INCOME UNDER THE HEAD
BUSINESS/PROFESSION

Meaning of ‘Business’, ‘Profession’ and ‘Profits’
(i) The tax payable by an assessee on his income under this head is in respect of the profits and gains of any business or profession, carried on by him or on his behalf during the previous year. The term “business” has been defined in section 2(13) to “include any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture”. But the term “profession” has not been defined in the Act. It means an occupation requiring some degree of learning. Thus, a painter, a sculptor, an author, an auditor, a lawyer, a doctor, an architect and, even an astrologer are persons who can be said to be carrying on a profession but not business. The term ‘profession’ includes vocation as well [Section 2(36)]. However, it is not material whether a person is carrying on a ‘business’ or ‘profession’ or ‘vocation’ since for purposes of assessment, profits from all these sources are treated and taxed alike.

(ii) Business necessarily means a continuous exercise of an activity; nevertheless, profit from a single venture in the nature of trade would also be assessable under this head if the venture had come to an end or after the entire cost had been recouped. For example, where a person had purchased a piece of land, got it surveyed, laid down a scheme of development, divided it into a number of building plots and sold some of the plots from time to time, though he would not be charged tax on a notional profit made on the individual sale of plots, he would be liable to pay tax on the surplus after all the plots have been sold and the venture has come to an end or after he has recovered the cost of all the plots and expenditure incidental thereto and has a surplus left.

(iii) Profits may be realised in money or in money’s worth, i.e., in cash or in kind. Where profit is realised in any form other than cash, the cash equivalent of the receipt on the date of receipt must be taken as the value of the income received in kind. Capital receipts are not generally to be taken into account while computing profits under this head. Payment voluntarily made by persons who were under no obligation to pay anything at all would be income in the hands of the recipient, if they were received in the course of a business or by the exercise of a profession or vocation. Thus, any amount paid to a lawyer by a person who was not a client, but who has been benefited by the lawyer’s professional service to another would be assessable as the lawyer’s income.

(iv) Application of the gains of trade is immaterial. Gains made even for the benefit of the community by a public body would be liable to tax. To attract the provisions of section 28, it is necessary that the business, profession or vocation should be carried on at least for some time during the accounting year but not necessarily throughout that year and not necessarily by the assessee-owner personally, but it should be under his direction and control.

(v) The charge is not on the gross receipts but on the profits and gains in their natural and proper sense. Profits are ascertained on ordinary principles of commercial trading and commercial accounting. According to section 145, income has to be computed in accordance with the method of accounting regularly and consistently employed by the assessee. The assessee may account for his receipts on the cash basis or mercantile basis.

(vi) The Act, however, contains certain provisions for determining how the income is to be assessed. These must be followed in every case of business or profession. The illegality of a business, profession or vocation does not exempt its profits from tax: the revenue is not concerned with the taint of illegality in the income or its source. Income is taxable even if the assessee is carrying on the business, profession or vocation without
any profit motive. The liability to tax arises once income arises to the assessee; the motive or purpose of earning the income is immaterial. Thus, profit motive is not essential for describing the income from that activity as income from business or profession.

(vii) The profits of each distinct business must be computed separately but the tax chargeable under this section is not on the separate income of every distinct business but on the aggregate profits of all the business carried on by the assessee. Profits should be computed after deducting the losses and expenses incurred for earning the income in the regular course of the business, profession, or vocation unless the loss or expenses is expressly or by necessary implication, disallowed by the Act.

(viii) Income arising from business assets which are temporarily let out e.g., an oil mill, cinema theatre, hotel, ginning or textile factory, rice mill or jute press would be assessable as business income. But if the commercial asset is permanently let the income is taxable as income from house property or income from other sources, depending on the facts and circumstances of the case.

**Income Chargeable under this Head [Section 28]**
The various items of income chargeable to tax as income under the head ‘profits and gains of business or profession’ are as under:

(i) Income arising to any person by way of profits and gains from the business, profession or vocation carried on by him at any time during the previous year.

(ii) Any compensation or other payment due to or received by:

   (a) Any person, by whatever name called, managing the whole or substantially the whole of (i) the affairs of an Indian company or (ii) the affairs in India of any other company at or in connection with the termination of his management or office or the modification of any of the terms and conditions relating thereto;

   (b) any person, by whatever name called, holding an agency in India for any part of the activities relating to the business of any other person at or in connection with the termination of the agency or the modification of any of the terms and conditions relating thereto;

   (c) any person, for or in connection with the vesting in the Government or 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.

By taxing compensation received on termination of agency or on the takeover of management (which is a capital receipt) as income from business, section 28(ii) provides exception to the general rule that capital receipts are not income taxable in the hands of the recipient.

(iii) Income derived by any trade, professional or similar associations from specific services rendered by them to their members. It may be noted that this forms an exception to the general principle governing the assessment of income of mutual associations such as chambers of commerce, stock brokers’ associations etc. As a result a trade, professional or similar association performing specific services for its members is to be deemed as carrying on business in respect of these services and on that assumption the income arising therefrom is to be subjected to tax. For this purpose, it is not necessary that the income received by the association should be definitely or directly related to these services.

(iv) Profits on sale of a licence granted under the Imports (Control) Order, 1955 made under the Imports and Exports (Control) Act, 1947.
(v) Cash assistance (by whatever name called) received or receivable by any person against exports under any scheme of the Government of India.

(vi) Any Customs duty or Excise duty drawback repaid or repayable to any person against export under the Customs and Central Excise Duties Drawback Rules, 1971.

(vii) Any profit on the transfer of the Duty Entitlement Pass Book Scheme, being Duty Remission Scheme, under the export and import policy formulated and announced under section 5 of the Foreign Trade (Development and Regulation) Act, 1992.

(viii) Any profit on the transfer of Duty Free Replenishment Certificate, being Duty Remission Scheme, under the export and import policy formulated and announced under section 5 of the Foreign Trade (Development and Regulation) Act, 1992.

(ix) The value of any benefit or perquisite whether convertible into money or not, arising from business or the exercise of any profession.

(x) Any interest, salary, bonus, commission or remuneration, by whatever name called, due to or received by a partner of a firm from such firm will be deemed to be income from business. However, where any interest, salary, bonus, commission or remuneration by whatever name called, or any part thereof has not been allowed to be deducted under section 40(b), in the computation of the income of the firm the income to be taxed shall be adjusted to the extent of the amount disallowed. In other words, suppose a firm pays interest to a partner at 20% simple interest p.a. The allowable rate of interest is 12% p.a. Hence the excess 8% paid will be disallowed in the hands of the firm. Since the excess interest has suffered tax in the hands of the firm, the same will not be taxed in the hands of the partner.

(xi) Any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy will be taxable as income from business. “Keyman insurance policy” means a life insurance policy taken by a person on the life of another person who is or was the employee of the first mentioned person or is or was connected in any manner whatsoever with the business of the first mentioned person.

(xii) Any sum received or receivable, in cash or kind, on account of any capital asset (in respect of which deduction has been allowed under section 35AD) being demolished, destroyed, discarded or transferred.

(xiii) any sum whether received or receivable, in cash or kind, under an agreement

   (a) for not carrying out any activity in relation to any business; or
   (b) not to share 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 for services.

However, the above sub-clause (a) shall not apply to -

(i) 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, which is chargeable under the head “Capital gains”;

(ii) any sum received as compensation, from the multilateral fund of the Montreal Protocol on Substances that Deplete the Ozone layer under the United Nations Environment Programme, in accordance with the terms of agreement entered into with the Government of India.
The Explanation for the purposes of this clause provides that

(i) “agreement” includes any arrangement or understanding or action in concert,-

(A) whether or not such arrangement, understanding or action is formal or in writing; or
(B) whether or not such arrangement, understanding or action is intended to be enforceable by legal proceedings;

(ii) “service” means service of any description which is made available to potential users and includes the provision of services in connection with business of any industrial or commercial nature such as accounting, banking, communication, conveying of news or information, advertising, entertainment, amusement, education, financing, insurance, chit funds, real estate, construction, transport, storage, processing, supply of electrical or other energy, boarding and lodging.

Speculation Business

Explanation 2 to section 28 specifically provides that where an assessee carries on speculative business, that business of the assessee must be deemed as distinct and separate from any other business. This becomes necessary because section 73 provides that losses in speculation business unlike other business, cannot be set-off against the profits of any business other than a speculation business. Likewise, a loss in speculation business carried forward to a subsequent year can be set-off only against the profit and gains of any speculative business in the subsequent year. Profits and losses resulting from speculative transaction must, therefore, be treated as separate and distinct from other profits and gains of business and profession.

According to section 43(5), the expression “speculative transaction” means a transaction in which a contract for the purchase or sales of any commodity including stocks and shares, is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or scrips. Further, in view of Explanation to section 73, the transaction of purchase and sale of shares by non-banking and non-investment companies must also be deemed to be speculative transactions for tax purposes. However, the following forms of transactions shall not be deemed to be speculative transaction:

(i) a contract in respect of raw materials or merchandise entered into by a person in the course of his manufacturing or merchandising business to guard against loss through future price fluctuations in respect of his contracts for the actual delivery of goods manufactured by him or merchandise sold by him; or

(ii) a contract in respect of stocks and shares entered into by a dealer or investor therein to guard against loss in his holdings of stocks and shares through price fluctuation; or

(iii) a contract entered into by a member of a forward market or stock exchange in the course of any transaction in the nature of jobbing or arbitrage to guard against any loss which may arise in the ordinary course of his business as a member; or

(iv) an eligible transaction carried out in respect of trading in derivatives in a recognized stock exchange; or

(v) an eligible transaction in respect of trading in commodity derivatives carried out in a recognised association.

(a) “eligible transaction” means any transaction,—

(A) carried out electronically on screen-based systems through a stock broker or sub-broker or such other intermediary registered under section 12 of the Securities and Exchange Board of India Act, 1992 in accordance with the provisions of the
Securities Contracts (Regulation) Act, 1956 or the Securities and Exchange Board of India Act, 1992 or the Depositories Act, 1996 and the rules, regulations or bye-laws made or directions issued under those Acts or by banks or mutual funds on a recognised stock exchange; and

(B) which is supported by a time stamped contract note issued by such stock broker or sub-broker or such other intermediary to every client indicating in the contract note the unique client identity number allotted under any Act referred to in sub-clause (A) and permanent account number allotted under this Act;

(b) “recognised stock exchange” means a recognised stock exchange as referred to in clause (f) of section 2 of the Securities Contracts (Regulation) Act, 1956 and which fulfils such conditions as may be prescribed and notified by the Central Government for this purpose. The stock exchanges notified as recognized stock exchanges for the purpose of section 43(5) are National Stock Exchange, Bombay Stock Exchange, MCX Stock Exchange and United Stock Exchange.

Thus, in all the cases where actual delivery or transfer of the commodity or scrips takes place, the transaction would not amount to speculative transaction, however highly speculative it may be in its nature. The actual delivery may be symbolic and includes delivery effected by the mere transfer of delivery orders according to trade practice.

The instances stated above constitute the exceptions specifically provided by the Act, whereby certain transactions (e.g., hedging contracts) entered into by manufacturers and merchants in the course of their business to guard against the loss through price fluctuations are excluded from the definition of speculative transactions. This provision should be liberally construed to cover not only hedging forward contracts for purchase of goods but also such contracts for sale.

The Supreme Court held in CIT v. Shantilal (P) Ltd. [1983] 144 ITR 57 (SC) that an award of damages for breach of contract is not the same thing as a party to the contract accepting satisfaction of the contract otherwise than in accordance with the original terms thereof. In this view of the matter, the court held that in a case where a company contracted to sell a certain commodity to a party but was unable to effect delivery due to a sharp rise in the price of the commodity and the dispute which arose out of such breach of contract was settled by payment of damages as decided by an arbitrator, the transaction could not be described as a ‘speculative transaction’ within the meaning of section 43(5). This principle has been followed by various High Courts also.

**Computation of income from business [Section 29]**

(i) According to section 29, the profits and gains of any business or profession are to be computed in accordance with the provisions contained in sections 30 to 43D. It must, however, be remembered that in addition to the specific allowances and deductions stated in sections 30 to 36, the Act further permits allowance of items of expenses under the residuary section 37(1), which extends the allowance to items of business expenditure not covered by sections 30 to 36, where these are allowable according to accepted commercial practices.

(ii) An item of loss or expenditure not falling within any of the express deductions may be allowed if it is deductible on the basis of common principles of commercial expediency. Thus, in determining whether a particular item (other than those covered by sections 30 to 36) is deductible from profits, it is necessary first to enquire whether the deduction is expressly or by necessary implication prohibited by the Act and then, if it is not so prohibited, to consider whether it is of such nature that it should be charged against income in the computation of the “profits and gains of business or profession”. Accordingly, a loss due to embezzlement or theft of cash by an employee during the course of business is allowable as a deduction in computing the business profit, even though they are not covered by any specific provision of the Act. Losses of non-capital nature which are incidental to the trade and arise unexpectedly in the regular course of the business would be
allowed as losses incidental to the trade though there is no specified provision in the Act for allowing such
deductions. Examples of such losses are embezzlement, theft, robbery or destruction of assets, overdrawing
by employees, loss of stock in trade by damage or by fire or by ravages of white ants or by enemy action
during war or by negligence or fraud of employees, etc. However, if a businessman, having business
connection with a non-resident, is unable to recover from the non-resident the amount of tax, he cannot
claim it as a bad debt or business loss incidental to the trade on principles of commercial accounting as was

(iii) Where a trader stands surety for the debt of another and such guarantee is not in the course of or for the
purposes of trade, any payment made as a result of such guarantee cannot be deducted as a business loss
except in a case where the contract of guarantee is entered into in the course of business pursuant to a trade
or custom of which mutual accommodation is the essence e.g., trader standing surety for one another. Loss
of cash in a bank on account of robbery by dacoits or loss through burglary of cash which the assessee is
under legal obligation or business necessity required to keep in till it would be allowable as loss incidental to
the trade. Losses arising from payments made as advances to employees and money lent by the managed
company to the managing agents which had become irrecoverable would be incidental to the business
provided that the amounts paid in advance or as loan were so made with reasonable business prudence and
hence would be deductible.

(iv) Loss caused by embezzlement is allowable as a deduction not necessarily in the year in which the
embezzlement takes place, but when there is no reasonable chance of obtaining restitution and the amount is
found to be irrecoverable. Normally when a businessman writes off the amount, it is prima facie evidence
of the fact that the amount has become irrecoverable. If embezzled or stolen moneys which are allowed as
deduction in any year are subsequently recovered, they should be brought to tax as a revenue receipt from
the business in the year of recovery.

(v) In respect of wasting assets or exhaustion of capital, no deduction is allowable from the income derived
from such capital or wasting asset. Accordingly, where an annuity is purchased, the entire amount of annuity
received is taxable regardless of the capital paid away and exhausted for the purchase of annuity. Likewise,
in the case of a lease, the capital cost of the lease is not allowed to be deducted over the life of the lease.

Admissible Deductions

(i) Rent, rates, repairs and insurance for buildings [Section 30]: Section 30 allows deduction in respect
of the rent, rates, taxes, repairs and insurance of buildings used by the assessee for the purpose of his
business or profession. However, where the premises are used partly for business and partly for other
purposes, only a proportionate part of the expenses attributable to that part of the premises used for purposes
of business will be allowed as a deduction. Where the assessee has sublet a part of the premises, the
allowance under the section would be confined to the difference between the rent paid by the assessee and
the rent recovered from the sub-tenant. The rent payable would be an allowable deduction under this section
even though the income from the property in respect of which it is paid may be exempt from taxation in the
hands of the owner. Where the assessee himself is owner of the premises and occupies them for his business
purposes, no notional rent would be allowed under this section. However, where a firm runs its business in
the premises owned by one of its partners, the rent payable to the partner will be an allowable deduction to
the extent it is reasonable and is not excessive.

Apart from rent, this section allows deductions in respect of expenses incurred on account of repairs to
building in case where (i) the assessee is the owner of the building or (ii) the assessee is a tenant who has
undertaken to bear the cost of repairs to the premises. Even if the assessee occupies the premises otherwise
than as a tenant or owner, i.e., as a lessee, licensee or mortgagee with possession, he is entitled to a
deduction under the section in respect of current repairs to the premises.

In addition, deductions are allowed in respect of expenses by way of land revenue, local rates, municipal
taxes and insurance in respect of the premises used for the purposes of the business or profession. Cesses,
rates and taxes levied by a foreign Government are also allowed. Where the premises in respect of which these expenses are incurred are not utilized wholly for the purposes of the business, then, the deduction allowable should be of an amount proportionate to the use of the premises for the purposes of the business.

(ii) Repairs and insurance of machinery, plant and furniture [Section 31]: Section 31 allows deduction in respect of the expenses on current repairs and insurance of machinery, plant and furniture in computing the income from business or profession. In order to claim this deduction the assets must have been used for purposes of the assessee’s own business the profits of which are being taxed. The word ‘used’ has to be read in a wide sense so as to include a passive as well as an active user. Thus, insurance and repair charges of assets which have been discarded (though owned by the assessee) or have not been used for the business during the previous year would not be allowed as a deduction. Even if an asset is used for a part of the previous year, the assessee is entitled to the deduction of the full amount of expenses on repair and insurance charges and not merely an amount proportionate to the period of use.

The term ‘repairs’ will include renewal or renovation of an asset but not its replacement or reconstruction. Also, the deduction allowable under this section is only of current repairs but not arrears of repairs for earlier years even though they may still rank for a deduction under section 37(1).

The deduction allowable in respect of premia paid for insuring the machinery, plant or furniture is subject to the following conditions: (i) The insurance must be against the risk of damage or destruction of the machinery, plant or furniture. (ii) The assets must be used by the assessee for the purposes of his business or profession during the accounting year. (iii) The premium should have been actually paid (or payable under the mercantile system of accounting). The premium may even take the form of contribution to a trade association which undertakes to indemnify and insure its members against loss; such premium or contribution would be deductible as an allowance under this section even if a part of it is returnable to the insured in certain circumstances. It does not matter if the payment of the claim will enure to the benefit of someone other than the owner.

Cost of repairs and current repairs of capital nature not to be allowed: As per section 30(a), deduction for cost of repairs to the premises occupied by the assessee as a tenant and the amount paid on account of current repairs to the premises occupied by the assessee, otherwise than as a tenant, is allowed.

As per section 31, the amount paid on account of current repairs of machinery, plant or furniture is allowed as deduction in the computation of income under the head “profits and gains of business or profession”

A view has been taken in Hanuman Motor Service v. CIT (1967) 66 ITR 88, 91 (Mys.) that in considering a claim for deduction under section 10(2)(v) of the 1922 Act (corresponding to section 30(a)(ii) of the Income-tax Act, 1961), the question whether the expenditure is a capital expenditure or revenue expenditure is irrelevant. Once an expenditure has been established to be cost of repairs or current repairs, the same is allowable whether it is of a revenue or capital nature.

Under the Income-tax Act, 1961, the concept of capital and revenue is of fundamental importance. The Income-tax Act, 1961 is an Act to bring to charge only revenue and not capital. Wherever the legislature has felt that capital receipts have to be charged to income tax they have specifically included such capital receipts in the definition of income e.g. Capital gains. In the same way, wherever the legislature desired that capital expenditure should be allowed as a deduction, specific provisions have been made for such allowance e.g. capital expenditure on scientific research. While computing income under the Income-tax Act, 1961, only revenue receipts are to be considered against which only revenue expenditure is allowable unless the Act specifically allows the deduction of capital expenditure. Hence it is clear that in respect of cost of repairs and current repairs, as per correct accounting principles, only expenditure of revenue nature can be allowed.
To clarify this, the *Explanation* to section 30 and section 31 provides that the amount paid on account of the cost of repairs and the amount paid on account of current repairs shall not include any expenditure in the nature of capital expenditure.

(iii) **Depreciation [Section 32]**

(1) Section 32 allows a deduction in respect of depreciation resulting from the diminution or exhaustion in the value of certain capital assets.

The *Explanation* to this section provides that deduction on account of depreciation shall be made compulsorily, whether or not the assessee has claimed the deduction in computing his total income.

(2) The allowance of depreciation which is regulated by Rule 5 of the Income-tax Rules, 1962, is subject to the following conditions which are cumulative in their application.

(a) **The assets in respect of which depreciation is claimed must belong to either of the following categories, namely:**

(i) buildings, machinery, plant or furniture, being tangible assets;

(ii) know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature, being intangible assets acquired on or after 1st April, 1998.

The depreciation in the value of any other capital assets cannot be claimed as a deduction from the business income. No depreciation is allowable on the cost of the land on which the building is erected because the term ‘building’ refers only to superstructure but not the land on which it has been erected. The term ‘plant’ as defined in section 43(3) includes books, vehicles, scientific apparatus and surgical equipments. The expression ‘plant’ includes part of a plant (e.g., the engine of a vehicle); machinery includes part of a machinery and building includes a part of the building. However, the word ‘plant’ does not include an animal, human body or stock-in-trade. Thus plant includes all goods and chattels, fixed or movable, which a businessman keeps for employment in his business with some degree of durability. Similarly the term ‘buildings’ includes within its scope roads, bridges, culverts, wells and tubewells.

(b) **The assets should be actually used by the assessee for purposes of his business during the previous year** - The asset must be put to use at any time during the previous year. The amount of depreciation allowance is not proportionate to the period of use during the previous year.

**Asset used for less than 180 days** - However, it has been provided that where any asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, depreciation shall be allowed at 50 per cent of the allowable depreciation according to the percentage prescribed in respect of the block of assets comprising such asset. It is significant to note that this restriction applies only to the year of acquisition and not for subsequent years.

If the assets are not used exclusively for the business of the assessee but for other purposes as well, the depreciation allowable would be a proportionate part of the depreciation allowance to which the assessee would be otherwise entitled. This is provided in section 38.

Depreciation would be allowable to the owner even in respect of assets which are actually worked or utilized by another person e.g., a lessee or licensee. The deduction on account of depreciation would be allowed under this section to the owner who has let on hire his building, machinery, plant or furniture provided that letting out of such assets is the business of the assessee. In other cases where the letting out of such assets does not constitute the business of the assessee, the deduction on account of depreciation would still be allowable under section 57(ii).
Use includes passive use in certain circumstances: One of the conditions for claim of depreciation is that the asset must be “used for the purpose of business or profession”. Courts have held that, in certain circumstances, an asset can be said to be in use even when it is “kept ready for use”. For example, depreciation can be claimed by a transport company on spare engines kept in store in case of need, though they have not actually been used by the company. Hence, in such cases, the term “use” embraces both active use and passive use. However, such passive use should also be for business purposes.

The Delhi High Court, in CIT v. Insilco Ltd. (2009) 179 Taxman 55, observed that the expression “used for the purposes of business” appearing in section 32 also takes into account emergency spares, which, even though ready for use, yet are not consumed or used during the relevant period. This is because these spares are specific to a fixed asset, namely plant and machinery, and form an integral part of the fixed asset. These spares will, in all probability, be useless once the asset is discarded and will also have to be disposed of. In this sense, the concept of passive use which applies to standby machinery will also apply to emergency spares. Therefore, once the spares are considered as emergency spares required for plant and machinery, the assessee would be entitled to capitalize the entire cost of such spares and claim depreciation thereon.

(c) The assessee must own the assets, wholly or partly - In the case of buildings, the assessee must own the superstructure and not necessarily the land on which the building is constructed. In such cases, the assessee should be a lessee of the land on which the building stands and the lease deed must provide that the building will belong to the lessor of the land upon the expiry of the period of lease. Thus, no depreciation will be allowed to an assessee in respect of an asset which he does not own but only uses or hires for purposes of his business.

However, in this connection, students may note that the Explanation 1 to section 32 provides that where the business or profession of the assessee is carried on in a building not owned by him but in respect of which the assessee holds a lease or other right of occupancy, and any capital expenditure is incurred by the assessee for the purposes of the business or profession or the construction of any structure or doing of any work by way of renovation, extension or improvement to the building, then depreciation will be allowed as if the said structure or work is a building owned by the assessee.

Depreciation is allowable not only in respect of assets “wholly” owned by the assessee but also in respect of assets “partly” owned by him and used for the purposes of his business or profession.

(3) In case of succession of firm/sole proprietary concern by a company or amalgamation or demerger of companies - In order to restrict the double allowance under the proviso to section 32, in the cases of succession or amalgamation or demerger, the aggregate deduction in respect of depreciation allowable in the hands of the predecessor and the successor or in the case of amalgamating company and the amalgamated company or in the case of the demerged company and the resulting company, as the case may be, shall not exceed the amount of depreciation calculated at the prescribed rates as if the succession/amalgamation, demerger had not taken place. It is also provided that such deduction shall be apportioned between the two entities in the ratio of the number of days for which the assets were used by them.

