. **Contribution or donation to a trade syndicate** with a view to prevent uneconomic competition is deductible.
7. Contributions or **donations to political parties** are not deductible.
8. **Reserves or transfer** to reserves/funds are inadmissible.

Provisions (i.e. profits set aside) are admissible to the extent the expenditure or loss for which the provision is created is ascertained. For example, suppose a provision for bad debts of Rs 25,000 is created. In case the actual bad debts are Rs 18,000, then the provision is admissible only to the extent of Rs 18,000 and the balance of Rs 7,000 is inadmissible.

In case, there is no information of actual bad debts, then the entire provision is inadmissible. Suppose the actual bad debts are Rs 30,000, then the entire provision is admissible. Further, a sum of Rs 5,000 is deductible under 'admissible expenses not debited to profit and loss account':

9. Expenditure incurred for **welfare of staff** is fully admissible,
10. Transfer to or contribution to **stall welfare fund** is inadmissible.
11. Expenditure incurred on **training of employees abroad** is admissible.
12. **Payment to school** where children of its employees are getting education is deductible.
13. **Establishment expenses** (i.e. expenses incurred by Establishment Department which is engaged in maintaining employee records) are fully admissible.
14. **Gifts and presents** to employees are admissible.
15. Expenditure incurred on **gifts** made by the assessee-company on the occasion of marriage of relatives of employees is admissible.
16. **Diwali and Muhurat** expenses are fully admissible.
17. **Advertising expenses** are fully admissible.
18. Expenditure on organizing **sports tournament** is deductible.
19. Expenditure incurred on **glow sign boards** is deductible, since it does not bring into existence any asset or advantage of enduring benefit.
20. **Marketing research expenses** are fully admissible.

21. Expenditure incurred for **improving the performance of existing products** is deductible.
22. **Fines and penalties** paid for an offence or any action prohibited by law are inadmissible.
23. **Penalties** which are **compensatory** in nature and are paid for breach of a contract or statute is deductible.
24. **Bribes and illegal payments** are inadmissible.
25. Expenditure to prevent **extinction of business** is admissible.
26. **Commitment charges** payable by a party on the unused portion of the loan which has not been drawn has to be taken as an expenditure laid out wholly and exclusively for the purposes of the business and, therefore, permissible as deduction.
27. **Interest** paid on delayed payment of tax (not being income tax) is admissible.
28. **Interest** on loan borrowed for payment of **income tax** is not deductible.
29. **Interest** on loan borrowed for meeting **personal expenses** is not deductible.
30. **Interest** paid or payable on the **unpaid purchase price** of an asset is deductible.

31. **Expenditure** incurred to **secure overdraft facilities** for business purposes is deductible.
32. **Compensation or damages** paid to an employee who is removed from job in the interest of business is admissible.
33. **Commission** payable for business purposes is deductible.
34. **Legal or litigation expenses** incurred in relation to business are admissible, irrespective of whether the litigation is civil or criminal.
35. **Legal expenses** on **defending the employee** against criminal prosecution in the interest of the business are allowable.
36. **Legal charges** for obtaining a **loan from a financial institution** are deductible.
37. **Litigation expenses** incurred in connection with **acquisition of a capital asset** are **not** deductible.
38. **Any tax** (other than income tax) paid by the assessee is deductible, subject to condition under **Section 43B**.
39. Expenses incurred on **tax proceedings** (including income tax proceedings) are deductible.
40. **Travelling expenses** incurred for business purposes, towards persons related to business, are fully

41. **Travelling expenses** incurred for initiation of a **new business**, being capital in nature, is inadmissible.
42. **Travelling expenses** incurred for **purchase of a capital asset**, being capital in nature, is inadmissible.
43. Expenditure incurred on **foreign tour of wife** of a director who accompanies him is not allowable, until there is evidence that her visit was necessary in order to facilitate negotiations at the top level with foreign corporations.
44. **Entertainment expenses** incurred in entertaining visitors, customers, suppliers and other stakeholders of the business are admissible.
45. Expenses incurred on **shifting the factory** are deductible as revenue expenditure. However, expenditure incurred on shifting of registered office is not deductible.
46. **Loss** on account of fluctuation in the **rate of foreign exchange** as on the date of balance sheet is deductible.
47. Premium paid on **Keyman Insurance Policy** is deductible.
48. **Membership fees paid** to professional and trade bodies are deductible.
49. Expenditure on maintenance of **guest house** is fully admissible.