In case of conversion of a private company or an unlisted public company into an LLP, fulfilling the conditions mentioned in section 47(xiiiib), the aggregate depreciation allowable to the predecessor company and successor LLP shall not exceed, in any previous year, the depreciation calculated at the prescribed rates as if the conversion had not taken place. Such depreciation shall be apportioned between the predecessor company and the successor LLP in the ratio of the number of days for which the assets were used by them.

(4) Hire purchase - In the case of assets under the hire purchase system the allowance for depreciation would under Circular No. 9 of 1943 R. Dis. No. 27(4) I.T. 43 dated 23-3-1943, be granted as follows:

1. In every case of payment purporting to be for hire purchase, production of the agreement under which the payment is made would be insisted upon by the department.
2. Where the effect of an agreement is that the ownership of the asset is at once transferred on the lessee the transaction should be regarded as one of purchase by instalments and consequently no deduction in respect of the hire amount should be made. This principle will be applicable in a case where the lessor obtains a right to sue for arrears of instalments but has no right to recover the asset back from the lessee. Depreciation in such cases should be allowed to the lessee on the hire purchase price determined in accordance with the terms of hire purchase agreement.

3. Where the terms of an agreement provide that the asset shall eventually become the property of the hirer or confer on the hirer an option to purchase an asset, the transaction should be regarded as one of hire purchase. In such case, periodical payments made by the hirer should for all tax purposes be regarded as made up of (i) the consideration for hirer which will be allowed as a deduction in assessment, and (ii) payment on account of the purchase price, to be treated as capital outlay and depreciation being allowed to the lessee on the initial value namely, the amount for which the hired assets would have been sold for cash at the date of the agreement. The allowance to be made in respect of the hire should be the amount of the difference between the aggregate amount of the periodical payments under the agreement and the initial value as stated above. The amount of this allowance should be spread over the duration of the agreement evenly. If, however, agreement is terminated either by outright purchase of the asset or by its return to the seller, the deduction should cease as from the date of termination of agreement.

For the purpose of allowing depreciation an assessee claiming deduction in respect of the assets acquired on hire purchase would be required to furnish a certificate from the seller or any other suitable documentary evidence in respect of the initial value or the cash price of the asset. In cases where no such certificate or other evidence is furnished the initial value of the assets should be arrived at by computing the present value of the amount payable under the agreement at an appropriate per centum. For the purpose of allowing depreciation the question whether in a particular case the assessee is the owner of the hired asset or not is to be decided on a consideration of all the facts and circumstances of each case and the terms of the hire purchase agreement. Where the hired asset is originally purchased by the assessee and is registered in his name, the mere fact that the payment of the price is spread over the specified period and is made in installments to suit the needs of the purchaser does not disentitle the assessee from claiming depreciation in respect of the asset, since the assessee would be the real owner although the payment of purchase price is made subsequent to the date of acquisition of the asset itself.

(5) Computation of Depreciation Allowance - Depreciation allowance will be calculated on the following basis:

(i) In the case of assets of an undertaking engaged in generation or generation and distribution of power, such percentage on the actual cost to the assessee as prescribed by Rule 5(1A).

Rule 5(1A) - As per this rule, the depreciation on the abovementioned assets shall be calculated at the percentage of the actual cost at rates specified in Appendix IA of these rules. However, the aggregate depreciation allowed in respect of any asset for different assessment years shall not exceed the actual cost of the asset. It is further provided that such an undertaking as mentioned above has the option of being allowed depreciation on the written down value of such block of assets as are used for its business at rates specified in Appendix I to these rules.

However, such option must be exercised before the due date for furnishing return under section 139(1) for the assessment year relevant to the previous year in which it begins to generate power. It is further provided that any such option once exercised shall be final and shall apply to all subsequent assessment years.

(ii) In the case of any block of assets, at such percentage of the written down value of the block, as may be prescribed by Rule 5(1).
Block of Assets - 1. A “block of assets” is defined in clause (11) of section 2, as 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, licenses, franchises or any other business or commercial rights of similar nature,

in respect of which the same percentage of depreciation is prescribed.

Know-how - In this context, ‘know-how’ means any industrial information or technique likely to assist in the manufacture or processing of goods or in the working of a mine, oilwell or other sources of mineral deposits (including searching for discovery or testing of deposits for the winning of access thereto).

(iii) Additional depreciation on Plant & Machinery acquired by an Industrial Undertaking:
Additional depreciation is allowed on any new machinery or plant (other than ships and aircraft) acquired and installed after 31.3.2005 by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or generation and distribution of power at the rate of 20% of the actual cost of such machinery or plant.

Such additional depreciation will not be available in respect of:

(i) any machinery or plant which, before its installation by the assessee, was used within or outside India by any other person; or

(ii) any machinery or plant installed in office premises, residential accommodation, or in any guest house; or

(iii) office appliances or road transport vehicles; or

(iv) any machinery or plant, the whole or part 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.

(iv) Terminal depreciation: In case of a power concern as covered under clause (i) above, if any asset is sold, discarded, demolished or otherwise destroyed in the previous year, the depreciation amount will be the amount by which the monies payable in respect of such building, machinery, plant or furniture, together with the amount of scrap value, if any, falls short of the written down value thereof. The depreciation will be available only if the deficiency is actually written off in the books of the assessee.

“Moneys payable” in respect of any building, machinery, plant or furniture includes—

(a) any insurance, salvage or compensation moneys payable in respect thereof;

(b) where the building, machinery, plant or furniture is sold, the price for which it is sold, so, however, that where the actual cost of a motor-car is, in accordance with the proviso to clause (1) of section 43, taken to be ` 25,000, the moneys payable in respect of such motor-car shall be taken to be a sum which bears to the amount for which the motor-car is sold or, as the case may be, the amount of any insurance, salvage or compensation moneys payable in respect thereof (including the amount of scrap value, if any) the same proportion as the amount of ` 25,000 bears to the actual cost of the motor-car to the assessee as it would have been computed before applying the said proviso;
“Sold” includes a transfer by way of exchange or a compulsory acquisition under any law for the time being in force but does not include a transfer, in a scheme of amalgamation, of any asset by the amalgamating company to the amalgamated company where the amalgamated company is an Indian company or a transfer of any asset by a banking company to a banking institution in a scheme of amalgamation of such banking company with the banking institution, sanctioned and brought into force by the Central Government.

(6) Actual Cost [Section 43(1)] : The expression “actual cost” means the actual cost of the asset to the assessee as reduced by that portion of the cost thereof, if any, as has been met directly or indirectly by any other person or authority.

Actual cost in certain special situations [Explanations to section 43(1)]

(i) Where an asset is used for the purposes of business after it ceases to be used for scientific research related to that business, the actual cost to the assessee for depreciation purposes shall be the actual cost to the assessee as reduced by any deduction allowed under section 35(1)(iv) [Explanation 1].

(ii) Where an asset is acquired by way of gift or inheritance, its actual cost shall be the written down value to the previous owner [Explanation 2].

(iii) Where, before the date of its acquisition by the assessee, the asset was at any time used by any other person for the purposes of his business or profession, and the Assessing Officer is satisfied that the main purpose of the transfer of the asset directly or indirectly to the assessee was the reduction of liability of income-tax directly or indirectly to the assessee (by claiming depreciation with reference to an enhanced cost) the actual cost to the assessee shall be taken to be such an amount which the Assessing Officer may, with the previous approval of the Joint Commissioner, determine, having regard to all the circumstances of the case [Explanation 3].

(iv) Where any asset which had once belonged to the assessee and had been used by him for the purposes of his business or profession and thereafter ceased to be his property by reason of transfer or otherwise, is re-acquired by him, the actual cost to the assessee shall be —

(i) the written down value at the time of original transfer; or

(ii) the actual price for which the asset is re-acquired by him whichever is less [Explanation 4].

(v) Where before the date of acquisition by the assessee say, Mr. A, the assets were at any time used by any other person, say Mr. B, for the purposes of his business or profession and depreciation allowance has been claimed in respect of such assets in the case of Mr. B and such person acquires on lease, hire or otherwise, assets from Mr. A, then, the actual cost of the transferred assets, in the case of Mr. A, shall be the same as the written down value of the said assets at the time of transfer thereof by Mr. B [Explanation 4A].

We can explain the above as follows—

A person (say “A”) owns an asset and uses it for the purposes of his business or profession. A has claimed depreciation in respect of such asset. The said asset is transferred by A to another person (say “B”). B then acquires the same asset back from B on lease, hire or otherwise. B being the new owner will be entitled to depreciation. In the above situation, the cost of acquisition of the transferred assets in the hands of B shall be the same as the written down value of the said assets at the time of transfer.
Explanation 4A overrides Explanation 3 - Explanation 3 to section 43(1) deals with a situation where a transfer of any asset is made with the main purpose of reduction of tax liability (by claiming depreciation on enhanced cost), and the Assessing Officer, having satisfied himself about such purpose of transfer, may determine the actual cost having regard to all the circumstances of the case.

In the Explanation 4A, a non-obstante clause has been included to the effect that Explanation 4A will have an overriding effect over Explanation 3. The result of this is that there is no necessity of finding out whether the main purpose of the transaction is reduction of tax liability. Explanation 4A is activated in every situation described above without inquiring about the main purpose.

(vi) Where a building which was previously the property of the assessee is brought into use for the purposes of the business or profession, its actual cost to the assessee shall be the actual cost of the building to the assessee, as reduced by an amount equal to the depreciation calculated at the rates in force on that date that would have been allowable had the building been used for the purposes of the business or profession since the date of its acquisition by the assessee [Explanation 5].

(vii) When any capital asset is transferred by a holding company to its subsidiary company or by a subsidiary company to its holding company then, if the conditions specified in section 47(iv) or (v) are satisfied, the transaction not being regarded as a transfer of a capital asset, the actual cost of the transferred capital asset to the transferee company shall be taken to be the same as it would have been if the transferor company had continued to hold the capital asset for the purposes of its own business [Explanation 6].

(viii) In a scheme of amalgamation, if any capital asset is transferred by the amalgamating company to the amalgamated company, the actual cost of the transferred capital assets to the amalgamated company will be taken at the same amount as it would have been taken in the case of the amalgamating company had it continued to hold it for the purposes of its own business [Explanation 7].

In the case of a demerger, where any capital asset is transferred by the demerged company to the resulting company, the actual cost of the transferred asset to the resulting company shall be taken to be the same as it would have been if the demerged company had continued to hold the asset. However, the actual cost shall not exceed the WDV of the asset in the hands of the demerged company [Explanation 7A].

(ix) Certain taxpayers have, with a view to obtain more tax benefits and reduce the tax outflow, resorted to the method of capitalising interest paid or payable in connection with acquisition of an asset relatable to the period after such asset is first put to use. Certain judicial rulings also favoured this approach. This capitalisation implies inclusion of such interest in the 'Actual Cost' of the asset for the purposes of claiming depreciation, investment allowance etc. under the Income-tax Act. This was never the legislative intent nor was it in accordance with recognised accounting practices. Therefore, with a view to counter-acting tax avoidance through this method and placing the matter beyond doubt, Explanation 8 to section 43(1) provides that any amount paid or payable as interest in connection with the acquisition of an asset and relatable to period after asset is first put to use shall not be included and shall be deemed to have never been included in the actual cost of the asset [Explanation 8].

(x) Where an asset is or has been acquired by an assessee, the actual cost of asset shall be reduced by the amount of duty of excise or the additional duty leviable under section 3 of the Customs Tariff Act, 1975 in respect of which a claim of credit has been made and allowed under the Central Excise Rules, 1944 [Explanation 9].

(xi) Where a portion of the cost of an asset acquired by the assessee has been met directly or indirectly by the Central Government or a State Government or any authority established under any law or by any...
other person, in the form of a subsidy or grant or reimbursement (by whatever name called), then, so much of the cost as is relatable to such subsidy or grant or reimbursement shall not be included in the actual cost of the asset to the assessee.

However, where such subsidy or grant or reimbursement is of such nature that it cannot be directly relatable to the asset acquired, so much of the amount which bears to the total subsidy or reimbursement or grant the same proportion as such asset bears to all the assets in respect of or with reference to which the subsidy or grant or reimbursement is so received, shall not be included in the actual cost of the asset to the assessee [Explanation 10].

(xii) Where an asset is acquired outside India by an assessee, being a non-resident and such asset is brought by him to India and used for the purposes of his business or profession, the actual cost of asset to the assessee shall be the actual cost the asset to the assessee, as reduced by an amount equal to the amount of depreciation calculated at the rate in force that would have been allowable had the asset been used in India for the said purposes since the date of its acquisition by the assessee [Explanation 11].

(xiii) Where any capital asset is acquired under a scheme for corporatization of a recognised stock exchange in India approved by the SEBI, the actual cost shall be deemed to be the amount which would have been regarded as actual cost had there been no such corporatization [Explanation 12].

(xiv) Explanation 13 has been inserted in section 43(1) to provide that the actual cost of any capital asset, on which deduction has been allowed or is allowable to the assessee under section 35AD, shall be nil. This would be applicable in the case of transfer of asset by the assessee where -

1. the assessee himself has claimed deduction under section 35AD; or

2. the previous owner has claimed deduction under section 35AD. This would be applicable where the capital asset is acquired by the assessee by way of –

   a. gift, will or an irrevocable trust;

   b. any distribution on liquidation of the company;

   c. any distribution of capital assets on total or partial partition of a HUF;

   d. any transfer of a capital asset by a holding company to its 100% subsidiary company, being an Indian company;

   e. any transfer of a capital asset by a subsidiary company to its 100% holding company, being an Indian company;

   f. any transfer of a capital asset by the amalgamating company to an amalgamated company in a scheme of amalgamation, if the amalgamated company is an Indian company;

   g. any transfer of a capital asset by the demerged company to the resulting company in a scheme of demerger, if the resulting company is an Indian company;

   h. any transfer of a capital asset or intangible asset by a firm to a company as a result of succession of the firm by a company in the business carried on by the firm, or any transfer of a capital asset to a company in the course of demutualization or corporatization of a recognized stock exchange in India as a result of which an association of persons or body of individuals is succeeded by such company (fulfilling the conditions specified);
(i) any transfer of a capital asset or intangible asset by a sole proprietary concern to a company, where the sole proprietary concern is succeeded by a company (fulfilling the conditions specified) which would have been regarded as actual cost had there been no such corporatisation.

(j) any transfer of a capital asset by a company to an LLP as a result of conversion of the company into LLP (fulfilling the conditions prescribed).

Definition of plant [Section 43(3)] – “Plant” includes ships, vehicles, books, scientific apparatus and surgical equipment used for the purposes of business or profession but does not include tea bushes or livestock or buildings or furniture and fittings.

(7) Written down value [Section 43(6)] - (i) In the case of assets acquired by the assessee during the previous year, the written down value means the actual cost to the assessee.

(ii) In the case of assets acquired before the previous year, the written down value would be the actual cost to the assessee less the aggregate of all deductions actually allowed in respect of depreciation. For this purpose, any depreciation carried forward is deemed to be depreciation actually allowed [Section 43(6)(c)(i) read with Explanation 3].

The written down value of any asset shall be worked out as under in accordance with section 43(6)(c) -

(1) The aggregate of the written down value of the block of assets at the beginning of the previous year.

(2) The sum arrived at as above shall be increased by the actual cost of any asset falling within that block which is acquired by the assessee during the previous year.

(3) The sum so arrived at shall be reduced by the sale proceeds and other amounts receivable by the assessee with regard to any asset falling within that block which is sold, discarded, demolished or destroyed during that previous year.

(iii) When in the case of a succession to business or profession, an assessment is made on the successor under section 170(2), the written down value of an asset or block of assets shall be the amount which would have been taken as the written down value if the assessment had been made directly on the person succeeded to [Explanation 1 to section 43(6)].

(iv) Where in any previous year any block of assets is transferred by a holding company to a subsidiary company or vice versa and the conditions of clause 47(iv) or (v) are satisfied or by an amalgamating company to an amalgamated company the latter being an Indian company then the actual cost of the block of assets in the case of transferee-company or amalgamated company as the case may be, shall be the written down value of the block of assets as in the case of the transferor company or amalgamating company, as the case may be, for the immediately preceding year as reduced by depreciation actually allowed in relation to the said previous year [Explanation 2 to section 43(6)].

(v) Where in any previous year any asset forming part of a block of assets is transferred by demerged company to the resulting company, the written down value of the block of assets of the demerged company for the immediately preceding year shall be reduced by the written down value of the assets transferred to the resulting company [Explanation 2A to section 43(6)].

(vi) Where any asset forming part of a block of assets is transferred by a demerged company to the resulting company, the written down value of the block of assets in the case of resulting company shall be the written
down value of the transferred assets of the demerged company immediately before the demerger [Explanation 2B to section 43(6)].

(vii) The actual cost of the block of assets in the case of the successor LLP shall be the written down value of the block of assets as in the case of the predecessor company on the date of conversion [Explanation 2C to section 43(6)].

(viii) Where any asset forming part of a block of assets is transferred in any previous year by a recognised stock exchange in India to a company under a scheme for corporatisation approved by SEBI, the written down value of the block shall be the written down value of the transferred assets immediately before the transfer [Explanation 5 to section 43(6)].

(ix) **Depreciation provided in the books of account deemed to be depreciation actually allowed [Explanation 6 to section 43(6)]**

Section 32(1)(ii) provides that depreciation shall be allowed at the prescribed percentage on the written down value (WDV) of any block of assets. Section 43(6)(b) provides that written down value in the case of assets acquired before the previous year means the actual cost to the assessee less all depreciation actually allowed to him under the Income-tax Act, 1961.

Persons who were exempt from tax were not required to compute their income under the head “Profits and gains of business or profession”. However, when the exemption is withdrawn subsequently, such persons became liable to income-tax and hence, were required to compute their income for income-tax purposes. In this regard, a question arises as to the basis on which depreciation is to be allowed under the Income-tax Act, 1961 in respect of assets acquired during the years when the person was exempt from tax.

Explanation 6 to section 43(6) provides that,-

(a) the actual cost of an asset has to be adjusted by the amount attributable to the revaluation of such asset, if any, in the books of account;

(b) the total amount of depreciation on such asset provided in the books of account of the assessee in respect of such previous year or years preceding the previous year relevant to the assessment year under consideration shall be deemed to be the depreciation actually allowed under the Income-tax Act, 1961 for the purposes of section 43(6);

(c) the depreciation actually allowed as above has to be adjusted by the amount of depreciation attributable to such revaluation.

(x) **Explanation 7** provides that in cases of ‘composite income’, for the purpose of computing written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire composite income of the assessee is chargeable under the head “Profits and Gains of business or profession”. The depreciation so computed shall be deemed to have been “actually allowed” to the assessee.

For instance, Rule 8 prescribes the taxability of income from the manufacture of tea. Under the said rule, income derived from the sale of tea grown and manufactured by seller shall be computed as if it were income derived from business, and 40% of such income shall be deemed to be income liable to tax. If the turnover is, say, `20 lakh, the depreciation `1 lakh and other expenses `4 lakh, then the income would be `15 lakh. Business income would be `6 lakh (being 40% of `15 lakh). As per earlier Court decisions, only the depreciation “actually allowed” i.e., `40,000, being 40% of `1 lakh, has to be deducted to arrive at the written down value. The ambiguity in this case has arisen on account of the interpretation of the meaning of the phrase “actually allowed” used in section 43(6)(b). However, the correct legislative intent is that the WDV is required to be computed by deducting the full depreciation attributable to composite income i.e. `1 lakh in this case. Explanation 7 clarifies this legislative intent.
(xi) The written down value of any block of assets, may be reduced to nil for any of the following reasons:

(a) The moneys receivable by the assessee in regard to the assets sold or otherwise transferred during the previous year together with the amount of scrap value may exceed the written down value at the beginning of the year as increased by the actual cost of any new asset acquired, or

(b) All the assets in the relevant block may be transferred during the year.

(8) Rates of depreciation - All assets have been divided into four main categories and rates of depreciation as prescribed by Rule 5(1) are given below:

**PART A TANGIBLE ASSETS**

**I Buildings**
- Block 1. Buildings (other than covered by sub-item (3) below) which are used mainly for residential purposes: 5%
- Block 2. Buildings which are not used mainly for residential purposes and not covered by sub-items (1) above and (3) below: 10%
- Block 3. Buildings acquired on or after the 1st September, 2002 for installing machinery and plant forming part of water supply project or water treatment system and which is put to use for the purpose of business of providing infrastructure facilities under clause (i) of sub-section (4) of section 80-IA: 100%
- Block 4. Purely temporary erections such as wooden structures: 100%

**II Furniture and Fittings**
- Block 1. Furniture and fittings including electrical fittings: 10%

**III Plant & Machinery**
- Block 1. Motors buses, motor lorries, motor taxis used in the business of running them on hire: 30%
- Block 2. Aeroplanes, aeroengines: 40%
- Block 3. Specified air, water pollution control equipments, solid waste control equipment and solidwaste recycling and resource recovery systems: 100%
- Block 4. Energy Saving Devices (as specified): 80%
- Block 5. Motor cars other than those used in a business of running them on hire, acquired or put to use on or after 1-4-1990: 15%
- Block 6. Computers including computer software: 60%
- Block 7. Annual publications owned by assessees carrying on a profession: 100%
- Block 8. Books owned by assessees carrying on business in running lending libraries: 100%
- Block 9. Books, other than annual publications, owned by assessees carrying on a profession: 60%
- Block 10. Plant & machinery (General rate): 15%

**IV Ships**
- Block 1. Ocean-going ships: 20%
- Block 2. Vessels ordinarily operating on inland waters not covered by sub-item (3) below: 20%
- Block 3. Speed boats operating on inland water: 20%

**PART B INTANGIBLE ASSETS**
Know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature 25%

Students should refer to Income-tax Rules for the detailed classification of assets under Rule 5(1) and the rates applicable thereto.

Note - New commercial vehicles acquired on or after 01.01.2009 but before 01.10.2009 and put to use before 01.10.2009 for the purposes of business or profession” would be classified under the head MACHINERY AND PLANT and would be eligible for depreciation at the rate of 50%.

(9) Increased rate of depreciation for certain assets - Rule 5(2) - Any new machinery or plant installed to manufacture or produce any article or thing by using any technology or other know-how developed in a laboratory owned or financed by the Government or a laboratory owned by a public sector company or a University or an institution recognized by the Secretary, Department of Scientific and Industrial Research, Government of India shall be treated as a part of the block of assets qualifying for depreciation @ 40%.

Conditions to be fulfilled
1. The right to use such technology to manufacture such article has been acquired from the owner of such laboratory or any person deriving title from such owner.

2. The return filed by the assessee for any previous year in which the said machinery is acquired, should be accompanied by a certificate from the Secretary, Department of Scientific and Industrial Research, Government of India to the effect that such article is manufactured by using such technology developed in such laboratory or such article has been invented in that laboratory.

3. The machinery or plant is not used for the purpose of business of manufacture or production of any article or thing specified in the Eleventh schedule.

The depreciation ordinarily allowable to an assessee in respect of any block of assets shall be calculated at the above specified rates on the WDV of such block of assets as are used for the purposes of the business or profession of the assessee at any time during the previous year.

(10) Carry forward and set off of depreciation [Section 32(2)] - Section 32(2) provides for carry forward of unabsorbed depreciation. Where, in any previous year the profits or gains chargeable are not sufficient to give full effect to the depreciation allowance, the unabsorbed depreciation shall be added to the depreciation allowance for the following previous year and shall be deemed to be part of that allowance. If no depreciation allowance is available for that previous year, the unabsorbed depreciation of the earlier previous year shall become the depreciation allowance of that year. The effect of this provision is that the unabsorbed depreciation shall be carried forward indefinitely till it is fully set off.

However, in the order of set-off of losses under different heads of income, effect shall first be given to business losses and then to unabsorbed depreciation.

The provisions in effect are as follows:

- Since the unabsorbed depreciation now falls part of the current year’s depreciation, it can be set off against any other head of income.

- The unabsorbed depreciation can be carried forward for indefinite number of previous years.

- Set off will be allowed even if the same business to which it relates is no longer in existence in the year in which the set off takes place.
Current depreciation to be deducted first - The Supreme Court, in CIT v. Mother India Refrigeration (P.) Ltd. [1985] 23 Taxman 8, has categorically held that current depreciation must be deducted first before deducting the unabsorbed carried forward business losses of the earlier years in giving set off while computing the total income of any particular year.

Illustration 1
A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office during F.Y. 2013-14 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for A.Y. 2014-15:

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Description</th>
<th>Date of acquisition</th>
<th>Date when put to use</th>
<th>Amount `</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Computer</td>
<td>27 Sept., 13</td>
<td>1 Oct., 13</td>
<td>35,000</td>
</tr>
<tr>
<td>2.</td>
<td>Computer software</td>
<td>2 Oct., 13</td>
<td>4 Oct., 13</td>
<td>8,500</td>
</tr>
<tr>
<td>4.</td>
<td>Books (of which books being annual publications are of ` 12,000)</td>
<td>1 Apr., 13</td>
<td>1 Apr., 13</td>
<td>13,000</td>
</tr>
<tr>
<td>5.</td>
<td>Office furniture (Acquired from a practising C.A.)</td>
<td>1 Apr., 13</td>
<td>1 Apr., 13</td>
<td>3,00,000</td>
</tr>
<tr>
<td>6.</td>
<td>Laptop</td>
<td>26 Sep., 13</td>
<td>4 Oct., 13</td>
<td>43,000</td>
</tr>
</tbody>
</table>

Solution
Computation of depreciation allowable for A.Y. 2014-15

<table>
<thead>
<tr>
<th>Asset</th>
<th>Rate</th>
<th>Depreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Block 1: Furniture</td>
<td>10%</td>
<td>30,000</td>
</tr>
<tr>
<td>Block 2: Plant (Computer, computer software, laptop &amp; books)</td>
<td>60%</td>
<td>37,050</td>
</tr>
<tr>
<td>Block 3: Plant (Books)</td>
<td>100%</td>
<td>12,000</td>
</tr>
<tr>
<td>Block 4: Plant (Printer)</td>
<td>15%</td>
<td>1,875</td>
</tr>
<tr>
<td><strong>Total depreciation allowable</strong></td>
<td></td>
<td><strong>80,925</strong></td>
</tr>
</tbody>
</table>

Notes -
1. Computation of depreciation

2. Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, the deduction on account of depreciation would be
restricted to 50% of the prescribed rate. In this case, since Mr. Dhaval commenced his practice in the P.Y.2013-14 and acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use for less than 180 days in that year, namely, laptop and computer software.

Illustration 2
Gamma Ltd. was incorporated on 01.01.2013 for manufacture of tyres and tubes for motor vehicles. The manufacturing unit was set up on 01.05.2013. The company commenced its manufacturing operations on 01.06.2013. The total cost of the plant and machinery installed in the unit is `120 crore. The said plant and machinery included second hand plant and machinery bought for `20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of `15 crore.


Solution
Computation of depreciation allowable for the A.Y. 2014-15 in the hands of Gamma Ltd.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>` in crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost of plant and machinery</td>
<td>120.00</td>
</tr>
<tr>
<td>Less: Used for Scientific Research (Note 1)</td>
<td>15.00</td>
</tr>
<tr>
<td></td>
<td>105.00</td>
</tr>
<tr>
<td>Normal Depreciation at 15% on `105 crore</td>
<td></td>
</tr>
<tr>
<td>Additional Depreciation:</td>
<td></td>
</tr>
<tr>
<td>Cost of plant and machinery</td>
<td>120.00</td>
</tr>
<tr>
<td>Less: Second hand plant and machinery (Note 2)</td>
<td>20.00</td>
</tr>
<tr>
<td>Plant and machinery used for scientific research.</td>
<td></td>
</tr>
<tr>
<td>the whole of the actual cost of which is allowable</td>
<td>15.00</td>
</tr>
<tr>
<td>as deduction under section 35(2)(ia) (Note 2)</td>
<td>35.00</td>
</tr>
<tr>
<td></td>
<td>85.00</td>
</tr>
<tr>
<td>Additional Depreciation at 20%</td>
<td>17.00</td>
</tr>
<tr>
<td>Depreciation allowable for A.Y.2014-15</td>
<td>32.75</td>
</tr>
</tbody>
</table>

Notes:
1. As per section 35(2)(iv), no depreciation shall be allowed in respect of plant and machinery purchased for scientific research relating to assessee’s business, since deduction is allowable under section 35 in respect of such capital expenditure.

2. As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged in, inter alia, the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed in respect of, inter alia –

(i) any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person;

(ii) 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 “Profit and gains of business or profession” of any one previous year.

In view of the above provisions, additional depreciation cannot be claimed in respect of-

(i) Second hand plant and machinery;
(ii) New plant and machinery purchased for scientific research relating to assessee’s business in respect of which the whole of the capital expenditure can be claimed as deduction under section 35(1)(iv) read with section 35(2)(ia).

**Illustration 3**
Lights and Power Ltd. engaged in the business of generation of power, furnishes the following particulars pertaining to P.Y. 2013-14. Compute the depreciation allowable under section 32 for A.Y. 2014-15, while computing its income under the head “Profits and gains of business or profession”. The company has opted for the depreciation allowance on the basis of written down value.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Plant and Machinery (15%)</th>
<th>Plant and Machinery (100%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Opening Written down value of Plant and Machinery (15% block) as on 01.04.2013 (Purchase value ` 8,00,000)</td>
<td>` 5,78,000</td>
<td>5,78,000</td>
</tr>
<tr>
<td>2. Purchase of second hand machinery (15% block) on 29.12.2013 for business purpose</td>
<td>` 2,00,000</td>
<td></td>
</tr>
<tr>
<td>3. Machinery Y (15% block) purchased and installed on 12.07.2013 for the purpose of power generation</td>
<td>` 8,00,000</td>
<td></td>
</tr>
<tr>
<td>4. Acquired and installed for use a new air pollution control equipment on 31.07.2013</td>
<td>` 2,50,000</td>
<td></td>
</tr>
<tr>
<td>5. New air conditioner purchased and installed in office premises on 08.09.2013</td>
<td>` 3,00,000</td>
<td></td>
</tr>
<tr>
<td>6. New machinery Z (15% block) acquired and installed on 23.11.2013 for the purpose of generation of power</td>
<td>` 3,25,000</td>
<td></td>
</tr>
<tr>
<td>7. Sale value of an old machinery X, sold during the year (Purchase value <code>4,80,000, WDV as on 01.04.2013</code> 3,46,800)</td>
<td>` 3,10,000</td>
<td></td>
</tr>
</tbody>
</table>

**Answer**

**Computation of depreciation allowance under section 32 for the A.Y. 2014-15**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Plant and Machinery (15%)</th>
<th>Plant and Machinery (100%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening WDV as on 01.04.2013</td>
<td>` 5,78,000</td>
<td></td>
</tr>
<tr>
<td>Add: Plant and Machinery acquired during the year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Second hand machinery</td>
<td>` 2,00,000</td>
<td></td>
</tr>
<tr>
<td>- Machinery Y</td>
<td>` 8,00,000</td>
<td></td>
</tr>
<tr>
<td>- Air conditioner for office</td>
<td>` 3,00,000</td>
<td></td>
</tr>
<tr>
<td>- Machinery Z</td>
<td>` 3,25,000</td>
<td>` 16,25,000</td>
</tr>
<tr>
<td>- Air pollution control equipment</td>
<td></td>
<td>` 2,50,000</td>
</tr>
<tr>
<td>Less: Asset sold during the year</td>
<td>` 3,10,000</td>
<td></td>
</tr>
<tr>
<td>Written down value before charging depreciation</td>
<td>` 18,93,000</td>
<td>` 2,50,000</td>
</tr>
</tbody>
</table>

**Normal depreciation**

<table>
<thead>
<tr>
<th>Plant and machinery put to use for less than 180 days@ 7.5% (i.e., 50% of 15%)</th>
<th>` 2,50,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Second hand machinery (` 2,00,000 × 7.5%)</td>
<td>` 15,000</td>
</tr>
<tr>
<td>- Machinery Z (` 3,25,000 × 7.5%)</td>
<td>` 24,375</td>
</tr>
<tr>
<td>15% on the balance WDV being put to use for more than 180 days (` 13,68,000 × 15%)</td>
<td>` 2,05,200</td>
</tr>
</tbody>
</table>

**Additional depreciation**

| Machinery Y (` 8,00,000 × 20%) | ` 1,60,000 |
| Machinery Z (` 3,25,000 × 10%) | ` 32,500, ` 1,92,500, Nil |

**Total depreciation**

| ` 4,37,075 | ` 2,50,000 |

Caultimates.com
Notes:


(2) Additional depreciation is not allowed in respect of second hand machinery.

(3) No additional depreciation is allowed in respect of office appliances. Hence, no depreciation is allowed in respect of air conditioner installed in office premises.

(4) Additional depreciation is not allowed in respect of an asset whose actual cost is allowed as deduction in computing the income chargeable under the head “Profit and Gains of business or profession”. It is presumed that the new air pollution control equipment installed is eligible for 100% depreciation. Therefore, no additional depreciation is allowed in respect of the same.

(11) Building, machinery, plant and furniture not exclusively used for business purpose [Section 38(2)] – Where any building, plant and machinery, furniture is not exclusively used for the purposes of business or profession, the deduction on account of expenses on account of current repairs to the premises, insurance premium of the premises, current repairs and insurance premium of machinery, plant and furniture and depreciation in respect of these assets shall be restricted to a fair proportionate part thereof, which the Assessing Officer may determine having regard to the user of such asset for the purposes of the business or profession.

(12) Balancing Charge – Section 41(2) provides for the manner of calculation of the amount which shall be chargeable to income-tax as income of the business of the previous year in which the monies payable for the building, machinery, plant or furniture on which depreciation has been claimed under section 32(1)(i), i.e. in the case of power undertakings, is sold, discarded, demolished or destroyed. The balancing charge will be the amount by which the moneys payable in respect of such building, machinery, plant or furniture, together with the amount of scrap value, if any, exceeds the written down value. However, the amount of balancing charge should not exceed the difference between the actual cost and the WDV. The tax shall be levied in the year in which the moneys payable become due.

The Explanation below section 41(2) makes it clear that where the moneys payable in respect of the building, machinery, plant or furniture referred to in section 41(2) become due in a previous year in which the business, for the purpose of which the building, machinery, plant or furniture was being used, is no longer in existence, these provisions will apply as if the business is in existence in that previous year.

(iv) Investment in new plant or machinery   Section 32AC

(1) A new section 32AC has been inserted by the Finance Act, 2013 to provide a tax incentive by way of investment allowance to encourage huge investment in plant or machinery.

(2) Under new section 32AC, a manufacturing company is entitled to an investment allowance@15% of the aggregate amount of actual cost of new plant and machinery acquired and installed during the financial years 2013-14 & 2014-15, if the same exceeds ` 100 crore.

(3) As per section 32AC, a company assessee would be entitled to deduction @15% of aggregate investment in new plant and machinery if it is –

   (a) engaged in the business of manufacture of an article or thing; and

   (b) invests a sum of more than ` 100 crore in new plant or machinery during the period beginning from 1st April, 2013 and ending on 31st March, 2015.

(4) For A.Y. 2014-15, a manufacturing company would be entitled to deduction of 15% of aggregate amount of actual cost of new assets acquired and installed during the financial year 2013-14, if the aggregate cost of such assets exceeds ` 100 crore.
For A.Y.2015-16, a deduction of 15% of aggregate amount of actual cost of new assets, acquired and installed during the period beginning on 1st April, 2013 and ending on 31st March, 2015, as reduced by the deduction allowed, if any, for A.Y. 2014-15.

(5) The investment allowance@15% under this section is in addition to the depreciation and additional depreciation allowable under section 32(1). Further, the investment allowance would not be reduced to arrive at the written down value of plant and machinery.

(6) “New plant or machinery” does not include—
(1) any plant or machinery which before its installation by the assessee was used either within or outside India by any other person;

(2) any plant or machinery installed in any office premises or any residential accommodation, including accommodation in the nature of a guest house;

(3) any office appliances including computers or computer software;

(4) any vehicle;

(5) ship or aircraft; or

(6) any plant or machinery, the whole of the actual cost of which is allowed as 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 previous year.

(7) The new plant and machinery in respect of which investment allowance has been claimed under section 32AC cannot be sold or otherwise transferred for a period of 5 years from the date of installation. If it is sold or transferred within this period, the deduction allowed earlier would be deemed as income chargeable to tax under the head “Profits and gains of business or profession” of the previous year in which such new plant and machinery is sold or otherwise transferred. This would be in addition to the taxability of gains on transfer of such plant and machinery.

In case of amalgamation or demerger, this restriction would continue to apply to the amalgamated company or resulting company, as the case may be, as it would have applied to the amalgamating or demerged company.

Illustration 4
Compute the admissible investment allowance under section 32AC for A.Y.2014-15 and A.Y.2015-16 in each of the following cases –

<table>
<thead>
<tr>
<th>Company</th>
<th>Investment in new plant and machinery (₹ in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>P.Y.2013-14</td>
</tr>
<tr>
<td>A Ltd.</td>
<td>80</td>
</tr>
<tr>
<td>B Ltd.</td>
<td>75</td>
</tr>
<tr>
<td>C Ltd.</td>
<td>110</td>
</tr>
<tr>
<td>D Ltd.</td>
<td>0</td>
</tr>
<tr>
<td>E Ltd.</td>
<td>105</td>
</tr>
<tr>
<td>F Ltd.</td>
<td>0</td>
</tr>
</tbody>
</table>

Answer

<table>
<thead>
<tr>
<th>Company</th>
<th>Investment in new plant and machinery (₹ in crore)</th>
<th>Investment allowance under section 32AC (₹ in crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Ltd.</td>
<td>80</td>
<td>10</td>
</tr>
<tr>
<td>B Ltd.</td>
<td>75</td>
<td>35</td>
</tr>
</tbody>
</table>
Illustration 5
B Ltd., a company engaged in the business of manufacture of sports equipments, furnishes the following particulars pertaining to P.Y. 2013-14 and P.Y.2014-15. Compute the depreciation allowable under section 32 as well as the investment allowance allowable under section 32AC for A.Y.2014-15 and A.Y.2015-16, while computing its income under the head “Profits and gains of business or profession”. Also, compute the written down value of plant and machinery as on 01.04.2014 and 01.04.2015.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Plant and Machinery (15%)</th>
<th>Plant and Machinery (60%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>WDV as on 01.04.2013</td>
<td>25.00</td>
<td>-</td>
</tr>
<tr>
<td>Add: Plant and Machinery acquired during the year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Second hand machinery</td>
<td>12.00</td>
<td></td>
</tr>
<tr>
<td>- New plant and machinery</td>
<td>90.00</td>
<td></td>
</tr>
<tr>
<td>- Air conditioner installed in office</td>
<td>0.15</td>
<td>102.15</td>
</tr>
<tr>
<td>Computers acquired during the year</td>
<td></td>
<td>0.40</td>
</tr>
<tr>
<td></td>
<td>127.15</td>
<td>0.40</td>
</tr>
<tr>
<td>Less: Asset sold during the year</td>
<td>4.00</td>
<td>Nil</td>
</tr>
<tr>
<td>Written down value before charging depreciation</td>
<td>123.15</td>
<td>0.40</td>
</tr>
<tr>
<td>Less: Depreciation for the P.Y.2013-14 (See Note 1 below)</td>
<td>29.47</td>
<td>0.12</td>
</tr>
<tr>
<td>WDV as on 1.4.2014</td>
<td>93.68</td>
<td>0.28</td>
</tr>
</tbody>
</table>

Note 1 : Computation of depreciation for the P.Y.2013-14

Normal depreciation
Depreciation @ 30% on computers put to use for less than 180 days (50% of 60% × 0.40 crore) - 0.12
Depreciation on plant and machinery (15% block) (40 × 7.5%) + [(123.15-40) × 15%] 15.47

Additional depreciation
- New plant and machinery installed on 31.07.2013 10 ( 50 crore × 20%)
- on 31.10.2013 ( 40 crore × 10%) 4 14.00 Nil
Total depreciation 29.47 0.12

Answer
Computation of depreciation allowance under section 32 for the A.Y. 2014-15

<table>
<thead>
<tr>
<th>Particulars</th>
<th>` in crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Written down value of plant and machinery (15% block) as on 01.04.2013</td>
<td>25.00</td>
</tr>
<tr>
<td>2. Sold plant and machinery on 20.05.2013 (15% block)</td>
<td>4.00</td>
</tr>
<tr>
<td>3. Purchase of second hand machinery (15% block) on 29.05.2013 for business purpose (the machinery was put to use immediately)</td>
<td>12.00</td>
</tr>
<tr>
<td>4. Purchased new computers (60% block) on 08.11.2013 for office</td>
<td>0.40</td>
</tr>
<tr>
<td>5. Acquired and installed new plant and machinery (15% block) on 31.07.2013 ( 50 crore) and on 31.10.2013 ( 40 crore)</td>
<td>90.00</td>
</tr>
<tr>
<td>6. New air conditioners purchased and installed in office premises on 30.06.2013</td>
<td>0.15</td>
</tr>
<tr>
<td>7. Acquired and installed new plant and machinery (15% block) on 02.04.2014</td>
<td>15.00</td>
</tr>
</tbody>
</table>
Note – For the A.Y.2014-15, the company would not be entitled for investment allowance under section 32AC since the investment in new plant and machinery acquired and installed during the year is only `90 crores (i.e., less than `100 crores). Investment in second hand plant and machinery and air-conditioners and computers installed in office would not be eligible for investment allowance under section 32AC or additional depreciation under section 32(1)(iiia).

Computation of depreciation allowance under section 32 for the A.Y. 2015-16

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Plant and Machinery (15%)</th>
<th>Plant and Machinery (60%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>WDV as on 01.04.2014</td>
<td>93.68</td>
<td>0.28</td>
</tr>
<tr>
<td>Add: Plant and Machinery acquired during the year</td>
<td>15.00</td>
<td>-</td>
</tr>
<tr>
<td>Less: Asset sold during the year</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Written down value (before charging depreciation)</td>
<td>108.68</td>
<td>0.28</td>
</tr>
<tr>
<td>Less: Depreciation for the P.Y.2014-15 @15% and 60%, respectively</td>
<td>16.30</td>
<td>0.17</td>
</tr>
<tr>
<td>Additional depreciation@20% on 15 crore</td>
<td>3.00</td>
<td>0.17</td>
</tr>
<tr>
<td>WDV as on 01.04.2015</td>
<td>89.38</td>
<td>0.11</td>
</tr>
</tbody>
</table>

Computation of investment allowance under section 32AC for the A.Y.2015-16

<table>
<thead>
<tr>
<th>Particulars</th>
<th>(` in crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New plant and machinery acquired and installed during the P.Y.2013-14</td>
<td>90</td>
</tr>
<tr>
<td>New plant and machinery acquired and installed during the P.Y.2014-15</td>
<td>15</td>
</tr>
<tr>
<td>Aggregate investment in new plant and machinery during the period from 01.04.2013 to 31.03.2015</td>
<td>105</td>
</tr>
<tr>
<td>Investment allowance @ 15% of `105 crore</td>
<td>15.75</td>
</tr>
<tr>
<td>Less: Deduction allowed in respect investment allowance during the A.Y.2014-15</td>
<td>Nil</td>
</tr>
<tr>
<td>Deduction under section 32AC for the A.Y.2015-16</td>
<td>15.75</td>
</tr>
</tbody>
</table>

Note - The company would be eligible for investment allowance under section 32AC in the P.Y.2014-15, since the aggregate investment in new plant and machinery from 1.4.2013 to 31.3.2015 has exceeded `100 crore.

(v) Tea Development Account/Coffee Development Account/Rubber Development Account [Section 33AB]

(1) Where an assessee carrying on the business of growing and manufacturing tea or coffee or rubber in India has, before the expiry of six months from the end of the previous year or before the due date of furnishing the return of income, whichever is earlier, (i) deposited with a National Bank any amount in a special account maintained by the assessee with that Bank in accordance with a scheme approved by Tea Board or Coffee Board or Rubber Board, or (ii) deposited any amount to be known as Deposit Account opened by the assessee in accordance with the scheme framed by the Tea Board or Coffee Board or Rubber Board, as the case may be, with the previous approval of the Central Government, the assessee shall be allowed a deduction of:

(a) A sum equal to the aggregate of the deposits made or

(b) 40% of the profits of such business computed under the head ‘Profits and gains of business or profession’ before making any deduction under this section, whichever is less.

(2) The above deduction will be allowed before the setting off of brought-forward loss under section 72.
(3) Where the assessee is a firm or any association of persons or any body of individuals the deduction under this section shall not be allowed in the computation of the income of any partner or member of such firm, AOP or BOI.

(4) This deduction shall not be allowed unless the accounts of such business of the assessee for the previous year have been audited by a chartered accountant and the assessee furnishes along with his return of income the report of such audit in the prescribed form duly signed and verified by such accountant.

(5) However, where the assessee is required by any other law to get his accounts audited it shall be sufficient compliance with the provision of this section if such assessee gets the accounts of such business audited under any such law and furnishes the report of the audit and a further report in the prescribed form under this section.

(6) Any amount standing to the credit of the assessee in the special account cannot be withdrawn except for the purposes specified in the scheme, or, as the case may be, in the deposit scheme.

The above amount can also be withdrawn in the following circumstances:

(a) Closure of business
(b) Death of an assessee
(c) Partition of HUF
(d) Dissolution of a firm
(e) Liquidation of a company.

(7) Where the sum standing to the credit of the assessee in the Special account or in the Deposit account is released by the National Bank or is withdrawn by the assessee from the Deposit account and is utilised for the purchase of:

(a) Any machinery or plant installed in any office premises or residential accommodation including a guest house.
(b) Any office appliances (other than computers)
(c) Any machinery or plant the whole of whose actual cost is allowed as deduction by way of depreciation or otherwise in computing the business income.
(d) Any new machinery or plant installed for production of any XI Schedule item, the whole of such amount so utilised will be treated as taxable profits of that year and taxed accordingly.

(8) Where any amount is withdrawn by the assessee from the special account during any previous year on the closure of his business or dissolution of a firm, the whole of such withdrawal shall be deemed to be the profits and gains of business of that previous year and shall be chargeable to tax as the income of that previous year, as if the business had not closed or the firm had not been dissolved.

(9) Where any amount standing to the credit of the assessee in the special account is utilised by the assessee for the purpose of any expenditure in connection with such business in accordance with the scheme, such expenditure shall not be allowed in computing the business income.
(10) Where any amount in the special account which is released during any previous year by the National Bank for being utilised by the assessee for the purposes of such business in accordance with the scheme is not so utilised within that previous year, the unutilised amount shall be deemed to be profits and gains and chargeable to income-tax as the income of that previous year.

However, where such amount is released during the previous year at the closing of the account on the death of the assessee, partition of a HUF or liquidation of a company, the above restriction will not apply.

(11) Where an asset acquired in accordance with the scheme is sold or otherwise transferred in any previous year by the assessee to any person at any time before the expiry of 8 years from the end of the previous year in which it was acquired, such portion of the cost equal to the deduction allowed under this section shall be deemed to be profits of the previous year in which the asset is sold or transferred and shall be chargeable to income-tax as the income of that previous year.

However, the above restriction will not apply in the following cases:

(i) Where the asset is sold or otherwise transferred to Government, local authority, statutory corporation or a Government company.

(ii) Where the sale or transfer is made in connection with the succession of a firm by a company in the business or profession carried on by the firm as result of which the firm sells or otherwise transfers any asset to the company and the scheme continues to apply to the company in the same manner as applicable to the firm. Further, all the properties of the firm relating to the business or profession immediately before the succession should become the liabilities of the company and all the shareholders of the company should have been partners of the firm immediately before the succession.

(12) The Central Government has the power to direct that the deduction allowable under this section shall not be allowed after a specified date.

(13) “National Bank” means the National Bank for Agricultural and Rural Development (NABARD).

(vi) Site Restoration Fund [Section 33ABA] – (1) This section provides for a deduction in the computation of the taxable profits in the case of an assessee carrying on business of prospecting for, or extraction or production, of petroleum or natural gas or both in India and in relation to which the Central Government has entered into an agreement with such assessee for such business.

(2) It provides that where the assessee has during the previous year -

(i) deposited any sum with the State Bank of India in a special account maintained by the assessee with that bank in accordance with the scheme approved in this behalf by the Government of India in the Ministry of Petroleum and Natural Gas (hereinafter referred to as the Site Restoration Account), or

(ii) deposited any amount in an account opened by the assessee for the purposes specified in a scheme framed by the said Ministry,

the assessee shall be entitled to a deduction of —

- a sum equal to the sum deposited; or

- a sum equal to twenty per cent of its profits (as computed under the head “Profits and gains of business or profession” before making any deduction under the new section), whichever is less.
(3) For this purpose, it is provided that any amount credited in the special account or Site Restoration Account by way of interest shall also be deemed to be a deposit.

(4) **Non-eligibility** - (i) Where such assessee is a firm or AOP or BOI, the deduction under this section will not be available in the computation of the income of any partner of the firm or the member of the AOP or BOI.

(ii) Where any deduction in respect of any amount deposited in the special account or Site Restoration Account has been allowed in any previous year, no deduction shall be allowed in respect of such amount in any other previous year.

(5) **Audit** - (i) Section 33ABA(2) provides that deduction under sub-section (1) shall not be admissible unless the accounts of the said business of the assessee for the previous year relevant to the assessment year have been audited by a chartered accountant and the assessee furnishes the report of such audit in the prescribed form along with the return.

(ii) Where the assessee is required by or under any other law to get his accounts audited, it will be sufficient compliance with the provisions of this sub-section if the assessee gets the accounts of the aforesaid business audited under any such law and furnishes the report of the audit and a further report in the prescribed form.

(6) **Withdrawal of deduction** - Any amount standing to the credit in the special account or the Site Restoration Account will not be allowed to be withdrawn except for the purposes specified in the scheme or in the deposit scheme.