Depreciation



Depreciation

Depreciation means a decrease in the value of assets by wear and tear, caused by their use in the business over a period of time. Its cost is spread over its anticipated life by charging depreciation every year against the profits of the business.

In other words, it is the process of allocating the cost of long-term asset to the time periods in which it is used in a systematic and rational manner.

Type of Assets

The following are the different types of assets' according to Section 32:

- A. Buildings
- B. Furniture
- C. Plant and machinery
- D. Intangible assets

AMOUNTS EXPRESSLY DISALLOWED

The following table summarizes and explains the expenses which are expressly disallowed (i.e. inadmissible) under the Income Tax Act.

Sl. No.	Section	Amounts Expressly Disallowed
1.	14A	<p>Expenditure incurred in relation to income which does not form part of total income.</p> <p>Any expenditure relating to an exempted income is inadmissible. Since the income is not taxable, the related expenditure is not admissible.</p>
2.	37(2B)	<p><u>Expenditure on advertisement in publication of political party</u></p> <p>Generally, all advertisement expenses are admissible in nature. The only exception is expenditure incurred for advertising in any souvenir, brochure, tract, pamphlet or any similar publication by a political party. Such expenditure incurred for advertisement in the publication of a political party is inadmissible.</p>
3.	40(a)(i)	<p><u>Sum payable outside India or to a non-resident in India with respect to royalty, fees or technical services</u></p> <p>These payments are inadmissible when</p> <ul style="list-style-type: none">(a) Tax is deductible at source from the payment, but has not been deducted, or(b) Tax has been deducted at source during the relevant previous year, but has not been deposited with the Income Tax Authorities, or(c) Tax has been deducted at source during the relevant previous year but the deposit has not been made within the due date for filing return of income. <p>Note: 1. Where the tax deducted at source (TDS) from the payment is not deposited within the due date, the payment is inadmissible for the relevant previous year. However, when the TDS amount is subsequently remitted, the payment becomes admissible in the relevant previous year in which the remittance was made.</p> <p>2. Where the payment made is not taxable in the recipient, TDS provisions are not applicable and hence provisions under Section 40(a)(i) will also not be applicable.</p>

AMOUNTS EXPRESSLY DISALLOWED

The following table summarizes and explains the expenses which are expressly disallowed (i.e. inadmissible) under the Income Tax Act.

4.	40(a)(ia)	<p><u>Specified payments to Residents</u></p> <p>The following payments to a person resident in India when made without deducting tax at source or the TDS has not been deposited within the pre scribed due date must be inadmissible:</p> <ul style="list-style-type: none">(a) Salaries,(b) Interest,(c) Commission or brokerage,(d) Fees for technical services or professional services or royalty,(e) Payment to contractors or sub-contractors,(f) Rent,(g) Payment on purchase of immovable property and(h) Other payments for which tax is deductible at source. <p><u>Notes:</u></p> <ol style="list-style-type: none">1. Where the TDS from the payment is not deposited within the due date, the payment is inadmissible for the relevant previous year. However, when the TDS amount is subsequently remitted, the payment becomes admissible, to the extent inadmissible earlier, in the relevant previous year in which the remittance was made.2. Where the recipient of the above payments has taken into account the above in comes in his return of income and has paid the tax due on the income declared in the return, then payment made by assessee without deducting tax at source can be considered as admissible.3. Where the payment made is not taxable in the recipient, TDS provisions are not applicable and hence provisions under Section will also not be applicable. <p>The disallowance shall be to the extent of 30% of the amount of expenditure claimed as deduction.</p>
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AMOUNTS EXPRESSLY DISALLOWED

The following table summarizes and explains the expenses which are expressly disallowed (i.e. inadmissible) under the Income Tax Act.