No deduction shall be allowed in respect of any amount utilised for the purchase of the following items:

(a) any machinery or plant to be installed in any office premises or residential accommodation, including any accommodation in the nature of a guest house;

(b) any office appliances (not being computers);

(c) 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;

(d) any new machinery or plant to be installed in an industrial undertaking for the purpose of the business of construction, manufacture or production of any article or thing specified in the list in the Eleventh Schedule.

(7) **Withdrawal on closure of account** - (i) Where any amount standing to the credit of the assessee in the special account or in the Site Restoration Account is withdrawn on closure of the account during any previous year by the assessee, the amount so withdrawn from the account as reduced by the amount, if any, payable to the Central Government by way of profit or production share as provided in the agreement referred to in section 42, shall be deemed to be the profits and gains of business or profession of that previous year and shall accordingly be chargeable to income-tax as the income of that previous year.

(ii) Where any amount is withdrawn on closure of the account in a previous year in which the business carried on by the assessee in no longer in existence, these provisions will apply as if the business is in existence in that previous year.

(8) **Utilisation from scheme not available as a deduction** - When any amount standing to the credit of the assessee in the special account or in the Site Restoration Account business is utilized by the assessee for the purpose of any expenditure in connection with such business in accordance with the scheme or the deposit
scheme such expenditure will not be allowed in computing the income chargeable under the head ‘Profits and gains of business or profession’.

(9) Consequences of non-utilisation - Where any amount is released in the previous year by the State Bank of India or is withdrawn from the Site Restoration Account and is not utilized in accordance with the scheme or the deposit scheme, the whole of such amount or the part thereof shall be deemed to be the profits and gains of business and accordingly chargeable to income-tax as income of that previous year. This subsection will not apply in a case where such amount is released in the event of death of an assessee, partition of a Hindu undivided family or liquidation of a company. These circumstances are provided in clauses (b), (c) and (e) of section 33AB(3).

(10) Consequences of sale or transfer - Where any asset acquired in accordance with the scheme or the deposit scheme is sold or otherwise transferred in any previous year by the assessee before the expiry of eight years from the end of the previous year in which such assets were acquired, such part of the cost of such asset as is relatable to the deduction allowed under section 33ABA(1) shall be deemed to be the profits and gains of business or profession of the previous year in which the asset is sold or otherwise transferred and shall accordingly be chargeable to income-tax as the income of that previous year.

This sub-section will not apply in the following cases:

(a) where the asset is sold or otherwise transferred by the assessee to the Government, a local authority, a corporation established by or under a Central, State or Provincial Act or a Government company as defined in section 617 of the Companies Act, 1956; or

(b) where the sale or transfer of the asset is made in connection with the succession of a firm by a company in the business or profession carried on by the firm as a result of which the firm sells or otherwise transfers to the company any asset and the scheme or the deposit scheme continues to apply to the company in the manner applicable to the firm, if the following conditions are satisfied:

(i) all the properties of the firm relating to the business or profession immediately before the succession become the properties of the company;

(ii) all the liabilities of the firm relating to the business or profession immediately before the succession become the liabilities of the company; and

(iii) all the shareholders of the company were partners of the firm immediately before the succession.

Specified period - The Central Government may, by notification in the Official Gazette, direct that the deduction allowable under this section will not be allowed after such date as may be specified in such notification.

(vii) Reserves for Shipping Business [Section 33AC]: The tonnage tax scheme, introduced by insertion of Chapter XII-G in the Income-tax Act, 1961, provides for special provisions relating to taxation of income of shipping companies. Consequently, no deduction under section 33AC is allowable from A.Y. 2005-06, where a shipping company has opted for the tonnage tax scheme.

(viii) Expenditure on Scientific Research [Section 35]: This section allows a deduction in respect of any expenditure on scientific research related to the business of assessee. The expression ‘scientific research’ as defined in section 43(4)(i) means activities for the extension of knowledge in the fields of natural or applied science including agriculture, animal husbandry or fisheries. A reference to expenditure incurred on scientific research would include all expenditure incurred for the prosecution or the provision of facilities for the prosecution of scientific research but does not include any expenditure incurred in the acquisition of
rights in or arising out of scientific research. In particular, a reference to scientific research related to a business or a class of business would include (i) any scientific research which may lead to or facilitate an extension of that business or all the business of that class, as the case may be; (ii) any scientific research of a medical nature which has a special relation to the welfare of the workers employed in that business or all the business of that class, as the case may be.

(1) The deduction allowable under this section consists of -

(i) **Revenue Expenditure:**
(a) Any revenue expenditure incurred by the assessee himself on scientific research related to his business. Expenditure incurred within 3 years immediately preceding the commencement of the business on payment of salary to research personnel engaged in scientific research related to his business carried on by the taxpayer or on material inputs for such scientific research will be allowed as deduction in the year in which the business is commenced. The deduction will be limited to the amount certified by the prescribed authority.

(b) An amount equal to 1¾ times of any sum paid to a university, college or other institution or research association which has as its object, the undertaking of scientific research to be used for scientific research provided that the university, college, institution or association is approved for this purpose by the Central Government by notification in the Official Gazette.

The scope of the above deduction has been extended to cover expenditure on sponsored research carried out in the in-house research and development facilities of public companies. For the purpose, the expression “public sector company” means Government company as defined in section 617 of the Companies Act, 1956.

The payments so made to such institutions would be allowable irrespective of whether (i) the field of scientific research is related to the assessee’s business or not, and (ii) the payment is of a revenue nature or of a capital nature.

(c) A sum equal to 1¼ times of any amount paid to a company to be used by it for scientific research [Clause (iia) of section 35(1)]

However, such deduction would be available only if the company is registered in India and has as its main object the scientific research and development. Further, it should be approved by the prescribed authority and should fulfill the other prescribed conditions.

A company approved under section 35(1)(iia) will not be entitled to claim weighted deduction of 200% under section 35(2AB). However, it can continue to claim deduction under section 35(1)(i) in respect of the revenue expenditure incurred on scientific research.

(d) A sum equal to 1¼ times of any amount paid to a research association which has as its object the undertaking of research in social science or statistical research or to a university, college or other institution approved by the Central Government by notification in the Official Gazette to be used for research in any social science or statistical research.

(e) The applicant association, university, college or other institution shall be approved in accordance with the guidelines, in the manner and subject to such conditions as may be prescribed. Such association, university, college or other institution should be notified in the Official Gazette by the Central Government.

(f) The deduction would be available only if such association, university, college or other institution is for the time being approved in accordance with the guidelines, in the manner and subject to such conditions as may be prescribed.
(g) Further, it has been clarified that the deduction to which an assessee (i.e. donor) is entitled on account of payment of any sum to a research association or university or college or other institution, shall not be denied merely on the ground that subsequent to payment of such sum by the assessee, the approval granted to any of the aforesaid entities is withdrawn.

(ii) Capital Expenditure: Any expenditure of a capital nature related to the business carried on by the assessee would be deductible in full in the previous year in which it is incurred.

**Capital expenditure prior to commencement of business** - The *Explanation* added to subsection (2) specifically provides that where any capital expenditure has been incurred prior to the commencement of the business the aggregate of the expenditure so incurred within the three years immediately preceding the commencement of the business shall be deemed to have been incurred in the previous year in which the business is commenced. Consequently, any capital expenditure incurred within three years before the commencement of business will rank for deduction as expenditure for scientific research incurred during the previous year.

**Expenditure on land disallowed** - No deduction will be allowed in respect of capital expenditure incurred on the acquisition of any land after 29-02-1984 whether the land is acquired as such or as part of any property.

For the above purpose the expression ‘land’ would include any interest in land and it shall be deemed to be acquired on the date on which the document purporting to transfer the land is registered under the Registration Act, 1908 and where the possession of any land has been obtained in part performance of a contract of the nature referred to in section 53A of the Transfer of Property Act, 1882, on the date on which such possession was obtained.

(2) If any question arises under this section as to whether, and if so, to what extent, any activity constitutes, or any asset is being used, for scientific research, the Board shall refer the question to—

(a) the Central Government, when such question relates to any activity under clauses (ii) and (iii) of sub-section (1) i.e. any scientific research, or any research in social science or statistical research carried on by a university, college or institution approved for this purpose, and its decision shall be final;

(b) the prescribed authority, when such question relates to any activity other than the activity specified in clause (a) above whose decision shall be final.

(3) **Carry forward of deficiency** - Capital expenditure incurred on scientific research which cannot be absorbed by the business profits of the relevant previous year can be carried forward to the immediately succeeding previous year and shall be treated as the allowance for that year. In effect, this means that there is no time bar on the period of carry forward. It shall be accordingly allowable for that previous year.

(4) **No depreciation** - Section 35(2)(iv) clarifies that no depreciation will be admissible on any capital asset represented by expenditure which has been allowed as a deduction under section 35 whether in the year in which deduction under section 35 was allowed or in any other previous year.

(5) **Approval by Central Government** - The Central Government by notification in the Official Gazette will approve such research association, university, college or institution for the purpose of sections 35(1)(ii) and 35(1)(iii).
The research association, university or college or other institution referred to in section 35(1)(ii) or (iii) shall make an application in the prescribed form and manner to the Central Government for the purpose of grant of approval or continuance thereof under these clauses.

The Central Government may call for such documents (including audited annual accounts) or information from the research association etc. in order to satisfy itself about the genuineness of the activities of the research association.

Notification issued by the Central Government under these clauses shall at any time have effect for not more than three assessment years (including an assessment year or years commencing before the date on which such notification is issued), as may be specified in the Notification. This time limit is applicable in respect of a notification issued by the Central Government under clause (ii) or clause (iii) before 13.07.2006. Consequently, any notification issued on or after 13.07.2006 shall remain in force until approval granted to such entity is withdrawn.

In respect of an application received on or after 13.07.2006, every notification under clause (ii) or clause (iii) shall be issued or an order rejecting the application shall be passed before expiry of 12 months from the end of the month in which the application for approval was received by the Central Government.

(6) Application of section 41 - Section 41, inter alia, seeks to tax the profits arising on the sale of an asset representing expenditure of a capital nature on scientific research. Such an asset might be sold, discarded, demolished or destroyed, either after having been used for the purposes of business on the cessation of its use for the purpose of scientific research related to the business or without having been used for other purposes. In either case, tax liability could arise. In the first case, where the asset is sold, etc., after having been used for the purposes of the business, the moneys payable in respect of such asset together with the amount of scrap value, if any, could be brought to charge under section 41(1) the provisions of which are wide enough to cover such situations and to bring to tax that amount of deductions allowed in earlier years. It may be noted that in such cases, the actual cost of the concerned asset under section 43(1) read with explanation would be nil and no depreciation would be allowed by virtue of section 35(2)(iv).

Where the asset representing expenditure of a capital nature on Scientific Research is sold without having been used for other purposes, then the case would come under section 41(3) and if the proceeds of sale together with the total amount of the deductions made under section 35 exceed the amount of capital expenditure, the excess or the amount of deduction so made, whichever is less, will be charged to tax as income of the business of the previous year in which the sale took place.

(7) Sum paid to National Laboratory, etc. [Section 35(2AA)]- Sub-section (2AA) of section 35 provides that any sum paid by an assessee to a National Laboratory or University or Indian Institute of Technology or a specified person for carrying out programmes of scientific research approved by the prescribed authority will be eligible for weighted deduction of 200% of the amount so paid.

No contribution which qualifies for weighted deduction under this clause will be entitled to deduction under any other provision of the Act.

The authority which will approve the National Laboratory will also approve the programmes and procedure. Such programmes and procedure will be specified in rules.

The prescribed authority can call for each document or information as it considers necessary to satisfy itself about the genuineness of scientific research activities of the National Laboratory applying for approval. The prescribed authority under Rules 6(3) to (7) is Secretary, Department of Scientific & Industrial Research/Director General (Income-tax Exemptions).
It has been clarified that the deduction to which an assessee is entitled on account of payment of any sum by him to a National Laboratory, University, Indian Institute of Technology or a specified person for the approved programme [referred to in sub-section (2AA) of section 35] shall not be denied to the donor-assessee merely on the ground that after payment of such sum by him, the approval granted to any of the aforesaid done-entities has been withdrawn.

‘National Laboratory’ means a scientific laboratory functioning at the national level under the aegis of the Indian Council of Agricultural Research, Indian Council of Medical Research or the Council of Scientific and Industrial Research, the Defence Research and Development Organisation, the Department of Electronics, the Department of Bio-Technology, or the Department of Atomic Energy and which is approved as a National Laboratory by the prescribed authority in the prescribed manner. 'Specified person' means a person who is approved by the prescribed authority.

**(8) Company engaged in Business of Drugs, Electronic Equipments, etc. [Section 35(2AB)] :** Where a company engaged in the business of bio-technology or in any business of manufacture or production of any article or thing, not being an article or thing specified in the list of the Eleventh Schedule incurs any expenditure on scientific research on in-house research and development facility as approved by the prescribed authority, a deduction of a sum equal to 200% of the expenditure will be allowed. Such expenditure should not be in the nature of cost of any land or building.

For this clause, “expenditure on scientific research” in relation to drugs and pharmaceuticals shall include expenditure incurred on clinical drug trial, obtaining approval from any state regulatory authority, and filing an application for a patent under the Patents Act, 1970.

No deduction will be allowed in respect of the above expenditure under any other provision of this Act.

No company will be entitled to this deduction unless it enters into an agreement with the prescribed authority for co-operation in such research and development facility and for audit of accounts maintained for that facility.

The prescribed authority shall submit its report in relation to the approval of the said facility to the Director General in such form and within such time as may be prescribed.

No deduction shall be allowed in respect of such expenditure incurred after 31-03-2017.

**Illustration 6**
A Ltd. furnishes the following particulars for the P.Y.2013-14. Compute the deduction allowable under section 35 for A.Y.2014-15, while computing its income under the head “Profits and gains of business or profession”.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Amount paid to Indian Institute of Science, Bangalore, for scientific research</td>
<td>`1,00,000</td>
</tr>
<tr>
<td>2. Amount paid to IIT, Delhi for an approved scientific research programme</td>
<td>`2,50,000</td>
</tr>
<tr>
<td>3. Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority</td>
<td>`4,00,000</td>
</tr>
<tr>
<td>4. Expenditure incurred on in-house research and development facility as approved by the prescribed authority</td>
<td>`3,00,000</td>
</tr>
<tr>
<td>(a) Revenue expenditure on scientific research</td>
<td>`7,50,000</td>
</tr>
<tr>
<td>(b) Capital expenditure (including cost of acquisition of land `5,00,000) on scientific research</td>
<td>`7,50,000</td>
</tr>
</tbody>
</table>
Solution

Computation of deduction under section 35 for the A.Y.2014-15

<table>
<thead>
<tr>
<th>Particulars</th>
<th><code> </code></th>
<th>Section</th>
<th>% of weighted deduction</th>
<th>Amount of deduction ((^{\circ}))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment for scientific research</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indian Institute of Science</td>
<td>1,00,000</td>
<td>35(1)(ii)</td>
<td>175%</td>
<td>1,75,000</td>
</tr>
<tr>
<td>IIT, Delhi</td>
<td>2,50,000</td>
<td>35(2AA)</td>
<td>200%</td>
<td>5,00,000</td>
</tr>
<tr>
<td>X Ltd.</td>
<td>4,00,000</td>
<td>35(1)(iia)</td>
<td>125%</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Expenditure incurred on in-house research and development facility</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue expenditure</td>
<td>3,00,000</td>
<td>35(2AB)</td>
<td>200%</td>
<td>6,00,000</td>
</tr>
<tr>
<td>Capital expenditure (excluding cost of acquisition of land ` 5,00,000)</td>
<td>2,50,000</td>
<td>35(2AB)</td>
<td>200%</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Deduction allowable under section 35</td>
<td></td>
<td></td>
<td></td>
<td>22,75,000</td>
</tr>
</tbody>
</table>

(ix) Expenditure for obtaining licence to operate telecommunication services [Section 35ABB] - (1)

Where any capital expenditure has been incurred for acquiring any right to operate telecommunication services and for which payment has actually been made to obtain a licence, a deduction will be allowed in equal annual instalments over the relevant previous years.

“Relevant previous years” means—

(a) in a case where the licence fee is actually paid before the commencement of the business to operate telecommunication services, the previous years beginning with the previous year in which such business commenced;

(b) in any other case, the previous years beginning with the previous year in which the licence fee is actually paid, and the subsequent previous year or years during which the licence, for which the fee is paid, shall be in force.

“Payment has actually been made” means the actual payment of expenditure irrespective of the previous year in which the liability for the expenditure was incurred according to the method of accounting regularly employed by the assessee.

(2) Moreover, any capital expenditure so incurred before the actual commencement of the business shall also be eligible for deduction under sub-section (1).

(3) Where the licence is transferred and the proceeds of the transfer (so far as they consist of capital sums) are less than the expenditure incurred remaining unallowed, a deduction equal to such expenditure remaining unallowed, as reduced by the proceeds of the transfer, shall be allowed in respect of the previous year in which the licence is transferred.

(4) Where the whole or any part of the licence is transferred and the proceeds of the transfer (so far as they consist of capital sums) exceed the amount of the expenditure incurred remaining unallowed, so much of the excess as does not exceed the difference between the expenditure incurred to obtain the licence and the amount of such expenditure remaining unallowed shall be chargeable to income-tax as profits and gains of the business in the previous year in which the licence has been transferred.

Where the licence is transferred in a previous year in which the business is no longer in existence, the above provisions will apply as if the business is in existence in that previous year.
(5) Where the whole or any part of the licence is transferred and the proceeds of the transfer (so far as they consist of capital sums) are not less than the amount of expenditure incurred remaining unallowed, no deduction for such expenditure shall be allowed in respect of the previous year in which the license is transferred or in any subsequent previous year.

(6) Where a part of the license is transferred in a previous year, the proceeds of transfer will be subtracted from the expenditure remaining unallowed. Such remainder will be divided by the number of relevant previous years which have not expired at the beginning of the previous year during which the license is transferred.

(7) Where in a scheme of amalgamation the amalgamating company sells or otherwise transfers the license to the amalgamated company being an Indian company, the above provisions with regard to the chargeability of the surplus will not apply to the amalgamating company. Further, the provisions will apply to the amalgamated company as they would have applied to the amalgamating company if the latter had not transferred the license.

(8) The said provisions relating to transfer of license given in (iii), (iv) and (v) above shall not be applicable in the case of demerged company where the demerged company sells or transfers the license to the resulting company (being an Indian company) and the provisions of the section allowing deduction of expenditure incurred for obtaining the licence shall be applicable to the resulting company as it would have applied to demerged company.

(9) Where a deduction is claimed and allowed for any previous year under sub-section (1) of the section 35ABB, then, no deduction on the capital expenditure so incurred shall be allowed by way of depreciation under sub-section (1) of section 32 in respect of acquiring any right to operate telecommunication services.

(x) **Promotion of social and economic welfare [Section 35AC]** – (1) Under this section, deduction will be allowed in computing profits of business or profession chargeable to tax, in respect of the expenditure incurred for an eligible project or scheme for promoting social and economic welfare or uplift of the public as may be specified by the Central Government on the recommendations of the “National Committee”. For this purpose, ‘National Committee’ will be the committee constituted by the Central Government from amongst persons of eminence in public life. Rules 11-F to 11-O deal with the National Committee for Promotion of Social and Economic Welfare and the guidelines for granting approval of associations and institutions and for recommending projects or schemes, for the purposes of this provision.

(2) The deduction will be allowed in case where the qualifying expenditure is either incurred by way of payment to a public sector company, a local authority or to an approved association or institution for carrying out any eligible project or scheme.

(3) However, companies will be allowed the deduction also in cases where expenditure is incurred by them directly on an eligible project or scheme.

(4) The claim for deduction under this section should be supported by a certificate obtained from the public sector company, local authority or approved association or institution as the case may be. Where the claim is in respect of expenditure directly incurred by a company on an eligible project or scheme, a certificate should be obtained from a Chartered Accountant.

(5) The deduction to which an assessee (i.e. the donor) is entitled on account of payment of any sum by him to a public sector company or a local authority or to an association or institution shall not be denied to the assessee merely on the ground that after payment of such sum by him, the approval granted to such association or institution has been withdrawn or the notification notifying the eligible project or scheme referred to in section 35AC has been withdrawn.
(6) The Committee can withdraw the approval to an association or institution if it is satisfied that the project or the scheme is not being carried on in accordance with all or any of the conditions subject to which approval was granted or if the association/institution has failed to furnish to the National Committee, after the end of each financial year, a progress report within the prescribed time in the prescribed form. The National Committee, should however, give a reasonable opportunity to the concerned association or institution of showing cause against the proposed withdrawal. Further, a copy of the order withdrawing the approval or notification should be forwarded to the Assessing Officer having jurisdiction over the concerned association or institution.

(7) Similarly, the Committee can withdraw a notification regarding an eligible project or scheme if it is satisfied that the project or the scheme is not being carried out in accordance with all or any of the conditions subject to which such project or scheme was notified or a report in respect of such eligible project or scheme has not been furnished after the end of each financial year, in the prescribed form within the prescribed time. The National Committee should however, give a reasonable opportunity of showing cause against the proposed withdrawal.

(8) Further, a copy of the notification by which the eligible project or scheme is withdrawn should be forwarded to the Assessing Officer having jurisdiction over the concerned association, institution, public sector company or local authority, as the case may be, carrying on such eligible project or scheme.

(i) Where the approval of the National Committee or the notification in respect of eligible project or scheme is withdrawn in case of a public sector company or local authority, etc; or

(ii) Where a company has claimed deduction in respect of any expenditure incurred directly on the eligible project or scheme and the approval for such project or scheme is withdrawn by the National Committee, the total amount of payment received by the public sector company or the local authority, etc., as case may be, in respect of which it has furnished to certificate, or the deduction claimed by the company shall be deemed to be the income of such company/authority, etc. for previous year in which the approval or notification is withdrawn. Further, tax will be charged on such income at the maximum marginal rate in force.

(xi) “Investment-linked tax incentives” for specified businesses [Section 35AD]

(i) Although there are a plethora of tax incentives available under the Income-tax Act, 1961 they do not fulfill the intended purpose of creating infrastructure since these incentives are linked to profits and consequently have the effect of diverting profits from the taxable sector to the tax-free sector. Therefore, with the specific objective of creating rural infrastructure and environment friendly alternate means for transportation of bulk goods, investment-linked tax incentives have been introduced for specified businesses, namely–

• setting-up and operating ‘cold chain’ facilities for specified products;

• setting-up and operating warehousing facilities for storing agricultural produce;

• 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 a hotel of two-star or above category, anywhere in India;

• building and operating a hospital, anywhere in India, with at least 100 beds for patients;
• developing and building a housing project under a scheme for slum redevelopment or rehabilitation framed by the Central Government or a State Government, as the case may be, and notified by the CBDT in accordance with the prescribed guidelines.

• developing and building a housing project under a notified scheme for affordable housing framed by the Central Government or State Government; and

• production of fertilizer in India.

• setting up and operating an inland container depot or a container freight station notified or approved under the Customs Act, 1962;

• bee-keeping and production of honey and beeswax; and

• setting up and operating a warehousing facility for storage of sugar.

(ii) 100% of the capital expenditure incurred during the previous year, wholly and exclusively for the above businesses would be allowed as deduction from the business income. However, expenditure incurred on acquisition of any land, goodwill or financial instrument would not be eligible for deduction.

(iii) Further, the expenditure incurred, wholly and exclusively, for the purpose of specified business prior to commencement of operation would be allowed as deduction during the previous year in which the assessee commences operation of his specified business. A condition has been inserted that such amount incurred prior to commencement should be capitalized in the books of account of the assessee on the date of commencement of its operations.

(iv) Weighted “investment-linked” tax deduction for certain specified businesses [Section 35AD(1A)]

The following “specified businesses” would be eligible for weighted deduction @ 150% of the capital expenditure (including capital expenditure incurred before commencement of operations and capitalized in the books of account on the date of commencement of operations) under section 35AD(1A), if they commence operations on or after 1st April, 2012 –

(1) setting up and operating a cold chain facility;

(2) setting up and operating a warehousing facility for storage of agricultural produce;

(3) building and operating, anywhere in India, a hospital with at least 100 beds for patients;

(4) developing and building a housing project under a scheme for affordable housing framed by the Central Government or a State Government. Such scheme should be notified by the CBDT in accordance with the prescribed guidelines; and

(5) production of fertilizer in India.

(v) For claiming deduction (whether 100% or 150%) under section 35AD, the specified business should fulfill the following conditions -

(1) it should not be set up by splitting up, or the reconstruction, of a business already in existence;
(2) it should not be set up by the transfer to the specified business of machinery or plant previously used for any purpose;

In order to satisfy this condition, the total value of the plant or machinery so transferred should not exceed 20% of the value of the total plant or machinery used in the new business.

For the purpose of this condition, machinery or plant would not be regarded as previously used if it had been used outside India by any person other than the assessee provided the following conditions are satisfied:

(a) such plant or machinery was not used in India at any time prior to the date of its installation by the assessee;

(b) the plant or machinery was imported into India from a foreign country;

(c) no deduction in respect of depreciation of such plant or machinery has been allowed to any person at any time prior to the date of installation by the assessee.

(3) In respect of the business of 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, such business,—

(a) should be owned by a company formed and registered in India under the Companies Act, 1956 or by a consortium of such companies or by an authority or a board or a corporation established or constituted under any Central or State Act;

(b) should have been approved by the Petroleum and Natural Gas Regulatory Board and notified by the Central Government in the Official Gazette.

(c) should have made not less than such proportion of its total pipeline capacity available for use on common carrier basis by any person other than the assessee or an associated person. The common carrier capacity condition prescribed by the regulations of the Petroleum & Natural Gas Regulatory Board is—

(1) “one-third” for natural gas pipeline network; and

(2) “one-fourth” for petroleum product pipeline network.

(d) should fulfill any other prescribed condition.

(vi) where a deduction under this section is claimed and allowed in respect of the specified business for any assessment year, no deduction under the provisions of Chapter VI-A under the heading “C.- Deductions in respect of certain incomes” is permissible in relation to such specified business for the same or any other assessment year.

Correspondingly, section 80A has been amended to provide that where a deduction under any provision of this Chapter under the heading “C – Deductions in respect of certain incomes” is claimed and allowed in respect of the profits of such specified business for any assessment year, no deduction under section 35AD is permissible in relation to such specified business for the same or any other assessment year.
In short, once the assessee has claimed the benefit of deduction under section 35AD for a particular year in respect of a specified business, he cannot claim benefit under Chapter VI-A under the heading “C.-Deductions in respect of certain incomes” for the same or any other year and vice versa.

(vii) The assessee cannot claim deduction in respect of such expenditure incurred for specified business under any other provision of the Income-tax Act, 1961 in the current year or under this section for any other year.

(viii) The benefit will be available –

(a) in a case where the business relates to laying and operating a cross country natural gas pipeline network for distribution, if such business commences its operations on or after 1st April, 2007;

(b) in a case where the business relates to setting and operating “cold-chain” facilities for specified products or warehousing facilities for storing agricultural produce, if such business commences its operation on or after 1st April, 2009;

(c) in the case of the business of affordable housing projects and production of fertilizer in a new plant or in a newly installed capacity in an existing plant, if such business commences operation on or after 1st April, 2011;

(d) in the case of business of setting up and operating an inland container depot or a container freight station notified or approved under the Customs Act, 1962, bee-keeping and production of honey and beeswax and setting up and operating a warehousing facility for storage of sugar, if such business commences operation on or after 1st April, 2012;

(e) in any other case, if such business commences its operation on or after 1st April, 2010.

Consequently, profit-linked deduction provided under section 80-IA to the business of laying and operating a cross country natural gas distribution network has been discontinued. As a result, any person availing of this incentive can now avail of the benefit under section 35AD.

Illustration 7
Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 01.04.2013. He incurred capital expenditure of ` 80 lakh, ` 60 lakh and ` 50 lakh, respectively, on purchase of land and building during the period January, 2013 to March, 2013 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2013. The cost of land included in the above figures are ` 50 lakh, ` 40 lakh and ` 30 lakh, respectively. Further, during the P.Y.2013-14, it incurred capital expenditure of ` 20 lakh, ` 15 lakh & ` 10 lakh, respectively, for extension/ reconstruction of the building purchased and used exclusively for the above businesses. Compute the income under the head “Profits and gains of business or profession” for the A.Y.2014-15 and the loss to be carried forward, assuming that Mr. A has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading “C. – Deductions in respect of certain incomes”. The profits from the business of setting up a warehousing facility (before claiming deduction under section 35AD and section 32) for the A.Y. 2014-15 is ` 16 lakhs, ` 14 lakhs and ` 31 lakhs, respectively.

Answer

Computation of profits and gains of business or profession for A.Y.2014-15

<table>
<thead>
<tr>
<th>Particulars</th>
<th>` (in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32)</td>
<td>31</td>
</tr>
<tr>
<td>\textit{Less:} Depreciation under section 32</td>
<td></td>
</tr>
</tbody>
</table>
Income Under The Head Business/Profession

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Food Grains</th>
<th>Sugar</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) Profits from the specified business of setting up a warehousing facility (before providing deduction under section 35AD)</td>
<td>16</td>
<td>14</td>
<td>30</td>
</tr>
<tr>
<td>(B) Less: Deduction under section 35AD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital expenditure incurred prior to 01.04.2013 (i.e., prior to commencement of business) and capitalized in the books of account as on 01.04.2013 excluding the expenditure incurred on acquisition of land = <code> 30 lakh (</code> 80 lakh – <code>50 lakh) and</code> 20 lakh (<code>60 lakh –</code> 40 lakh)</td>
<td>30</td>
<td>20</td>
<td>50</td>
</tr>
<tr>
<td>(C) Capital expenditure incurred during the P.Y.2013-14</td>
<td>20</td>
<td>15</td>
<td>35</td>
</tr>
<tr>
<td>(D) Total capital expenditure (B + C)</td>
<td>50</td>
<td>35</td>
<td>85</td>
</tr>
<tr>
<td>(E) Deduction under section 35AD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>150% of capital expenditure (food grains)</td>
<td>75</td>
<td></td>
<td></td>
</tr>
<tr>
<td>100% of capital expenditure (sugar)</td>
<td></td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Total deduction u/s 35AD for A.Y.2014-15</td>
<td>75</td>
<td>35</td>
<td>110</td>
</tr>
<tr>
<td>(F) Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)</td>
<td></td>
<td></td>
<td>(59)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(21)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(80)</td>
</tr>
</tbody>
</table>

Notes:

1. Weighted deduction@150% of the capital expenditure is available under section 35AD for A.Y.2014-15 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2012. Food grains constitute agricultural produce and therefore, the capital expenditure incurred for setting up a warehousing facility for storage of food grains is eligible for weighted deduction @ 150% under section 35AD.

2. Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2014-15 in respect of specified business of setting up and operating a warehousing facility for storage of sugar, where operations are commenced on or after 01.04.2012.

3. However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.

4. However, Mr. A can claim depreciation @ 10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2013-14.

5. Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of ` 80 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of ` 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.
(ix) “Cold chain facility” means a chain of facilities for storage or transportation of agricultural and forest produce, meat and meat products, poultry, marine and dairy products, products of horticulture, floriculture and apiculture and processed food items under scientifically controlled conditions including refrigeration and other facilities necessary for the preservation of such produce.

An “associated person” in relation to the assessee means a person—

(1) who participates directly or indirectly or through one or more intermediaries in the management or control or capital of the assessee;

(2) who holds, directly or indirectly, shares carrying not less than twenty-six per cent of the voting power in the capital of the assessee;

(3) who appoints more than half of the Board of directors or members of the governing board, or one or more executive directors or executive members of the governing board of the assessee; or

(4) who guarantees not less than 10% of the total borrowings of the assessee.

(x) In respect of the business of hotels and hospitals, the word “new” has been removed from the definition of “specified business”. Therefore, “specified business” means the business of building and operating, anywhere in India, -

(1) a hotel of two-star or above category as classified by the Central Government;

(2) a hospital with at least one hundred beds for patients.

Consequently, the loss of an assessee claiming deduction under section 35AD in respect of a specified business can be set-off against the profit of another specified business under section 73A, irrespective of whether the latter is eligible for deduction under section 35AD. As assessee can, therefore, set-off the losses of a hospital or hotel which begins to operate after 1st April, 2010 and which is eligible for deduction under section 35AD, against the profits of the existing business of operating a hospital (with at least 100 beds for patients) or a hotel (of two-star or above category), even if the latter is not eligible for deduction under section 35AD.

Illustration 8

XYZ Ltd. commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 01.04.2013. The company inurred capital expenditure of `50 lakh during the period January, 2013 to March, 2013 exclusively for the above business, and capitalized the same in its books of account as on 1st April, 2013. Further, during the P.Y.2013-14, it incurred capital expenditure of `2 crore (out of which `1.50 crore was for acquisition of land) exclusively for the above business. Compute the income under the head “Profits and gains of business or profession” for the A.Y.2014-15, assuming that XYZ Ltd. has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VIA under the heading “C. – Deductions in respect of certain incomes”. The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y.2014-15 is `25 lakhs. Assume that the company also has another existing business of running a four-star hotel in Coimbatore, which commenced operations 5 years back, the profits from which are `120 lakhs for the A.Y.2014-15.

Solution

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD)</td>
<td>25 lakh</td>
</tr>
</tbody>
</table>

Less: Deduction under section 35AD
Capital expenditure incurred during the P.Y.2013-14 (excluding the expenditure incurred on acquisition of land) = ₹ 200 lakh − ₹ 150 lakh

(See point no. (ii) above)

Capital expenditure incurred prior to 01.04.2013 (i.e., prior to commencement of business) and capitalized in the books of account as on 01.04.2013 (See point no. (iii) above)

50 lakh

Total deduction under section 35AD for A.Y.2014-15

100 lakh

Loss from the specified business of new hotel in Madurai

(75 lakh)

Profit from the existing business of running a hotel in Coimbatore

120 lakh

Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A

45 lakh

(xii) Where the assessee builds a hotel of two-star or above category as classified by the Central Government and subsequently, while continuing to own the hotel, transfers the operation of the said hotel to another person, the assessee shall be deemed to be carrying on the specified business of building and operating a hotel. Therefore, he would be eligible to claim investment-linked tax deduction under section 35AD.

Therefore, in effect, the assessee shall be deemed to be carrying on the specified business of building and operating hotel if –

(1) The assessee builds a hotel of two-star or above category;

(2) Thereafter, he transfers the operation of the hotel to another person;

(3) He, however, should continue to own the hotel.

(xiii) Where any goods or services held for the purposes of the specified business are transferred to any other business carried on by the assessee, or vice versa, and if the consideration for such transfer does not correspond with the market value of the goods or services then the profits and gains of the specified business shall be computed as if the transfer was made at market value.

For the above purpose, “market value” means the price such goods or services would ordinarily fetch in the open market, subject to statutory or regulatory restrictions, if any.

(xiv) Where it appears to the Assessing Officer that the assessee derives more than ordinary profits from the specified business due to close connection between the assessee and any other person, or due to any other reason, the Assessing Officer may consider such profits as may be reasonably deemed to have been derived from the specified business for the purpose of computing deduction under this section.

(xiii) Contributions for Rural Development [Section 35CCA]: This section allows a deduction of the following expenditure incurred by the assessee during the previous year:

(1) Payment to an association or institution, having the objective of undertaking programmes of rural development. Such payment must be used for carrying out any programme of rural development approved by the prescribed authority.
Conditions for allowance:
(a) The assessee must furnish a certificate from such association (which should be authorised by the prescribed authority to issue such a certificate) that the programme of rural development had been approved by the prescribed authority before 01-03-1983 and

(b) Where such payment is made after 28-02-1983, the programme should involve work by way of (i) construction of any building, or other structure (to be used for dispensary, school, training or welfare centre, workshop, etc.) or (ii) the laying of any road or (iii) the construction or boring of a well or tube well or (iv) the installation of any plant or machinery and such work must have commenced before 01-03-1983.

(2) Payment to an association or institution having as its object the training of persons for implementing rural development programme.

Conditions:
(a) Assessee must furnish a certificate from such association (which should be authorised by the prescribed authority to issue such a certificate) that it has been approved by the prescribed authority before 01-03-1983.

(b) Such training of persons must have started before 01-03-1983.

The deduction to which an assessee is entitled on account of payment of any sum by him to an association or institution for carrying out the programme of rural development shall not be denied to the assessee merely on the ground that after payment of such sum by him, the approval granted to such programme or, as the case may be, to the association or institution has been withdrawn.

(3) Payment to a rural development fund set up and notified by the Central Government. The expression ‘programme of rural development’ for this purpose have the same meaning as has been assigned to it under Explanation to section 35CC(i).

(4) Payments made to “National Urban Poverty Eradication Fund” (NUPEF) set up and notified by the Central Government.

It has been specifically provided that in every case where any deduction in respect of contribution for rural development is claimed by the assessee and allowed to him for any assessment year in respect of any expenditure incurred by way of payment of contribution to the approved association or institution, no deduction in respect of the same expenditure can again be claimed by the assessee under any other relevant provision.

(xiii) Weighted deduction in respect of expenditure incurred on notified agricultural extension project [Section 35CCC]

(1) In order to incentivize the business entities to provide better and effective agriculture extensive services, section 35CCC provides a weighted deduction of a sum equal to 150% of expenditure incurred by an assessee on agricultural extension project in accordance with the prescribed guidelines.

(2) The agricultural extension project eligible for this weighted deduction shall be notified by the Board.

(3) In case deduction in respect of such expenditure is allowed under this section then, no deduction in respect of such expenditure shall be allowed under any other provisions of the Act in the same or any other assessment year.
(xiv) **Weighted deduction in respect of expenditure incurred by companies on notified skill development project [Section 35CCD]**

(1) The National Manufacturing Policy (NMP) has been notified by the Department of Industrial Policy & Promotion (DIPP) vide Press Note dated 4th November, 2011. As per the notified NMP, the government will provide weighted standard deduction of 150% of the expenditure (other than land or building) incurred on Public Private Partnership (PPP) project for skill development in the ITIs in manufacturing sector. This is to encourage private sector to set up their own institution in coordination with National Skill Development Corporation.

(2) In order to encourage companies to invest on skill development projects in the manufacturing sector, section 35CCD provides for a weighted deduction of a sum equal to 150% of the expenditure (not being expenditure in the nature of cost of any land or building) on skill development project incurred by the company in accordance with the prescribed guidelines.

(3) The skill development project eligible for this weighted deduction shall be notified by the Board.

(4) In case deduction in respect of such expenditure is allowed under this section then, no deduction of such expenditure shall be allowed under any other provisions of the Act in the same or any other assessment year.

(xv) **Amortisation of Preliminary Expenses [Section 35D]**– (1) Section 35D provides for the amortisation of preliminary expenses incurred by Indian companies and other resident non-corporate taxpayers for the establishment of business concerns or the expansion of the business of existing concerns.

(2) This section applies (a) only to Indian companies and resident non-corporate assesses; (b) in the case of new companies to expenses incurred before the commencement of the business; (c) in the case of extension of an existing undertaking to expenses incurred till the extension is completed, i.e., in the case of the setting up of a new unit - to expenses incurred till the new unit commences production or operation.

(3) Such preliminary expenditure incurred shall be amortised over a period of 5 years. In other words, 1/5th of such expenditure is allowable as a deduction for each of the five successive previous years beginning with the previous year in which the business commences or, the previous year in which the extension of the undertaking is completed or the new unit commences production or operation, as the case may be.

(4) **Eligible expenses** - The following expenditure are eligible for amortisation:

(i) Expenditure in connection with - (a) the preparation of feasibility report (b) the preparation of project report; (c) conducting market survey or any other survey necessary for the business of the assessee; (d) engineering services relating to the assessee’s business; (e) legal charges for drafting any agreement between the assessee and any other person for any purpose relating to the setting up to conduct the business of assessee.

(ii) Where the assessee is a company, in addition to the above, expenditure incurred - (f) by way of legal charges for drafting the Memorandum and Articles of Association of the company; (g) on printing the Memorandum and Articles of Association; (h) by way of fees for registering the company under the Companies Act; 1956, (i) in connection with the issue, for public subscription, of the shares in or debentures of the company, being underwriting commission, brokerage and charges for drafting, printing and advertisement of the prospectus; and

(iii) Such other items of expenditure (not being expenditure qualifying for any allowance or deduction under any other provision of the Act) as may be prescribed by the Board for the purpose of amortisation. However, the Board, so far, has not prescribed any specific item of expense as qualifying for amortisation under this clause.
In the case of expenditure specified in items (a) to (e) above, the work in connection with the preparation of the feasibility report or the project report or the conducting of market survey or any other survey or the engineering services referred to must be carried out by the assessee himself or by a concern which is for the time being approved in this behalf by the Board.

(5) **Overall Limits** - The maximum aggregate amount of the qualifying expenses that can be amortised has been fixed at 5% of the cost of the project or in the case of an Indian company, or, at the option of the company, 5% of the capital employed in the business of the company, whichever is higher. The excess, if any, of the qualifying expenses shall be ignored.

The assessee is entitled to a deduction of an amount equal to one-fifth of the qualifying amount of the expenditure for each of the five successive accounting years beginning with the year in which the business commences, or as the case may be, the previous year in which the business commences or as the case may be, the previous year in which extension of the undertaking is completed or the new unit commences production or operation.

(6) For purpose of amortisation, the expression, ‘**cost of the project**’ means -

(i) In the case of expenses incurred before the commencement of business the actual cost of the fixed assets, being land, buildings, leaseholds, plant, machinery, furniture, fittings, railway sidings (including expenditure on the development of land, buildings) which are shown in the books of the assessee as on the last day of the previous year in which the business of the assessee commences;

(ii) in case of extension of the business or setting up of a new unit, the cost of the fixed assets being land, buildings, leaseholds, plant, machinery, furniture, fittings, and railway sidings (including expenditure on the development of land and buildings) which are shown in the books of the assessee as on the last day of the previous year in which the extension of the undertaking is completed or, as the case may be, the new unit commences production or operation, insofar as such assets have been acquired or developed in connection with the extension of the undertaking or the setting up of the new unit.

(7) The expression **“capital employed in the business of the company”** means -

(i) in the case of new company, the aggregate of the issued share capital, debentures and long-term borrowings as on the last day of the previous year in which the business of the company commences;

(ii) in the case of extension of the business or the setting up of a new unit, the aggregate of the issued share capital, debentures, and long-term borrowings as on the last day of the accounting year in which the extension of the undertaking is completed or, as the case may be, the unit commences production or operation insofar as such capital, debentures and long-term borrowings have been issued or obtained in connection with the extension of the undertaking or the setting up of the new undertaking or the setting up of the new unit of the company.

(8) The expression “**long-term borrowing**,” mentioned above, means any moneys borrowed in India by the company from the Government or the Industrial Finance Corporation of India or the Industrial Credit and Investment Corporation of India or any other financial institution eligible for deduction under section 36(1)(iii) or any banking institution, or any moneys borrowed or debt incurred by it in a foreign country in respect of the purchase outside India of plant and machinery where the terms under which such moneys are borrowed or the debt is incurred provide for the repayment thereof during a period of not less than seven years.

(9) In cases where the assessee is a person other than a company or a co-operative society, the deduction would be allowable only if the accounts of the assessee for the year or years in which the expenditure is
incurred have been audited by a Chartered Accountant and the assessee furnishes, along with his return of income for the first year in respect of which the deduction is claimed, the report of such audit in the prescribed form duly signed and verified by the auditor and setting forth such other particulars as may be prescribed.

(10) Special provisions for amalgamation and demerger- Where the undertaking of an Indian company is transferred, before the expiry of the period of ten years, to another Indian company under a scheme of amalgamation as defined in section 2(IA) the aforesaid provisions will apply to the amalgamated company as if the amalgamation had not taken place. But no deduction will be admissible in the case of the amalgamating company for the previous year in which the amalgamation takes place.

Sub-section (5A) provides similar provisions for the scheme of demerger where the resulting company will be able to claim amortisation of preliminary expenses as if demerger had not taken place, and no deduction shall be allowed to the demerged company in the year of demerger.

It has been clarified that in case where a deduction under this section is claimed and allowed for any assessment year in respect of any item of expenditure, the expenditure in respect of which deduction is so allowed shall not qualify for deduction under any other provision of the Act for the same or any other assessment year.

(xvi) Amortisation of Expenses for Amalgamation/Demerger [Section 35DD]
(1) Where an assessee, being an Indian company, incurs expenditure on or after 1st April, 1999, wholly and exclusively for the purpose of amalgamation or demerger, the assessee shall be allowed a deduction equal to one-fifth of such expenditure for five successive previous years beginning with the previous year in which amalgamation or demerger takes place.

(2) No deduction shall be allowed in respect of the above expenditure under any other provisions of the Act.

(xvii) Amortisation of expenditure incurred under voluntary retirement scheme [Section 35DDA]-
(1) This section applies to an assessee who has incurred expenditure in any previous year in the form of payment to any employee in connection with his voluntary retirement, in accordance with any scheme or schemes of voluntary retirement.

(2) The amount of deduction allowable is one-fifth of the amount paid for that previous year, and the balance in four equal installments in the four immediately succeeding previous years.

(3) In case of amalgamation, demerger, reorganisation or succession of business during the intervening period of the said 5 years, the benefit of deduction will be available to the “new company” for the balance period including the year in which such amalgamation/ demerger/reorganisation or succession takes place.

(4) This will be applicable in the following situations:

(i) where an Indian company is transferred to another Indian company in a scheme of amalgamation;

(ii) where the undertaking of an Indian company is transferred to another company in a scheme of demerger;

(iii) where due to a re-organisation of business, a firm is succeeded by a company fulfilling the conditions in section 47(xiii) or a proprietary concern is succeeded by a company fulfilling the conditions in section 47(xiv);

(iv) where a company has converted into a LLP fulfilling the conditions laid down in section 47(xiiiib).
In the above cases, the deduction shall be available to the successor company as such deduction would have applied to the original entity if such transfer had not taken place at all.

It is further provided that no deduction shall be available to the original entity being the amalgamating company, or the demerged company or the firm or proprietary concern (as the case may be) for the previous year in which the amalgamation, demerger or succession takes place.

No deduction shall be allowed in respect of the above expenditure under any other provision of the Act.

(xviii) Amortisation of expenses for prospecting and development of certain minerals [Section 35E] –

(1) This provision applies only to expenditure incurred by an Indian company or any other person who is resident in India. Thus, foreign companies or foreign concerns and non-resident assessees are not entitled for the benefits of deduction under section 35E. In order to qualify for amortisation, the assessee should be engaged in any operations relating to prospecting for or the extraction or production of any mineral.

(2) Eligible expenses - The nature and kind of expenditure qualifying for amortisation are –

(i) It must have been incurred during the year of commercial production or any one or more of the four years immediately preceding that year, (ii) It must be an expenditure incurred wholly and exclusively on any operations relating to the prospecting for or extraction of certain minerals listed in the Seventh Schedule of the Income-tax Act, 1961.

(3) Expenditure not allowed for deduction - However, any portion of the expenditure which is met directly or indirectly by any other persons or authority and the sale, salvage, compensation or insurance moneys realised by the assessee in respect of any property or rights brought into existence as a result of the expenditure should be excluded from the amount of expenditure qualifying for amortisation. Further, specific provision has been made to the effect that the following items of expenses do not qualify for amortisation at all viz.:

(i) Expenditure incurred on the acquisition of the site of the source of any minerals or group of associated minerals stated above or of any right in or over such site;

(ii) Expenditure on the acquisition of the deposits of minerals or group of associated minerals referred to above or to any rights in or over such deposits; or

(iii) Expenditure of a capital nature in respect of any building, machinery, plant or furniture for which depreciation allowance is permissible under section 32.

(4) Amount of deduction - The assessee will be allowed for each of ten relevant previous years, a deduction of an amount equal to one-tenth of the aggregate amount of the qualifying expenditure. Thus, the deduction to be allowed for any relevant previous year is (i) one-tenth of the expenditure or (ii) such amount as will reduce to nil the income of the previous year arising from the commercial exploration of any minerals or other natural deposit of the mineral or minerals in a group of associated minerals in respect of which the expenditure was incurred, whichever figure is less. The amount of the deduction admissible in respect of any relevant previous year to the extent to which it remains unallowed, shall be carried forward and added to the installment relating to the previous year next following and shall be deemed to be a part of the installment and so on, for ten previous years beginning from the year of commercial production.

(5) For purposes of this amortisation, the expression “operation relating to prospecting” means any operation undertaken for the purpose of exploiting, locating or proving deposits of any minerals and includes any such operation which proves to be infructuous or abortive. The expression ‘year of commercial production’ means the previous year in which as a result of any operation relating to prospecting or commercial production of any material or one or more of the minerals in a group of associated minerals specified in Part A or Part B, respectively, of the Seventh Schedule to Act actually commences. The relevant previous year in
which the deduction would be allowed to the assessees are those ten previous years beginning with the year of commercial production.

(6) In the case of amalgamation, such deduction would continue to be admissible to the amalgamated company as if the amalgamation had not taken place.

Sub-section (7A) provides for similar provisions in cases of demerger where such deduction can be availed of by the resulting company as if the demerger had not taken place.

Further, no deduction will be admissible to the amalgamating/demerged company in the year of amalgamation/demergers.

(7) Where a deduction is claimed and allowed on account of amortisation of the expenses under section 35E in any year in respect of any expenditure, the expenditure in respect of which deduction is so allowed shall not again qualify for deduction from the profits and gains under any other provisions of the Act for the same or any other assessment year. The provisions with regard to audit of accounts relating to the qualifying expenditure are similar to those applicable for amortisation of preliminary expenses discussed earlier.