5.	40(a)(ii)	Rate of tax on profits or gains (like income tax, surcharge, cess, dividend tax etc.)
6.	40(a)(iib)	Royalty, license fee, service fee etc. levied exclusively on a State Government Undertaking by the State Government.
7.	40(a)(iii)	<p><u>Salary payable outside India or to a non-resident in India</u></p> <p>This payment will be inadmissible when</p> <ul style="list-style-type: none">(a) Tax is deductible at source from the payment, but has not been deducted, or(b) Tax has been deducted at source during the relevant previous year, but has not been deposited with the Income Tax authorities, or(c) Tax has been deducted at source during the relevant previous year and the due date for its deposit falls in the next financial year, but the deposit has not been made within the due date. <p>Notes:</p> <ul style="list-style-type: none">1. Where the TDS from the payment is not deposited within the due date, the payment is inadmissible for the relevant previous year. However, when the TDS amount is subsequently remitted, the payment becomes admissible in the relevant previous year in which the remittance was made.2. Where the recipient of the above payments has taken into account the above in comes in his return of income and has paid the tax due on the income declared in the return, then payment made by assessee <u>without deducting tax at source</u> can be considered as admissible.3. Where the payment made is not taxable in the recipient, TDS provisions are not applicable and hence provisions under Section 40(a)(ia) will also not be applicable.

AMOUNTS EXPRESSLY DISALLOWED

The following table summarizes and explains the expenses which are expressly disallowed (i.e. inadmissible) under the Income Tax Act.

8.	40(a)(iv)	Any payment to a provident fund or other fund established for the benefit of employees of the assessee is not deductible if the assessee has n effective arrangements to secure that tax shall be deducted at source from any payments made from the fund which are chargeable to tax under the head 'salaries'.
9.	40(a)(v)	<p>Tax on Perquisite paid by employer This payment is inadmissible, when (a) The assessee, being an employer, has provided non-monetary perquisites to employee;</p> <p>(b) On such non-monetary perquisites provided to employee, tax has been paid by employer (i.e. the assessee).</p> <p>(c) Such tax paid by employer is exempt in the hands of the employee u/s 10(10CC).</p>
10.	40(b)/(ba)	Payment to partner of a firm or member of AOP or BOI in excess of prescribed limits

Block of assets



Block of Assets' refers to a group of assets under each 'Type of Asset having same rate of depreciation. For identifying the 'block of asset' to which an asset belongs to, the rate of depreciation for that asset must be known.

Rates of Depreciation		
Number	Nature of Asset	Rate of Depreciation (% of WDV)
Block 1	Buildings - Residential buildings other than hotels and boarding houses	5%
Block 2	Buildings – Office, factory, godown or buildings which are not mainly used for residential purposes	10%
Block 3	Buildings - Temporary wooden structures	40%
Block 4	Furniture - Any furniture/fittings including electrical fittings	10%
Block 5	Plant and Machinery - General Rate and Motor Cars	15%
Block 6	Plant and Machinery - Ocean-going ships, vessels ordinarily operating in inland waters including speed boats	20%
Block 7	Plant and Machinery - Buses, lorries and taxies used in the business or running them on hire	30%
Block 8	Plant and Machinery: <ul style="list-style-type: none"> - Aeroplanes and life-saving medical equipment, - New commercial vehicle which is acquired during 1 January 2009 and 30 September 2009 and is put to use before 1 October 2009 for the purpose of business or profession, - Computers including computer software, - Energy-saving devices and renewal energy devices, - Pollution control equipment and solid waste control equipment, - Books (being annual publication) owned by an assessee carrying on profession, - Books (other than annual publications) owned by assessee carrying on profession, - Books owned by a person carrying on the business in running lending libraries. 	40%
Block 9	Intangible Assets - Know-how, patents, copyrights, trademarks, licences, franchises and any other business or commercial rights of similar nature.	25%

Notes:

1. Although there are different methods for calculation of depreciation, the Income Tax Act recognizes only "Written-Down Value (WDV) Method'.
2. Undertakings engaged in generation or generation and distribution of power have the **option** to use 'Straight Line Method of Depreciation for tangible assets.
3. Where an asset **purchased during any given previous year** is put to use for a period of **less than 180 days**, on such asset the rate of depreciation will be **one-half of the rates** given in the above table **for such previous year**.