(xix) Other Deductions [Section 36] - This section authorises deduction of certain specific expenses. The items of expenditure and the conditions under which such expenditures are deductible are:

1. **Insurance premia paid** [Section 36(1)(i)] - If insurance policy has been taken out against risk, damage or destruction of the stock or stores of the business or profession, the premia paid is deductible. But the premium in respect of any insurance undertaken for any other purpose is not allowable under the clause.

2. **Insurance premia paid by a Federal Milk Co-operative Society** [Section 36(1)(ia)] - Deduction is allowed in respect of the amount of premium paid by a Federal Milk Co-operative Society to effect or to keep in force an insurance on the life of the cattle owned by a member of a co-operative society being a primary society engaged in supply of milk raised by its members to such Federal Milk Co-operative Society. The deduction is admissible without any monetary or other limits.

3. **Premia paid by employer for health insurance of employees** [Section 36(1)(ib)] - This clause seeks to allow a deduction to an employer in respect of premia paid by him by any mode of payment other than cash to effect or to keep in force an insurance on the health of his employees in accordance with a scheme framed by (i) the General Insurance Corporation of India and approved by the Central Government; or (ii) any other insurer and approved by the IRDA.

4. **Bonus and Commission** [Section 36(1)(ii)] - These are deductible in full provided the sum paid to the employees as bonus or commission shall not be payable to them as profits or dividends if it had not been paid as bonus or commission. It is a provision intended to safeguard against a private company or an association escaping tax by distributing a part of its profits by way of bonus amongst the members, or employees of their own concern instead of distributing the money as dividends or profits.

5. **Interest on borrowed capital** [Section 36(1)(iii)] - In the case of genuine business borrowings, the department cannot disallow any part of the interest on the ground that the rate of interest is unreasonably high except in cases falling under section 40A.

Under section 36(1), deduction of interest is allowed in respect of capital borrowed for the purposes of business or profession in the computation of income under the head "Profits and gains of business or profession".

Capital may be borrowed for several purposes like for acquiring a capital asset, or to pay off a trading debt or loss etc. The scope of the expression ‘for the purposes of business’ is very wide. Capital may be borrowed
in the course of the existing business as well as for acquiring assets for extension of existing business. *Explanation 8* to section 43(1) clarifies that interest relatable to a period after the asset is first put to use cannot be capitalised. Interest in respect of capital borrowed for any period from the date of borrowing to the date on which the asset was first put to use should normally be capitalised. However, there was scope for the assesses to claim it as a revenue expenditure.

It has now been provided that no such deduction shall be allowed in respect of any amount of interest paid, in respect of capital borrowed for acquisition of new asset for extension of existing business or profession (whether capitalised in the books of account or not) for any period beginning from the date on which the capital was borrowed for acquisition of the asset till the date on which such asset was first put to use. It is significant to note here that even after the amendment the scope for claiming such interest as revenue expenditure in respect of existing business still exists.

(6) **Discount on Zero Coupon Bonds (ZCBs) [Section 36(1)(iiia)]** - Section 36(1)(iiia) provides deduction for the discount on ZCB on pro rata basis having regard to the period of life of the bond to be calculated in the manner prescribed. The Explanation seeks to provide the meaning of the expression ‘discount’ as a difference of the amount received or receivable by an infrastructure capital company/infrastructure capital fund/public sector company/ scheduled bank on issue of the bond and the amount payable by such company or fund or bank on maturity or redemption of the bond. The expression ‘period of life of the bond’ has been defined to mean the period commencing from the date of issue of the bond and ending on the date of the maturity or redemption.

**Infrastructure Capital Company [Section 2(26A)]**

“Infrastructure capital company” means such company which makes investments by way of acquiring shares or providing long-term finance to -

1. any enterprise or undertaking wholly engaged -
   1.1 in the business referred to in section 80-IA(4) i.e. business of
      1.1.1 developing/operating and maintaining/developing, operating and maintaining any infrastructure facility fulfilling the specified conditions
      1.1.2 providing telecom services, whether basic or cellular
      1.1.3 developing, developing and operating or maintaining and operating an industrial park or special economic zone notified by the Central Government
      1.1.4 generating, transmitting or distributing power or undertaking substantial renovation and modernization of the existing network of transmission or distribution lines.
   1.1.2 (b) in the business referred to in section 80-IAB(1) i.e. any business of developing a SEZ.

2. an undertaking developing and building a housing project referred to in section 80-IB(10) i.e. approved before 31.3.2007 by a local authority and commences or commenced development and construction on or after 1.10.98 and completes or completed development and construction within the time specified.

3. a project for constructing a hotel of not less than three-star category as classified by the Central Government or

4. a project for constructing a hospital with at least 100 beds for patients.

**Infrastructure Capital Fund [Section 2(26B)]**

Infrastructure capital fund means such fund operating under a trust deed registered under the provisions of the Registration Act, 1908 established to raise monies by the trustees for investment by way of acquiring shares or providing long-term finance to -

1. any enterprise or undertaking wholly engaged in the business referred to in section 80-IA(4) or section 80-IAB(1); or

2. an undertaking developing and building a housing project referred to in section 80-IB(10); or
(3) a project for constructing a hotel of not less than three star category as classified by the Central Government; or
(4) a project for constructing a hospital with at least 100 beds for patients.

(7) **Contributions to provident and other funds [Section 36(1)(iv) and (v)]** – Contribution to the employees’ provident and other funds are allowable subject to the following conditions:

(a) The fund should be settled upon a trust.

(b) In case of Provident or a superannuation or a Gratuity Fund, it should be one recognized or approved under the Fourth Schedule to the Income-tax Act, 1961.

(c) The amount contributed should be periodic payment and not an adhoc payment to start the fund.

(d) The fund should be for exclusive benefit of the employees.

The nature of the benefit available to the employees from the fund is not material; it may be pension, gratuity or provident fund.

(8) **Employer’s contribution to the account of the employee under a Pension Scheme referred to in section 80CCD [Section 36(1)(iva)]**

(i) Section 36(1)(iva) to provide that the employer’s contribution to the account of an employee under a Pension Scheme as referred to in section 80CCD would be allowed as deduction while computing business income.

(ii) However, the deduction would be restricted to 10% of salary of the employee in the previous year.

(iii) Salary, for this purpose, includes dearness allowance, if the terms of employment so provide, but excludes all other allowances and perquisites.

(iv) Correspondingly, section 40A(9), which provides for disallowance of any sum paid by an employer towards contribution to any fund or trust has been amended to exclude from the scope of its disallowance, contribution by an employer to the pension scheme referred to in section 80CCD, to the extent to which deduction is allowable under section 36(1)(iva).

**Illustration 9**

X Ltd. contributes 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD. Dearness Allowance is 40% of basic salary and it forms part of pay of the employees. Compute the amount of deduction allowable under section 36(1)(iva), if the basic salary of the employees aggregate to `10 lakh. Would disallowance under section 40A(9) be attracted, and if so, to what extent?

**Solution**

**Computation of deduction allowable under section 36(1)(iva) and disallowance under section 40A(9)**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary</td>
<td>10,00,000</td>
</tr>
<tr>
<td>Dearness Allowance @ 40% of basic salary [DA forms part of pay]</td>
<td>4,00,000</td>
</tr>
<tr>
<td><strong>Salary for the purpose of section 36(1)(iva) (Basic Salary + DA)</strong></td>
<td><strong>14,00,000</strong></td>
</tr>
<tr>
<td>Actual contribution (20% of basic salary i.e., 20% of `10 lakh)</td>
<td>2,00,000</td>
</tr>
<tr>
<td><strong>Less: Permissible deduction under section 36(1)(iva) (10% of basic salary plus dearness pay = 10% of <code>14,00,000 = </code>1,40,000)</strong></td>
<td><strong>1,40,000</strong></td>
</tr>
<tr>
<td>Excess contribution disallowed under section 40A(9)</td>
<td>60,000</td>
</tr>
</tbody>
</table>
(9) Amount received by assessee as contribution from his employees towards their welfare fund to be allowed only if such amount is credited on or before due date - Clause (va) of section 36(1) and clause (ia) of section 57 provide that deduction in respect of any sum received by the taxpayer as contribution from his employees towards any welfare fund of such employees will be allowed only if such sum is credited by the taxpayer to the employee’s account in the relevant fund on or before the due date. For the purposes of this section, “due date” will mean the date by which the assessee is required as an employer to credit such contribution to the employee’s account in the relevant fund under the provisions of any law on term of contract of service or otherwise.

As per the Employees Provident Funds Scheme, 1952, the amounts under consideration in respect of wages of the employees for any particular month shall be paid within 15 days of the close of every month. A further grace period of 5 days is allowed.

(10) Allowance for animals [Section 36(1)(vi)] - This clause grants an allowance in respect of animals which have died or become permanently useless. The amount of the allowance is the difference between the actual cost of the animals and the price realised on the sale of the animals themselves or their carcasses. The allowance under the clause would thus recoup to the assessee the entire capital expenditure in respect of animal.

(11) Bad debts [Section 36(1)(vii) and section 36(2)] - These can be deducted subject to the following conditions:

(a) The debts or loans should be in respect of a business which was carried on by the assessee during the relevant previous year.

(b) The debt should have been taken into account in computing the income of the assessee of the previous year in which such debt is written off or of an earlier previous year or should represent money lent by the assessee in the ordinary course of his business of banking or money lending.

**Deduction under section 36(1)(vii) for bad debts limited to the amount by which bad debts exceed credit balance in the provision for doubtful debts account under section 36(1)(viia)**

Under section 36(1)(vii), bad debt actually written off as irrecoverable in the books of account of the assessee is deductible. However, in the case of entities for which provision for bad and doubtful debts is allowable under section 36(1)(viia), deduction for bad debts written off under said clause (vii) shall be limited to the amount by which the bad debt written off exceeds the credit balance in the provision for bad and doubtful debts account made under section 36(1)(viia). This is provided in the proviso to section 36(1)(vii).

Further, the provisions of section 36(1)(vii) are subject to the provisions of section 36(2). Section 36(2)(v) provides that where the debt or part thereof relates to advances made by an assessee, to which section 36(1)(viia) applies, no deduction shall be allowed unless the assessee has debited the amount of such debt or part of such debt in that previous year to the provision for bad and doubtful debts account made under section 36(1)(viia). This is provided in the proviso to section 36(1)(vii).

Explanation 2 to section 36(1)(vii) states that for the purposes of the proviso to section 36(1)(vii) and section 36(2)(v), only one account as referred to therein shall be made in respect of provision for bad and doubtful debts under section 36(1)(viia) and such account shall relate to all types of advances, including advances made by rural branches.

Therefore, in the case of an assessee to which section 36(1)(viia) applies, the amount of deduction in respect of the bad debts actually written off under section 36(1)(vii) shall be limited to the amount by which such bad debts exceed the credit balance in the provision for bad and doubtful debts account made under section 36(1)(viia) without any distinction between rural advances and other advances.
Illustration 10
The following are the particulars in respect of a scheduled bank incorporated in India -

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`in lakh</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Provision for bad and doubtful debts under section 36(1)(viia) upto A.Y.2013-14</td>
<td>100</td>
</tr>
<tr>
<td>(ii) Gross Total Income of A.Y.2014-15 [before deduction under section 36(1)(viia)]</td>
<td>800</td>
</tr>
<tr>
<td>(iii) Aggregate average advances made by rural branches of the bank</td>
<td>300</td>
</tr>
<tr>
<td>(iv) Bad debts written off (for the first time) in the books of account (in respect of urban advances only) during the previous year 2013-14</td>
<td>210</td>
</tr>
</tbody>
</table>

Compute the deduction allowable under section 36(1)(vii) for the A.Y.2014-15.

Solution

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`in lakh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bad debts written off (for the first time) in the books of account</td>
<td>210</td>
</tr>
<tr>
<td>Less: Credit balance in the “Provision for bad and doubtful debts” under section 36(1)(viia) as on 31.3.2014</td>
<td></td>
</tr>
<tr>
<td>(i) Provision for bad and doubtful debts under section 36(1)(viia) upto A.Y.2013-14</td>
<td>100</td>
</tr>
<tr>
<td>(ii) Current year provision for bad and doubtful debts under section 36(1)(viia) [7.5% of <code>800 lakhs + 10% of</code> 300 lakhs]</td>
<td>90 190</td>
</tr>
<tr>
<td>Deduction under section 36(1)(vii) in respect of bad debts written off for A.Y.2014-15</td>
<td>20</td>
</tr>
</tbody>
</table>

Deduction of differential amount of debts due as bad debts in the year of recovery, to the extent of deficiency in recovery
Further, if on the final settlement the amount recovered in respect of any debt, where deduction had already been allowed, falls short of the difference between the debt due and the amount of debt allowed, the deficiency can be claimed as a deduction from the income of the previous year in which the ultimate recovery out of the debt is made. It is permissible for the Assessing Officer to allow deduction in respect of a bad debt or any part thereof in the assessment of a particular year and subsequently to allow the balance of the amount, if any, in the year in which the ultimate recovery is made, that is to say, when the final result of the process of recovery comes to be known.

Recovery of a bad debt subsequently [Section 41(4)] - If a deduction has been allowed in respect of a bad debt under section 36, and subsequently the amount recovered in respect of such debt is more than the amount due after the allowance had been made, the excess shall be deemed to be the profits and gains of business or profession and will be chargeable as income of the previous year in which it is recovered, whether or not the business or profession in respect of which the deduction has been allowed is in existence at the time.

For example, let us assume that a debt of ` 10,000 was claimed as a bad debt in the previous year 2012-13. However, the Assessing Officer allowed only a sum of ` 5,000 as bad debt. If in the previous year 2013-14, a sum of ` 4,000 is recovered ultimately in respect of the debt, then the Assessing Officer should allow a deduction in respect of the deficiency namely, ` 1,000 i.e., the difference between the amount ultimately recovered and the amount disallowed earlier under Section 36(1)(vii). If on the other hand, the sum ultimately recovered is ` 6,000 then there will be a liability, under section 41(4) in respect of sum of ` 1,000, which would be deemed to be the profits and gains of business or profession. Such a liability under section 41(4) would arise even if the business or profession in respect of which deduction has been allowed is not in existence at that time.

(12) Special provision for bad and doubtful debts in cases of Rural Branches of Scheduled Banks [Section 36(1)(viia)]
(a) In the case of a scheduled bank which is not a bank incorporated by or under the laws of a country outside India or a non-scheduled bank, the following deductions will be allowed:
(i) an amount not exceeding 7.5% of the total income (computed before making any deduction under this clause and Chapter VI-A), and
(ii) an amount not exceeding 10% of the aggregate average advances made by the rural branches of such bank computed in the manner prescribed by the CBDT.

(b) A scheduled bank or a non-scheduled bank referred to in (a) above or a co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank shall, at its option, be allowed a further deduction in excess of the limits specified in the foregoing provisions, for an amount not exceeding the income derived from redemption of securities in accordance with a scheme framed by the Central Government. It is also provided that this deduction shall not be allowed unless such income has been disclosed in the return of income under the head "Profits and gains of business or profession".

Scheduled Bank: It refers to the State Bank of India or any of its subsidiaries or any of the nationalised banks and would also include any other bank which is listed in the Second Schedule to the Reserve Bank of India Act, 1935.

Non-Scheduled Bank: This refers to a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 which is not a scheduled bank.

Rural branch: This means a branch of a scheduled bank or a non-scheduled bank situated in a place which has a population of not more than 10,000 according to the last preceding census of which the relevant figures have been published before the first day of the previous year.

(c) Foreign Banks: In the case of foreign banks the deduction will be an amount not exceeding 5% of the total income (computed before making any deduction under this clause and Chapter VI-A).

(d) A public financial institution, a State Financial Corporation and a State Industrial Investment Corporation will be entitled to a deduction in respect of provision for bad and doubtful debts made out of profits. The maximum amount to be allowed as a deduction will be limited to 5% of its total income before making any deduction in respect of the provision for bad and doubtful debt or in respect of any deduction in Chapter VI-A.

“Public Financial Institution” shall have the meaning assigned to it in section 4A of the Companies Act.

“State Financial Corporation” means a financial corporation established under section 3 or section 3A or an institution notified under section 46 of the State Financial Corporations Act, 1951.

“State Industrial Investment Corporation” means a Government company within the meaning of Section 617 of the Companies Act engaged in the business of providing long-term finance for industrial projects and eligible for deduction under clause (viii) of this sub-section.

Co-operative bank, primary agricultural credit society and primary co-operative agricultural and rural development bank have the same meanings assigned in Explanation to section 80P(4).

(13) Special deduction to Specified Entities engaged in eligible business [Section 36(1)(viii)]

(a) This section provides deduction in respect of any special reserve created and maintained by a specified entity.

(b) The quantum of deduction, however, should not exceed 20% of the profits derived from eligible business computed under the head “Profits and gains of business or profession” carried to such reserve account.

(c) The eligible business for different entities specified are given in the table below –
<table>
<thead>
<tr>
<th>Specified entity</th>
<th>Eligible business</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Financial Corporation specified in section 4A of the Companies Act, 1956</td>
<td>Business of providing long-term finance for -</td>
</tr>
<tr>
<td>Financial corporation which is a public sector company</td>
<td>(i) industrial or agricultural development or</td>
</tr>
<tr>
<td>Banking company</td>
<td>(ii) development of infrastructure facility in India; or</td>
</tr>
<tr>
<td>Co-operative bank (other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank)</td>
<td>(iii) development of housing in India.</td>
</tr>
<tr>
<td>2. A housing finance company</td>
<td>Business of providing long-term finance for the construction or purchase of houses in India for residential purposes.</td>
</tr>
<tr>
<td>3. Any other financial corporation including a public company</td>
<td>Business of providing long-term finance for development of infrastructure facility in India.</td>
</tr>
</tbody>
</table>

(d) However, where the aggregate amount carried to such reserve account exceeds twice the amount of paid up share capital and general reserve, no deduction shall be allowed in respect of such excess.

(e) Infrastructure facility has been defined to mean –
(a) (1) an infrastructure facility as defined in the Explanation to clause (i) of subsection (4) of section 80-IA i.e.
(i) a road including toll road, a bridge or a rail system;
(ii) a highway project including housing or other activities being an integral part of the highway project;
(iii) a water supply project, water treatment system, irrigation project, sanitation and sewerage system or solid waste management system; and
(iv) a port, airport, inland waterway or inland port or a navigational channel in the sea
(2) any other public facility of a similar nature as may be notified by the CBDT in this behalf in the Official Gazette and which fulfils the prescribed conditions;
(b) an undertaking referred to in clause (ii) or clause (iii) or clause (iv) of sub-section (4) of section 80-IA (i.e. an undertaking providing telecommunication services, an undertaking developing, developing and operating, maintaining and operating an industrial park or SEZ notified by the Central Government, an undertaking generating, distributing or transmitting power); and
(c) an undertaking referred to in sub-section (10) of section 80-IB i.e. an undertaking developing and building housing projects approved by a local authority.

Conditions to be fulfilled by a public facility to be eligible to be notified as an infrastructure facility [Notification No.187/2006 dated 20.7.2006]: Rule 6ABAA has been inserted in the Income-tax Rules, 1962 which specifies the conditions to be fulfilled by a public facility to be eligible to be notified as an infrastructure facility in accordance with the provisions of clause (d) of the Explanation to clause (viii) of sub-section (1) of section 36. The conditions specified therein are -
(a) it is owned by a company registered in India or by a consortium of such companies or by an authority or a board or a corporation or any other body established or constituted under any Central or State Act;
it has entered into an agreement with the Central Government or a State Government or a local authority or any other statutory body for (i) developing or (ii) operating and maintaining or (iii) developing, operating and maintaining a new infrastructure facility similar in nature to an infrastructure facility referred to in the Explanation to section 80-IA(4)(i);

c) it has started or starts operating and maintaining such infrastructure facility on or after 1st April, 1995.

Notification of public facilities as infrastructure facility for the purpose of section 36(1)(viii) [Notification No. 188/2006, dated 20.7.2006]

The following public facilities have been notified by the CBDT as infrastructure facility for purposes of section 36(1)(viii)-

1. Inland Container Depot and Container Freight Station notified under the Customs Act, 1962
2. Mass Rapid Transit system
3. Light Rail Transit system
4. Expressways
5. Intra-urban or semi-urban roads like ring roads or urban by-passes or flyovers
6. Bus and truck terminals
7. Subways
8. Road dividers
9. Bulk Handling Terminals which are developed or maintained or operated for development of rail system
10. Multilevel Computerised Car Parking.

Deduction in respect of income from long-term finance for development of infrastructure facilities -

The deduction will now be available also to approved financial corporations providing long-term finance for development of infrastructure facilities in India. For this purpose, the expression “infrastructure facility” shall have the meaning assigned to it in section 80-IA.

14) Expenses on family planning [Section 36(1)(ix)] - Any expenditure of revenue nature bona fide incurred by a company for the purpose of promoting family planning amongst its employees will be allowed as a deduction in computing the company’s business income; where, the expenditure is of a capital nature, one-fifth of such expenditure will be deducted in the previous year in which it was incurred and in each of the four immediately succeeding previous years. This deduction is allowable only to companies and not to other assesses. The assesse would be entitled to carry forward and set off the unabsorbed part of the allowance in the same way as unabsorbed depreciation. The capital expenditure on promoting family planning will be treated in the same way as capital expenditure for scientific research for purposes of dealing with the profit or loss on the sale or transfer of the asset including a transfer on amalgamation.

15) Deduction for expenditure incurred by entities established under any Central, State or Provincial Act [Section 36(1)(xii)]

Any expenditure (not being in the nature of capital expenditure) incurred by a corporation or a body corporate, by whatever name called, if –
(a) it is constituted or established by a Central, State or Provincial Act;

(b) such corporation or body corporate is notified by the Central Government in the Official Gazette for this purpose having regard to the objects and purposes of the Act;

(c) the expenditure is incurred for the objects and purposes authorised by the Act under which it is constituted and established.

Accordingly, the Central Government has notified the Oil Industry Development Board for the purpose of deduction under section 36(1)(xii).

(16) Deduction in respect of banking cash transaction tax [Section 36(1)(xiii)]

(a) The Finance Act, 2005 had, through Chapter VII, introduced a tax called banking cash transaction tax, as an anti tax-evasion measure, in respect of every taxable banking transaction entered into on or after 1.6.2005.

(b) Section 36(1)(xiii) provides for deduction of any amount of banking cash transaction tax paid by the assessee during the previous year on the taxable banking transactions entered into by him.

Note – Banking Cash Transaction Tax is not chargeable in respect of any taxable banking transaction entered into on or after 1.4.2009.

(17) Deduction of contribution by a public financial institution to Credit guarantee fund trust for small industries [Section 36(1)(xiv)]

(i) Section 36(1)(xiv) provides for deduction of any sum paid by a public financial institution by way of contribution to such credit guarantee fund trust for small industries notified by the Central Government in the Official Gazette.

(ii) Public financial institution has the meaning assigned to it in section 4A of the Companies Act, 1956.

(18) Deduction of securities transaction tax paid [Section 36(1)(xv)]: The amount of securities transaction tax paid by the assessee during the year in respect of taxable securities transactions entered into in the course of business shall be allowed as deduction under section 36 subject to the condition that such income from taxable securities transactions is included under the head ‘Profits and gains of business or profession’. Thus, securities transaction tax paid would be allowed as a deduction like any other business expenditure.

(19) Deduction for commodities transaction tax paid in respect of taxable commodities transactions [Section 36(1)(xvi)]

(a) The Finance Act, 2013 has introduced a new tax called Commodities Transaction Tax (CTT) to be levied on taxable commodities transactions entered into in a recognised association, vide Chapter VII of the Finance Act, 2013.

(b) For this purpose, a ‘taxable commodities transaction’ means a transaction of sale of commodity derivatives in respect of commodities, other than agricultural commodities, traded in recognised associations.

(c) CTT is to be levied at 0.01% on sale of commodity derivative from the date on which Chapter VII of the Finance Bill, 2013 comes into force by way of notification in the Official Gazette by the Central Government. CTT is to be paid by the seller.
(d) A “commodity derivative” means –
   (1) A contract for delivery of goods which is not a ready delivery contract
   (2) A contract for differences which derives its value from prices or indices of prices -

   (i) of such underlying goods; or
   (ii) of related services and rights, such as warehousing and freight; or
   (iii) with reference to weather and similar events and activities
   having a bearing on the commodity sector.

(e) Consequently, new clause (xvi) has been inserted in section 36(1) to provide that an amount equal to the
   CTT paid by the assessee in respect of the taxable commodities transactions entered into in the course of his
   business during the previous year shall be allowable as deduction, if the income arising from such taxable
   commodities transactions is included in the income computed under the head “Profits and gains of
   business or profession”.

(xix) Residuary Expenses [Section 37]

(1) Revenue expenditure incurred for purposes of carrying on the business, profession or vocation -
   This is a residuary section under which only business expenditure is allowable but not the business losses,
   e.g., those arising out of embezzlement, theft, destruction of assets, misappropriation by employees etc.
   (These are allowable under section 29 as losses incidental to the business). The deduction is limited only to
   the amount actually expended and does not extend to a reserve created against a contingent liability.

(2) Conditions for allowance : The following conditions should be fulfilled in order that a particular item of
   expenditure may be deductible under this section : 

   (a) The expenditure should not be of the nature described in sections 30 to 36.

   (b) It should have been incurred by the assessee in the accounting year.

   (c) It should be in respect of a business carried on by the assessee the profits of which are being
       computed and assessed.

   (d) It must have been incurred after the business was set up.

   (e) It should not be in the nature of any personal expenses of the assessee.

   (f) It should have been laid out or expended wholly and exclusively for the purposes of such business.

   (g) It should not be in the nature of capital expenditure. (The principles to be followed for distinguishing
       capital expenditure from revenue are discussed below.)

   (h) The expenditure should not have been incurred by the assessee for any purpose which is an offence
       or is prohibited by law.

This section is thus limited in scope. It does not permit an assessee to make all deductions which a prudent
   trader would make in ascertaining his own profit. It might be observed that the section requires that the
   expenditure should be wholly and exclusively laid out for purpose of the business but not that it should have
   been necessarily laid out for such purpose. There fore, expenses wholly and exclusively laid out for the
   purpose of trade are, subject to the fulfilment of other conditions, allowed under this section even though the
   outlay is unnecessary.

(3) For determining whether an expenditure is of the nature contemplated by the foregoing provisions of law
   the following tests should be applied:
(i) ‘Character as a trader’: The expenditure should be incurred by the assessee in his character as a trader.

(ii) ‘Voluntarily expended on grounds of commercial expediency’: A sum of money expended, not out of necessity but with a view to getting a direct and immediate benefit to the trade, but voluntarily and on the grounds of commercial expediency and in order indirectly to facilitate the carrying on of the business may yet be expended wholly and exclusively for purposes of the trade [Atherton v British Insulated and Helsby Ltd. 10 LTC. 115 (H.L.)].

(iii) ‘Direct concern and direct purpose’: In order to ascertain whether the expenditure has been incurred wholly and exclusively for the purpose of the business one must look to the direct concern and direct purpose for which the money is laid out and not the remote or indirect result which may possibly motivate or flow from the expenditure.

(iv) ‘Purpose of the assessee’s own business’: The expenditure should be primarily incurred for the assessee’s own business. Notwithstanding this proposition so long as the expenditure is for the whole and exclusive purpose of the assessee’s trade the mere fact that the expenditure incidentally obtains some advantage to the assessee in some character other than that of a trader, would not detract the effect of the finding that the expenditure was wholly and exclusively incurred for purpose of the assessee’s business.

(v) ‘Unremunerative expenditure’: The expenditure need not be incurred solely for the purpose of earning profit in the year of account. For example, the cost of repairs or advertisement or expenses on a foreign tour by the managing directors would be deductible even though the income therefrom would be earned in future years.

(vi) ‘Treatment in assessee’s accounts’: The way in which an item of expenditure is treated in the assessee’s accounts is not a conclusive evidence against or in favour of the assessee.

Payment out of profits and payments ascertained by reference to profits: When a trader makes a payment which is computed in relation to profits the question that arises is: Does the payment represent a mere division of profit with another person or is it an item of expenditure the amount of which is ascertained by reference to the profits? The payment would be allowable in the second case but not in the first.

(4) Distinction between capital and revenue expenditure: The line of demarcation between capital and revenue expenditure is very thin and the ultimate conclusion on the nature of the expenditure is always a mixed question of law and fact. In deciding whether an expenditure is of a revenue or a capital nature, one must take into consideration the nature and ordinary course of the business of the assessee and the object for which the expenditure had been incurred.

Whether a particular item of expenditure is incurred for the purpose of the business or not must be viewed in the larger context of business necessity and expediency. For this purpose, one must look not to the documents but also the surrounding circumstances so as to arrive at a decision as to what exactly is the real nature of the transaction from the commercial point of view.

It is often very difficult to lay down a test of a comprehensive nature which would be of universal application. Different tests have to be applied from the business point of view and then conclusions must be arrived at on the question whether, on a fair consideration of the whole situation as evident from the facts, the expenditure in question incurred in a particular case is of revenue nature or of a capital nature. The following broad principles have been evolved by the decisions of the various courts from time to time. These principles are neither exhaustive nor are they intended to be. They would serve only as guidelines to decide
any problem arising in regard to the determination of the capital or revenue of a particular item [Hylam Ltd. v CIT [1913] 87 ITR 310 (A.P.)].

(i) If the expenditure is for the initial outlay or for acquiring or bringing into existence any asset or advantage of an enduring benefit to the business of the assessee or for extension of the business which is already in existence or for substantial replacement of any existing business asset it must be treated as capital expenditure. The Supreme Court has reiterated the above principle in CIT v. Jalan Trading Co. (P) Ltd. [1985] 23 Taxman (SC).

(ii) If, however, the expenditure, although incurred for the purpose of the business that too for acquiring an asset or advantage, is for running the business or for working out that asset with a view to producing profits, it would be a revenue expenditure. The expenditure incurred for the purpose of carrying on the business undertaking would be of a revenue nature. The expenditure which has to be incurred by an assessee in the ordinary course of his business, to enable him to carry on his trading operations is normally to be considered to be of a revenue nature. The expenditure by the assessee cannot be considered to be capital in nature merely because of the fact that the amount involved is large. The quantum of the expenditure cannot go to affect or alter the real nature and character of expenditure.

(iii) In cases where the outgoing of money spent by the assessee is so related to the carrying on or the conduct of the business that it may be regarded as an integral part of the profit earning process of operations and not for the acquisition of any asset of a permanent character the possession of which is a condition precedent to the running of the business, then such an item of payment would constitute an expenditure of a revenue nature.

(iv) Any special knowledge, technical know-how or patent or trade mark constitutes an asset and if such an asset is acquired on payment for its use and exploitation for a limited period in the business and the acquisition is not of an asset or advantage of an enduring nature and at the end of the stipulated period the asset or advantage reverts back intact to the giver of the special knowledge or the owner of the patent, trade mark or copyright, it would constitute an expenditure of a revenue nature. In this context, it may be noted that a payment made to ward off competition in business to a rival would constitute a capital expenditure if the object of making that payment is to derive an advantage by eliminating competition over some length of time. The same result would not follow if there is no certainty of the duration of the advantage and the same can be put to an end at any point of time. How long the period of contemplated advantage or the benefit should be in order to constitute benefit of an enduring nature would depend upon the facts and circumstances of each individual case. Although enduring benefit need not be of an everlasting character, it should not be so transitory and ephemeral that it may be terminated at any time at the volition of any of the parties to the contract.

(v) In cases of acquisition of a capital asset, it is immaterial whether the price for it is paid by the assessee once and for all in lumpsum or periodically and also whether it is paid out of capital or income or is linked with the total sales or the turnover of the business. In such a case, the expenditure or outgoing would constitute payment of a capital nature although it may indirectly be linked to or is paid out of revenue profit or sales.

(vi) In cases where the amount paid for acquisition of an asset of an enduring nature is settled, by the mere fact that the amount so settled is chalked out into various small amounts or periodical instalments the capital nature of the transaction or expenditure would not in any way be affected nor the fact that the payment is made in instalments or in small amounts would in any way alter the nature of the expenditure from capital to revenue. In other words, the magnitude of the payment and its periodicity would not be deciding factors for determining the capital or revenue nature of any particular payment.
(vii) A lumpsum amount paid for liquidating recurring claims would generally be of a revenue nature; it would not cease to be a revenue expenditure or get converted into capital expenditure merely because its payment is spread over a number of years. In such a case it is the intention and the object for which the assets are acquired that determine the nature of the expenditure incurred over it, and not the mode and the manner in which the payment is made nor is it in any way related to or determined by the source of such payment.

(viii) If the expenditure in question is recurring and is incurred by the assessee during the ordinary course of the business or manufacture, it would normally constitute a revenue expenditure.

(ix) An asset or advantage of an enduring nature resulting in capital expenditure does not mean that such an asset should last forever; if the capital asset is, by its very nature, a short lived one, the expenditure incurred over it does not on that account cease to be a capital expenditure.

(x) It is nowhere stipulated in the law that if a benefit of enduring nature is obtained, the expenditure for securing it must be treated as a capital expenditure. If the advantage or the benefit acquired by the assessee is to get stock-in-trade of a business it would constitute a revenue; but if what is acquired by the assessee is not the advantage of getting his current or trading assets directly but of something which requires to be processed before it is converted into stock-in-trade, the expenditure incurred over it would constitute a capital expenditure.

(xi) Further, an item of disbursement may be regarded as capital expenditure when it is referable to fixed capital or a capital asset; it is a revenue expenditure when it is referable to circulating capital or stock in trade. Expenditure which relates to the framework of the taxpayer’s business is a capital expenditure. Expenditure incurred for the termination of trading relationship in order to avoid losses occurring in future though that relationship, whether pecuniary loss or commercial inconvenience, is a revenue expenditure. Expenditure incurred for the initial starting of the business before its setting up for substantial expansion and also expenditure incurred after the discontinuance of the business would be of a capital nature.

The capital or revenue character of a particular item must be decided from the facts and circumstances of each case and must be based upon the principles of law applicable to those facts. The fact that a particular transaction is treated by the parties as capital or revenue in nature or is called a sale, instead of being an agreement to use or let out the particular asset would not convert the capital or revenue character of the transaction. Similarly, the entries made by the parties concerned in their books of account or other documents would not always be indicative or conclusive, as to what the real nature of the transaction is based upon the above principles, the capital or revenue character of a particular expenditure will have to be decided in every case.

**Instances of revenue expenditure**: Payment made for the use of goodwill, use of quota rights or in the case of a hotel or restaurant business the cost of table linen, crockery, pots is of a revenue expenditure. The cost of dredging carried on by a harbor authority for the purpose of keeping the channels clear for shipping is also of revenue expenditure. Expenditure incurred by a surgeon or businessman on a study tour abroad to acquire knowledge of the latest techniques would be on revenue account.

_Circular No.6/2007 dated 11.10.2007_ clarifies the issue of allowability of the claim of harvesting and transportation expenses incurred by the Co-operative sugar mills for procuring sugarcane from farmers, who are members of such Co-operative Sugar Mills and who are bound under an agreement to supply the sugarcane exclusively to the concerned sugar Mill.

The issue of allowability of such expenses in the case of co-operative sugar mills has been examined by the CBDT. These expenses are incurred by the Sugar Mills for ensuring an adequate and sustained supply of freshly cut sugarcane that is an essential input for the continuous running of such Mills. These expenses are,
therefore, incurred for commercial expediency and are prima facie wholly and exclusively for the purpose of business. Such expenses are, therefore, allowable in the computation of the income of the co-operative sugar mills.

**Instances of capital expenditure**: Expenditure on improvement to property as distinguished from mere repairs or that which is incurred by a company in raising loans or issuing debentures for capital outlay would be capital expenditure if they are incurred before the business is set up. Legal expenses incurred in connection with the mortgages of the premises belonging to the assessee in which the assessee carries on his business are also capital expenditure.

(5) **Advertisements in souvenirs of political parties**: Section 37(2B) disallows any deduction on account of advertisement expenses representing contributions made by any person carrying on business or profession in computing the profits and gains of the business or profession. It has specifically been provided that this provision for disallowance would apply notwithstanding anything to the contrary contained in section 37(1). In other words, the expenditure representing contribution for political purposes would become disallowable even in those cases where the expenditure is otherwise incurred by the assessee in his character as a trader and the amount is wholly and exclusively incurred for the purpose of the business. Accordingly, a taxpayer would not be entitled to any deduction in respect of expenses incurred by him on advertisement in any souvenir, brochure, tract or the like published by any political party, whether it is registered with the Election Commission of India or not.

(6) **Explanation to section 37(1)** - This Explanation provides that any expenditure incurred by the assessee for any purpose which is an offence or is prohibited by law shall not be allowed as a deduction or allowance.

**Inadmissibility of expenses incurred in providing freebees to medical practitioner by pharmaceutical and allied health sector industry** [Circular No. 5/2012 dated 1-8-2012]

Section 37(1) provides for deduction of any revenue expenditure (other than those falling under sections 30 to 36) from the business income if such expense is laid out or expended wholly or exclusively for the purpose of business or profession. However, the Explanation below section 37(1) denies claim of any such expenses, if the same has been incurred for a purpose which is either an offence or prohibited by law.

The CBDT, considering the fact that the claim of any expense incurred in providing freebees to medical practitioner is in violation of the provisions of Indian Medical Council (Professional Conduct, Etiquette and Ethics) Regulations, 2002, has clarified that the expenditure so incurred shall be inadmissible under section 37(1) of the Income-tax Act, 1961, being an expense prohibited by the law. The disallowance shall be made in the hands of such pharmaceutical or allied health sector industry or other assessee which has provided aforesaid freebees and claimed it as a deductible expense in its accounts against income.

This circular has also clarified that a sum equivalent to value of freebees enjoyed by the aforesaid medical practitioner or professional associations is also taxable as business income or income from other sources, as the case may be, depending on the facts of each case.

**Illustration 11**

Isac limited is a company engaged in the business of biotechnology. The net profit of the company for the financial year ended 31.03.2014 is `15,25,890 after debiting the following items:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Particulars</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Purchase price of raw material used for the purpose of in-house research and development</td>
<td>1,80,000</td>
</tr>
<tr>
<td>2.</td>
<td>Purchase price of asset used for in-house research and development wrongly debited to profit and loss account:</td>
<td></td>
</tr>
<tr>
<td>(1)</td>
<td>Land</td>
<td>5,00,000</td>
</tr>
<tr>
<td>(2)</td>
<td>Building</td>
<td>3,00,000</td>
</tr>
</tbody>
</table>
### Compute the income under the head “Profits and gains of business or profession” for the A.Y. 2014-15 of Isac Ltd.

**Answer**

**Computation of income under the head “Profits and gains of business or profession” for the A.Y. 2014-15**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>``</th>
<th>``</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit as per profit and loss account</td>
<td></td>
<td>15,25,890</td>
</tr>
<tr>
<td><strong>Add:</strong> Items debited to profit and loss account, but to be Disallowed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase price of Land used in in-house research and development -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>being capital expenditure not allowable as deduction under section 35</td>
<td></td>
<td>5,00,000</td>
</tr>
<tr>
<td>Purchase price of building used in in-house research and development -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>being capital expenditure, 100% of which is allowable as deduction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>under section 35(1)(iv) read with section 35(2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure incurred on notified agricultural extension project (to be</td>
<td></td>
<td></td>
</tr>
<tr>
<td>treated separately)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure incurred on notified skill development project - Purchase</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of land - being capital expenditure not qualifying for deduction under</td>
<td></td>
<td></td>
</tr>
<tr>
<td>section 35CCD</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure incurred on notified skill development project - Expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>on training for skill development (to be treated separately)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure incurred on advertisement in the souvenir published by a</td>
<td></td>
<td></td>
</tr>
<tr>
<td>political party not allowed as deduction per section 37(2B)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>75,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>11,75,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>27,00,890</td>
</tr>
<tr>
<td><strong>Less:</strong> Purchase price of raw material used for in-house research and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and development qualifies for 200% deduction under section 35(2AB).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Since, it is already debited to profit and loss account balance 100% is</td>
<td></td>
<td></td>
</tr>
<tr>
<td>allowed.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,80,000</td>
</tr>
<tr>
<td><strong>Less:</strong> Expenditure incurred on notified agricultural extension project</td>
<td></td>
<td></td>
</tr>
<tr>
<td>qualifies for 150% deduction under section 35CCC.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2,25,000</td>
</tr>
<tr>
<td><strong>Less:</strong> Expenditure incurred on training for skill development in a</td>
<td></td>
<td></td>
</tr>
<tr>
<td>notified skill development project qualifies for 150% deduction under</td>
<td></td>
<td></td>
</tr>
<tr>
<td>section 35CCD</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3,75,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7,80,000</td>
</tr>
<tr>
<td><strong>Profit and gains from business</strong></td>
<td></td>
<td>19,20,890</td>
</tr>
</tbody>
</table>

**Note:** The expenditure incurred on advertisement in the souvenir published by a political party is disallowed as per section 37(2B) while computing income under the head “Profit and Gains of Business or Profession” but the same would be allowed as deduction under section 80GGB from the gross total income of the company.

**Inadmissible Deductions [Section 40]**

By dividing the assessee into distinct groups, this section places absolute restraint on the deductibility of certain expenses as follows:

(i) **Section 40(a)** - In the case of any assessee, the following expenses are not deductible:

1. Any interest (not being interest on loan issued for public subscription before the 1st day of April, 1938), royalty, fees for technical services or other sum chargeable under this Act, which is payable, -
(a) outside India;
(b) in India to a non-resident, not being a company or to a foreign company,
on which tax is deductible at source under Chapter XVIIB and such tax has not been deducted or,
after deduction, has not been paid during the previous year, or in the subsequent year before the
expiry of the time prescribed under section 200(1). It is also provided that where in respect of any
such sum, where tax has been deducted in any subsequent year, or has been deducted in the previous
year but paid in any subsequent year after the expiry of the time prescribed under section 200(1),
such sum shall be allowed as a deduction in computing the income of the previous year in which
such tax has been paid.

(2) Section 40(a)(ia) provides that interest, commission, brokerage, rent, royalty, fees for
technical/professional services payable to a resident or amounts payable (for carrying out any work
contract) to a resident contractor/sub-contractor, on which tax is deductible at source, shall be
disallowed if –

(i) such tax has not been deducted; or
(ii) such tax, after deduction, has not been paid on or before the due date specified in section 139(1).

In case the tax is deducted in any subsequent year or has been deducted during the previous year but paid
after the due date specified in section 139(1), such sum shall be allowed as deduction in computing the
income of the previous year in which such tax has been paid.

If, for instance, tax on royalty paid to Mr. A, a resident, has been deducted during the previous year 2013-
14, the same has to be paid by 31st July/30th September 2014, as the case may be.

Otherwise, the expenditure would be disallowed in computing the income for A.Y.2014-15. If the tax
deducted during the P.Y.2013-14 has been paid after 31st July/30th September, 2014, the same would be
allowed as deduction in the year of payment.

Section 201 provides that the payer (including the principal officer of the company) who fails to deduct the
whole or any part of the tax on the amount credited or payment made to a resident payee shall not be
deemed to be an assessee-in-default in respect of such tax if such resident payee –
(i) has furnished his return of income under section 139;
(ii) has taken into account such sum for computing income in such return of income; and
(iii) has paid the tax due on the income declared by him in such return of income, and the payer furnishes a
certificate to this effect from an accountant in such form as may be prescribed.

The date of deduction and payment of taxes by the payer shall be deemed to be the date on which return of
income has been furnished by the resident payee.

Consequently, in cases where such person responsible for deducting tax is not deemed to be an assessee-in-
default on account of payment of taxes by the resident payee, it shall be deemed that the payer has deducted
and paid the tax on such sum on the date of furnishing return of income by the resident payee.

Since the date of furnishing the return of income by the resident payee is taken to be the date on which the
payer has deducted tax at source and paid the same, the expenditure/payment in respect of which the payer
has failed to deduct tax at source shall be disallowed under section 40(a)(ia) in the year in which the said
expenditure is incurred. Such expenditure will be allowed as deduction in the subsequent year in which the
return of income is furnished by the resident payee, since tax is deemed to have been deducted and paid by
the payer in that year.
(3) any sum paid on account of tax or cess levied on profits on the basis of or in proportion to the profits and gains of any business or profession;

(a) Any sum paid outside India (on account of any rate or tax levied) which is eligible for tax relief under section 90 or deduction from the income-tax payable under section 91 is not allowable and is deemed to have never been allowable as a deduction under section 40(a).

(b) However, the tax payers will continue to be eligible for tax credit in respect of income-tax paid in a foreign country in accordance with the provisions of section 90 or section 91, as the case may be.

(c) Any sum paid outside India (on account of any rate or tax levied) and eligible for relief under section 90A will not be allowed as a deduction.

(4) any sum paid on account of wealth tax.

For the purpose of this disallowance the expression ‘wealth-tax’ means the wealth-tax chargeable under Wealth-tax Act, 1957, or any tax of similar nature or character chargeable under any law in any country outside India or any tax chargeable under such law with reference to the value of the assets of, or the capital employed in a business or profession carried on by the assessee, whether or not the debts of business or profession are allowed as a deduction in computing the amount with reference to which such tax is charged, but does not include any tax chargeable with reference to the value of any particular asset of the business or profession.

(5) (i) any amount paid by way of royalty, licence fee, service fee, privilege fee, service charge, etc., which is levied exclusively on, or

(ii) any amount appropriated, directly or indirectly, from a State Government undertaking, by the State Government (SG)

A State Government undertaking includes –

(a) A corporation established by or under any Act of the SG

(b) A company in which more than 50% of the paid up equity share capital is held by the SG

(c) A company in which more than 50% of the paid up equity share capital is held singly or jointly by (a) or (b)

(d) A company or corporation in which the SG has the right to appoint the majority of directors or to control the management or policy decisions

(e) An authority, a board or an institution or a body established or constituted by or under any Act of the SG or owned or controlled by the SG

(6) any sum which is chargeable under the head ‘Salaries’ if it is payable outside India or to a non-resident and if the tax has not been paid thereon nor deducted therefrom under Chapter XVII-B.

(7) any contribution to a provident fund or the fund established for the benefit of employees of the assessee, unless the assessee has made effective arrangements to make sure that tax shall be deducted
at source from any payments made from the fund which are chargeable to tax under the head ‘Salaries’.

(8) Tax paid on perquisites on behalf of employees is not deductible- In case of an employee, deriving income in the nature of perquisites (other than monetary payments), the amount of tax on such income paid by his employer is exempt from tax in the hands of that employee. Correspondingly, such payment is not allowed as deduction from the income of the employer. Thus, the payment of tax on perquisites by an employer on behalf of employee will be exempt from tax in the hands of employee but will not be allowable as deduction in the hands of the employer.

(ii) Section 40(b) - In the case of any firm assessable as such or a limited liability partnership (LLP) the following amounts shall not be deducted in computing the income from business of any firm/LLP:

(1) Any salary, bonus, commission, remuneration by whatever name called, to any partner who is not a working partner. (In the following discussion, the term ‘remuneration’ is applied to denote payments in the nature of salary, bonus, commission);

(2) Any remuneration paid to the working partner or interest to any partner which is not authorised by or which is inconsistent with the terms of the partnership deed;

(3) It is possible that the current partnership deed may authorise payments of remuneration to any working partner or interest to any partner for a period which is prior to the date of the current partnership deed. The approval by the current partnership deed might have been necessitated due to the fact that such payment was not authorised by or was inconsistent with the earlier partnership deed. Such payments of remuneration or interest will also be disallowed. However, it should be noted that the current partnership deed cannot authorise any payment which relates to a period prior to the date of earlier partnership deed.

Next, by virtue of a further restriction contained in sub-clause (iii) of section 40(b), such remuneration paid to the working partners will be allowed as deduction to the firm from the date of such deed and not for any period prior thereto. Consequently, if, for instance, a firm incorporates the clause relating to payment of remuneration to the working partners, by executing an appropriate deed, say, on July 1, but effective from April 1, the firm would get deduction for the remuneration paid to its working partners from July 1 and onwards, but not for the period from April 1 to June 30. In other words, it will not be possible to give retrospective effect to oral agreements entered into vis a vis such remuneration prior to putting the same in a written partnership deed.

(4) Any interest payment authorised by the partnership deed falling after the date of such deed to the extent such interest exceeds 12% simple interest p.a.

(5) Any remuneration paid to a partner, authorised by a partnership deed and falling after the date of the deed in excess of the following limits:

On the first `3 lakh of book profit or in case of loss, the limit would be the higher of `1,50,000 or 90% of book profit and on the balance of book profit, the limit would be 60%.

Illustration 12
If a firm has paid ` 7,50,000 as remuneration to its partners for the P.Y.2013-14, in accordance with its partnership deed, and it has a book profit of ` 10 lakh, then, the allowable remuneration calculated as per the limits specified in section 40(b)(v) would be –

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>On first `3 lakh of book profit (3,00,000 × 90%)</td>
<td>2,70,000</td>
</tr>
<tr>
<td>On balance `7 lakh of book profit (7,00,000 × 60%)</td>
<td>4,20,000</td>
</tr>
</tbody>
</table>
The excess amount of ` 60,000 (i.e., ` 7,50,000 – ` 6,90,000) would be disallowed as per section 40(b)(v).

There are four Explanations to section 40(b):

*Explanation 1* provides that where an individual is a partner in a firm in a representative capacity:

(i) interest paid by the firm to such individual otherwise than as partner in a representative capacity shall not be taken into account for the purposes of this clause.