Format for calculating depreciation for each block

Particulars	Amount Rs
WDV of the block on first day of the relevant previous year	????
Add: Actual cost of asset acquired during the relevant previous year	????
Less: Money received or receivable for asset (falling within the block) sold, discarded, demolished or destroyed during the relevant previous year	????
	????
Depreciable balance	????
Less: Normal depreciation	???
Less: Additional depreciation (if applicable)	???
	???
WDV of the block on the last day of the relevant previous year	???

Amortization of certain preliminary expenses



Where an Indian Company or an non-corporate person resident in India incurs any preliminary expenditure of the nature specified below, the assessee shall be allowed a deduction of an amount equal to one-fifth of such expenditure for each of the five successive previous year beginning with the previous year in which the business commences or the extension work is completed or the new unit commences production or operation, as the case may be.

The following expenditure is included in preliminary expenses:

- (a) Expenditure in connection with:
 - (i) Preparation of feasibility report;
 - (ii) Preparation of project report;
 - (iii) Conducting market survey or any other survey necessary for the business of the assess
 - (iv) Engineering services relating to the business of the assessee.

Amortization of certain preliminary expenses



(b) Legal charges for drafting any agreement between the assessee and any other person for any purpose relating to the setting up or conduct of the business of the assessee.

(c) If the assessee is a company, in addition to the above expenses, the following expenditure is also included in preliminary expenses:

(i) Legal charges for drafting the Memorandum and Articles of Association of the company,

(ii) Printing charges of the Memorandum and Articles of Association;

(iii) Fees paid for registering the company;

(iv) Expenses regarding issue of shares or debentures of the company, including under writing commission, brokerage and charges for drafting, typing, printing and advertisement of the prospectus.

(d) Such other items of expenditure as may be prescribed.

Maximum Limit: The maximum amount eligible for deduction under this section shall not exceed 5% of the cost of the project, or if the assessee is an Indian Company, at the option of company, 5% of the cost of the project or 5% of the capital employed in the business of the company.

H) Additional Depreciation [Sec. 32(1)(IIA)]

Additional Depreciation

Additional depreciation refers to depreciation in addition to normal depreciation. It is available on the fulfillment of the following conditions:

A. eligible

- (i) an assessee set up an undertaking or enterprise for manufacture or produce an article or thing after 31.3.2015.
- (ii) It should be set up in notified backward area of the State of Andhra Pradesh or Bihar or Telangana or West Bengal.
- (iii) It should acquire and install any new machinery or plant (other than ship and aircraft) after 31.3.2015 but before 1.4.2020.
- (iv) The additional depreciation shall be allowed @ 35%.
- (v) If the new machinery or plant is acquired during the previous year and is put to use for less than 180 days during that previous year, the additional depreciation shall be allowed @ 17.5%

H) Additional Depreciation [Sec. 32(1)(IIA)]

Additional Depreciation

B. Not eligible

However, the deduction shall not be allowed in respect of:

- (a) any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person; or
- (b) any machinery or plant installed in any office premises or any residential accommodation, including accommodation in the nature of a guest house; or
- (c) any office appliances or road transport vehicles; or
- (d) any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profits and Gains of Business or Profession" of any one previous year.

H) Additional Depreciation [Sec. 32(1)(IIA)]

Additional Depreciation

Rate of Additional Depreciation

Where the asset is put to use for a period of 180 days or more - 20% of 'Actual Cost'.

Where the asset is put to use for a period of less than 180 days - 10% of 'Actual Cost'.

Additional Depreciation is provided only for the year in which the new machinery was purchased. However, where the asset was put to use for less than 180 days during the previous year, additional depreciation @ 10% of Actual Cost' can be claimed in the year of purchase, and the remaining 10% shall be claimed as deduction in the next year. It can be claimed irrespective of whether there is depreciable balance' or not; and whether there is sufficient balance available after deducting normal depreciation.