(ii) interest paid by the firm to such individual as partner in a representative capacity and interest paid by the firm to the person so represented shall be taken into account for the purposes of this clause.

*Explanation 2* provides that where an individual is a partner in a firm otherwise than in a representative capacity, interest paid to him by the firm shall not be taken into account if he receives the same on behalf of or for the benefit of any other person.

*Explanation 3* defines the term “book profit”. It means the net profit as shown in the P & L A/c for the relevant previous year computed in accordance with the provisions for computing income from profits and gains.

The above amount should be increased by the remuneration paid or payable to all the partners of the firm if the same has been deducted while computing the net profit.

*Explanation 4* defines a working partner. Accordingly, it means an individual who is actively engaged in conducting the affairs of the business or profession of the firm of which he is a partner.

(iii) *Section 40(ba) - Association of persons or body of individuals*: Any payment of interest, salary, commission, bonus or remuneration made by an association of persons or body of individuals to its members will also not be allowed as a deduction in computing the income of the association or body.

There are three Explanations to section 40(ba):

*Explanation 1* - Where interest is paid by an AOP or BOI to a member who has paid interest to the AOP/BOI, the amount of interest to be disallowed under clause (ba) shall be limited to the net amount of interest paid by AOP/BOI to the partner.

*Explanation 2* - Where an individual is a member in an AOP/BOI on behalf of another person, interest paid by AOP/BOI shall not be taken into account for the purposes of clause (ba). But, interest paid to or received from each person in his representative capacity shall be taken into account.

*Explanation 3* - Where an individual is a member in his individual capacity, interest paid to him in his representative capacity shall not be taken into account.

**Expenses or payments not deductible in certain circumstances [Section 40A]**

(i) *Payments to relatives and associates* - Sub-section (2) of section 40A provides that where the assessee incurs any expenditure in respect of which a payment has been or is to be made to a relative or to an associate concern so much of the expenditure as is considered to be excessive or unreasonable shall be disallowed by the Assessing Officer. While doing so he shall have due regard to:

(a) the market value of the goods, service of facilities for which the payment is made; or
(b) the legitimate needs of the business or profession carried on by the assessee; or
(c) the benefit derived by or accruing to the assessee from such a payment.
The word “relative” as defined in the section 2(41) means, in relation to individual, the spouse, brother or sister of any lineal ascendant or descendant of that individual. Whether the assessee is a firm, H.U.F. or an association of persons the relationship will have to be reckoned for the purpose, with reference to the partners of the firm and the members of the family or association.

Similarly, where the assessee is a company the relationship will have to be reckoned with reference to the directors or persons having substantial interest in the company.

The related person as mentioned in section 40A(2) includes, *inter alia*, a company, firm, association of persons or Hindu undivided family having a substantial interest in the business or profession of the assessee or any director, partner or member of such company, firm, association or family, or any relative of such director, partner or member. Further, the related person in relation to a company shall include any other company carrying on business or profession in which the first mentioned company has substantial interest.

A person shall be deemed to have a substantial interest in a business or profession if -

- in a case where the business or profession is carried on by a company, such person is, at any time during the previous year, the beneficial owner of equity shares carrying not less than 20% of the voting power and

- in any other case such person is, at any time during the previous year, beneficially entitled to not less than 20% the profits of such business or profession.

(ii) **Cash payments in excess of `20,000** - According to section 40A(3), where the assessee incurs any expenditure, in respect of which payment or aggregate of payments made to a person in a day otherwise than by an account payee cheque drawn on a bank or by an account payee bank draft exceeds `20,000, such expenditure shall not be allowed as a deduction.

For example if, in respect of an expenditure of `60,000 incurred by X Ltd., 4 cash payments of `15,000 are made on a particular day to Mr. Y – one in the morning at 10 a.m., one at 12 noon, one at 3 p.m. and one at 6 p.m., the entire expenditure of `60,000 would be disallowed under section 40A(3), since the aggregate of cash payments made during a day to Mr. Y exceeds `20,000.

In case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment has been made in a subsequent year otherwise than by account payee cheque or account payee bank draft, then the payment so made shall be deemed to be the income of the subsequent year if such payment or aggregate of payments made to a person in a day exceeds `20,000 [Section 40A(3A)].

This limit of `20,000 has been raised to `35,000 in case of payment made to transport operators for plying, hiring or leasing goods carriages. Therefore, payment or aggregate of payments up to `35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank draft. In all other cases, the limit would continue to be `20,000.

However, no disallowance would be made in such cases and under such circumstances as may be prescribed, having regard to the nature and extent of banking facilities available, considerations of business expediency and other relevant factors.

The provision applies to all categories of expenditure involving payments for goods or services which are deductible in computing the taxable income. It does not apply to loan transactions because advancing of loans or repayments of the principal amount of loan does not constitute an expenditure deductible in computing the taxable income. However, interest payments of amounts exceeding `20,000 at a time are
required to be made by account payee cheques or drafts as interest is a deductible expenditure. This requirement does not apply to payment made by commission agents for goods received by them for sale on commission or consignment basis because such a payment is not an expenditure deductible in computing the taxable income of the commission agent. For the same reason, this requirement does not apply to advance payment made by the commission agent to the party concerned against supply of goods. However, where commission agent purchases goods on his own account but not on commission basis, the requirement will apply. The provisions regarding payments by account payee cheque or draft apply equally to payments made for goods purchased on credit.

Rule 6DD provides for cases and circumstances in which a payment or aggregate of payments exceeding twenty thousand rupees may be made to a person in a day, otherwise than by an account payee cheque drawn on a bank or account payee bank draft. As per this rule, no disallowance under sub-section (3) of section 40A shall be made and no payment shall be deemed to be the profits and gains of business or profession under sub-section (3A) of section 40A where a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or account payee bank draft, exceeds twenty thousand rupees in the cases and circumstances specified hereunder, namely:

(a) where the payment is made to
   (i) the Reserve Bank of India or any banking company;
   (ii) the State Bank of India or any subsidiary bank;
   (iii) any co-operative bank or land mortgage bank;
   (iv) any primary agricultural credit society or any primary credit society;
   (v) the Life Insurance Corporation of India;

(b) where the payment is made to the Government and, under the rules framed by it, such payment is required to be made in legal tender;

(c) where the payment is made by
   (i) any letter of credit arrangements through a bank;
   (ii) a mail or telegraphic transfer through a bank;
   (iii) a book adjustment from any account in a bank to any other account in that or any other bank;
   (iv) a bill of exchange made payable only to a bank;
   (v) the use of electronic clearing system through a bank account;
   (vi) a credit card;
   (vii) a debit card.

(d) where the payment is made by way of adjustment against the amount of any liability incurred by the payee for any goods supplied or services rendered by the assessee to such payee;

(e) where the payment is made for the purchase of -
   (i) agricultural or forest produce; or
   (ii) the produce of animal husbandry (including livestock, meat, hides and skins) or dairy or poultry farming; or
   (iii) fish or fish products; or
   (iv) the products of horticulture or apiculture,
   to the cultivator, grower or producer of such articles, produce or products;

Note -
(i) The expression ‘fish or fish products’ (iii) above would include ‘other marine products such as shrimp, prawn, cuttlefish, squid, crab, lobster etc.’.
(ii) The 'producers' of fish or fish products for the purpose of rule 6DD(e) would include, besides the fishermen, any headman of fishermen, who sorts the catch of fish brought by fishermen from the sea, at the sea shore itself and then sells the fish or fish products to traders, exporters etc.
However, the above exception will not be available on the payment for the purchase of fish or fish products from a person who is not proved to be a 'producer' of these goods and is only a trader, broker or any other middleman, by whatever name called.

(f) where the payment is made for the purchase of the products manufactured or processed without the aid of power in a cottage industry, to the producer of such products;

(g) where the payment is made in a village or town, which on the date of such payment is not served by any bank, to any person who ordinarily resides, or is carrying on any business, profession or vocation, in any such village or town;

(h) where any payment is made to an employee of the assessee or the heir of any such employee, on or in connection with the retirement, retrenchment, resignation, discharge or death of such employee, on account of gratuity, retrenchment compensation or similar terminal benefit and the aggregate of such sums payable to the employee or his heir does not exceed fifty thousand rupees;

(i) where the payment is made by an assessee by way of salary to his employee after deducting the income-tax from salary in accordance with the provisions of section 192 of the Act, and when such employee -
   (i) is temporarily posted for a continuous period of fifteen days or more in a place other than his normal place of duty or on a ship; and
   (ii) does not maintain any account in any bank at such place or ship;

(j) where the payment was required to be made on a day on which the banks were closed either on account of holiday or strike;

(k) where the payment is made by any person to his agent who is required to make payment in cash for goods or services on behalf of such person;

(l) where the payment is made by an authorised dealer or a money changer against purchase of foreign currency or travellers cheques in the normal course of his business.

(iii) Disallowance of provision for gratuity - Section 40A(7) provides that no deduction would be allowable to any taxpayer carrying on any business or profession in respect of any provision (whether called as provision or by any other names) made by him towards the payment of gratuity to his employers on their retirement or on the termination of their employment for any reason. The reason for this disallowance is that, under section 36(1)(v), deduction is allowable in computing the profits and gains of the business or profession in respect of any sum paid by a taxpayer in his capacity as an employer in the form of contributions made by him to an approved gratuity fund created for the exclusive benefit of his employees under an irrevocable trust. Further, section 37(1) provides that any expenditure other than the expenditure of the nature described in sections 30 to 36 laid out or expended, wholly and exclusively for the purpose of the business or profession must be allowed as a deduction in computing the taxable income from business. A reading of these two provisions clearly indicates that the intention of the legislature has always been that the deduction in respect of gratuity be allowable to the employer either in the year in which the gratuity is actually paid or in the year in which contributions to an approved gratuity fund are actually made by employer. This provision, therefore, makes it clear that any amount claimed by the assessee towards provision for gratuity, by whatever name called would be disallowable in the assessment of employer even if the assessee follows the mercantile system of accounting.

However, no disallowance would be made under the provision of sub-section (7) of section 40A in the case where any provision is made by the employer for the purpose of payment of sum by way of contribution to an approved gratuity fund during the previous year or for the purpose of making payment of any gratuity
that has become payable during the previous year by virtue of the employee’s retirement, death, termination of service etc.

(iv) Contributions by employers to funds, trust etc. [Sections 40A(9) to (11)] – These sub-sections have been introduced to curb the growing practice amongst employers to claim deductions from taxable profits of the business of contributions made apparently to the welfare of employees from which, however, no genuine benefit flows to the employees.

Accordingly, no deduction will be allowed where the assessee pays in his capacity as an employer, any sum towards setting up or formation of or as contribution to any fund, trust, company, association of persons, body of individuals, society registered under the Societies Registration Act, 1860 or other institution for any purpose. However, where such sum is paid in respect of funds covered by sections 36(1)(iv), 36(1)(iva) and 36(1)(v) or any other law, then the deduction will not be denied.

(v) Deduction in respect of Head Office expenses, in the case of non-residents – Section 44C restricts the scope of deduction available to non-resident taxpayers in the matter of allowance of head office expenses in computing their taxable income from the business carried on in India.

These restrictions would have the effect of overriding anything to the contrary contained in the provisions for allowance of expenses and other deductions contained in sections 28 to 43A of the Income-tax Act, 1961. This provision prescribes the limits upto which the deduction could be allowed in computing profits and gains from any business carried on by the non-resident in India and apply to the expenses in the matter of head office expenses.

For the purpose of those restrictions and the consequent disallowance, the expression ‘head office expenditure’ must be taken to mean executive and general administration expenses incurred by the assessee outside India including also the expenditure incurred in respect of the following items viz.,

(i) rent, rates, taxes, repairs or insurance in respect of any premises outside India used for the purpose of the business or profession;

(ii) salary, wages, annuity, pension, fees, bonus, commission, gratuity, perquisites or profit in lieu of or in addition to salary, whether paid or allowed to any employee or other persons employed in, or managing the affairs of any office in India;

(iii) travelling expenses incurred in respect of any employee or other person who is employed in or who is looking after the management of the affairs of any office outside India; and

(iv) such other matter connected with executive and general administration of the business as may be prescribed by the Central Board of Direct Taxes from time to time.

The limits prescribed are the following:

(i) an amount equal to 5% of the adjusted total income of the assessee; or
(ii) an amount of so much of the expenditure in the nature of head office expenses (explained above), which are incurred by the assessee, as is attributable to the business or profession of the assessee in India.

The limit upto which the deduction is permissible to the assessee is the lesser of the aforesaid two amounts and consequently, the basis for allowance would be the lower of the above two items. If, however the actual amount on account of head office expenses claimed by the assessee is less than the limits specified above, the deduction admissible would be confined to the amount of actual expenditure incurred by the assessee.
For the purpose of determining the amount of deduction admissible to the assessee, the expression ‘adjusted total income’ used in item (i) above must be taken to mean the total income of the assessee computed in accordance with the provisions of the Income-tax Act before giving effect to the following items of allowance on deduction viz.,—

(a) depreciation allowance under section 32(2);
(b) capital expenditure on family planning incurred by companies admissible as a deduction under section 36(ix);
(c) any brought-forward business loss qualifying for set off against business income in accordance with the provisions of section 72(1);
(d) any brought-forward loss in regard to any speculation business qualifying for set off against income from speculation under section 73(3);
(e) any loss computed under the head ‘Capital gains’ and brought forward from earlier assessment year qualifying for set-off under section 74(1); and
(f) any loss attributable to the casual item of income assessable under section 56 qualifying for set-off in accordance with the provisions of section 74A(3).

Thus, the total income of the assessee computed for the relevant accounting year must be first ascertained before giving effect to the provisions for the aforesaid allowance and 5% thereof would be treated as the limit upto which head office expenses would be admissible as a deduction in computing the business income of the non-resident for income-tax purposes.

However, in cases where the adjusted total income of the assessee, 5% of which is to be taken as the basis for determining the first of the qualifying limits, happens to be a loss, the proviso to section 44C authorises the limit of 5% to be taken with reference to the average adjusted total income. For this purpose the expression ‘average adjusted total income’ would mean—

(i) in cases where the total income of the assessee is assessable for each of the three assessment years immediately preceding the relevant assessment year - one-third of the aggregate amount of the adjusted total income of the previous years relevant to the aforesaid three assessment years.

(ii) where the total income of the assessee is assessable for only two of the aforesaid three assessment years - one-half of the aggregate amount of the adjusted total income in respect of the two previous years relevant to the aforesaid two assessment years;

(iii) in cases where the total income of the assessee becomes assessable only for one of the three assessment years aforesaid - the amount of adjusted total incomes in respect of the previous year relevant to the assessment year.

The aforesaid provisions of restricting allowances on account of deduction in respect of head office expenditure would apply in the case of all non-resident taxpayers whose income from business or profession is chargeable to income-tax under section 28 of the Income-tax Act.

The provisions for disallowance of the excess of the expenditure over the least of the limits mentioned above would apply even if the expenditure is such that it does not attract the provisions for disallowance contained in any other section of the Income-tax Act.

**Profits chargeable to tax [Section 41]**

This section enumerates certain receipts which are deemed to be income under the head “Business or profession.” Such receipts would attract charge even if the business from which they arise had ceased to exist prior to the year in which the liability under this section arises.

The particulars of such receipts are given below:
(i) **Section 41(1)** - Suppose an allowance or deduction has been made in any assessment year in respect of loss, expenditure or trading liability incurred by A. Subsequently, if A has obtained, whether in cash or in any manner whatsoever, any amount in respect of such loss or expenditure or some benefit in respect of such trading liability by way of remission or cessation thereof, the amount obtained by A, or the value of benefit accruing to him shall be taxed as income of that previous year. It does not matter whether the business or profession in respect of which the allowance or deduction has been made is in existence in that year or not.

It is possible that after the above allowance in respect of loss, expenditure, or trading liability has been given to A, he could have been succeeded in his business by another person. In such a case, the successor will be liable to be taxed in respect of any such benefit received by him during a subsequent previous year.

**Successor in business:**

(i) Where there has been an amalgamation of a company with another company, the successor will be the amalgamated company.

(ii) Where a firm carrying on a business or profession is succeeded by another firm the successor will be the other firm.

(iii) In any other case, where one person is succeeded by any other person in that business or profession the other person will be the successor.

(iv) In case of a demerger, the successor will be the resulting company.

Remission or cessation of a trading liability includes remission or cessation of liability by a unilateral act of the assessee by way of writing off such liability in his accounts.

(ii) **Balancing charge, etc.** - The provisions of section 41(2) relating to balancing charge, of section 41(3) relating to assets acquired for scientific research and of section 41(4) dealing with recovery of bad debts have been dealt with earlier under the respective items.

(iii) **Section 41(4A)** - The withdrawal from special reserve created and maintained under section 36(1)(viii) will be deemed to be profits and gains of business and charged accordingly in the year of withdrawal. Even if the business is closed, it will be deemed to be in existence for this purpose. This also applies to section 41(5).

**Brought forward losses of defunct business** - In cases where a receipt is deemed under this section to be profit of a business under this section relating to a business that had ceased to exist and there is an unabsorbed loss, which arose in that business during the previous year in which it had ceased to exist, it would be set off against income that is chargeable under this section. This sub-section thus constitutes an exception to the rule that if a business has ceased to exist, any loss relating to it cannot be carried forward and set off against any income from any source.

**Special provisions for deduction in case of business for prospecting etc. for mineral oil [Section 42]**

This section has been enacted to permit an assessee to claim an allowance which may on general principles be inadmissible, e.g., allowance in respect of expenditure which would be regarded as an accretion to capital on the ground that it brings into existence an asset of enduring benefit or to constitute initial expenditure incurred on the setting up of a profit earning machinery in motion. It must further be noted that this concession can be availed of only in relation to contract or arrangements entered into by the Central Government for prospecting for, or the extraction or production of mineral oils.

**Allowable expenses**: The allowance permissible under this section shall be in relation to (i) the expenditure by way of in fructuous or abortive exploration expenses in respect of an area surrendered prior to the beginning of commercial production by the assessee; (ii) after the beginning of commercial production, the expenditure incurred by the assessee, whether before or after such commercial production in respect of drilling or exploration activities in services in respect of physical assets used in that connection (except those
assets which qualify for depreciation allowance under section 32); and (iii) to the depletion of mineral oil in the mining area in respect of the assessment year relevant to the previous year in which commercial production is begun and for such succeeding years as may be specified in the agreement.

**Amount of deduction:** The sum of those allowance should be computed and deduction should be made in the manner specified in the agreement entered into by the Central Government with any person for the association or participation in the business of the Central Government for the prospecting or exploration of mineral oil. It has been specifically provided that the other provisions of the Act are being deemed, for the purpose of this allowance, to have been modified to the extent necessary to give effect to the terms of the agreement. It may be noted that allowances in this regard are made in lieu of or in addition to the other allowances permissible under the Act, depending upon the terms of the agreement.

Subject to the provisions of the agreement entered into by the Central Government, where the business of assessee consisting of the prospecting for or extraction or production of petroleum and natural gas is transferred or any interest therein is transferred, wholly or partly, in accordance with the aforesaid agreement, various situations would arise. The tax treatment in respect of those situations are as follows:

1. Where the proceeds of the transfer so far as they consist of capital sums are less than the expenditure incurred remaining unallowed, a deduction equal to such expenditure remaining unallowed, as reduced by the proceeds of transfer, shall be allowed in respect of the previous year in which such business or interest is transferred.

2. Where such proceeds exceed the amount of the expenditure incurred remaining unallowed, so much of the excess as does not exceed the difference between the expenditure incurred in connection with the business or to obtain interest therein and the amount of such expenditure remaining unallowed, shall be chargeable to income-tax as profits and gains of the business in the previous year in which the business or interest therein, whether wholly or partly, had been transferred.

However, in a case where the provisions of this clause do not apply, the deduction to be allowed for expenditure incurred remaining unallowed shall be arrived at by subtracting the proceeds of transfer (so far as they consist of capital sums) from the expenditure remaining unallowed.

**Explanation** - Where the business or interest in such business is transferred in a previous year in which such business carried on by the assessee is no longer in existence, the provisions of this clause shall apply as if the business is in existence in that previous year.

3. Where such proceeds are not less than the amount of the expenditure incurred remaining unallowed, no deduction for such expenditure shall be allowed in respect of the previous year in which the business or interest in such business is transferred or in respect of any subsequent year or years.

**Special provisions in case of amalgamation/demerger:** Where in a scheme of amalgamation, the amalgamating company sells or otherwise transfers the business to the amalgamated company (being an Indian company), the provisions of this sub-section—

(i) shall not apply in the case of the amalgamating company and
(ii) shall, as far as may be, apply to the amalgamated company as they would have applied to the amalgamated company if the latter had not transferred the business or interest in the business.

The section provides for similar provisions in the case of demerger where the resulting company, being an Indian company, shall claim the production under the said section.
Changes in the rate of exchange of currency [Section 43A]
The section provides that where an assessee has acquired any asset from a foreign country for the purpose of his business or profession, and due to a change thereafter in the exchange rate of the two currencies involved, there is an increase or decrease in the liability (expressed in Indian rupees) of the assessee at the time of making the payment, the following values may be changed accordingly with respect to the increase or decrease in such liability:

(i) the actual cost of the asset under section 43(1)
(ii) the amount of capital expenditure incurred on scientific research under section 35(1)(iv)
(iii) the amount of capital expenditure on acquisition of patents or copyrights under section 35A
(iv) the amount of capital expenditure incurred by a company for promoting family planning amongst its employees under section 36(1)(ix)
(v) the cost of acquisition of a non-depreciable capital asset falling under section 48.

The amount arrived at after making the above adjustment shall be taken as the amount of capital expenditure or the cost of acquisition of the capital asset, as the case may be.

The section further clarifies that where any adjustment has already been made under the erstwhile section 43A to the amount of capital expenditure or cost of acquisition of an asset on account of increase or decrease in liability due to exchange rate fluctuation, it should be verified that the amount of such adjustment is equal to the change in the liability at the time of making payment.

In this context
(a) “rate of exchange” means the rate of exchange determined or recognised by the Central Government for the conversion of Indian currency into foreign currency or foreign currency into Indian currency;
(b) “foreign currency” and “Indian currency” have the meanings respectively assigned to them in section 2 of the Foreign Exchange Management Act, 1999.

Where the whole or any part of the liability aforesaid is met, not by the assessee, but, directly or indirectly, by any other person or authority, the liability so met shall not be taken into account for the purposes of this section.

Where the assessee has entered into a contract with an authorised dealer as defined in section 2 of the Foreign Exchange Management Act, 1999 for providing him with a specified sum in a foreign currency on or after a stipulated future date at the rate of exchange specified in the contract to enable him to meet the whole or any part of the liability aforesaid, the amount, if any, for adjustment under this section shall be computed with reference to the rate of exchange specified therein.

Certain Deductions to be Only on Actual Payment [Section 43B]
The following sums are allowed as deduction only on the basis of actual payment within the time limits specified in section 43B.

(a) Any sum payable by way of tax, duty, cess or fee, by whatever name called, under any law for the time being in force.
(b) Any sum payable by the assessee as an employer by way of contribution to any provident fund or superannuation fund or gratuity fund or any other fund for the welfare of employees.
(c) Bonus or Commission for services rendered payable to employees.
(d) Any sum payable by the assessee as interest on any loan or borrowing from any public financial institution or a State Financial Corporation or a State Industrial Investment Corporation.
(e) Interest on any loan or advance from a scheduled bank on actual payment basis.
(f) Any sum paid by the assessee as an employer in lieu of earned leave of his employee.
The above sums can be paid by the assessee on or before the due date for furnishing the return of income under section 139(1) in respect of the previous year in which the liability to pay such sum was incurred and the evidence of such payment is furnished by the assessee along with such return.

For the purposes of clause (a), “any sum payable” means a sum for which the assessee incurred liability in the previous year even though such sum might not have been payable within that year under the relevant law. For example, an assessee may collect sales tax from customers during the month of March, 2013. However, in respect of such collections he may have to discharge the liability only within say 10th April, 2013 under the sales tax law. The explanation covers this type of liability also. Consequently, if an assessee following accrual method of accounting has created a provision in respect of such a liability the same is not deductible unless remitted within the due date specified in this section.

For this purpose, scheduled bank has the meaning assigned to it in clause (iii) of the *Explanation* to section 11(5), that is, the State Bank of India (SBI), a subsidiary of SBI, a nationalised bank or any other bank included in the Second Schedule to the Reserve Bank of India Act, 1934.

"State Industrial Investment Corporation" means a Government company within the meaning of section 617 of the Companies Act, 1956, engaged in providing long-term finance for industrial projects and eligible for deduction under section 36(1)(iii).

*Explanation 3B* provides that where a deduction in respect of earned leave encashment paid to any employee is allowed in computing the business income of the employer for the previous year in which the liability to pay was incurred (applicable for previous year 2000-2001 or any earlier year), no deduction shall be allowed in respect of such sum in the previous year in which the sum is actually paid.

*Explanation 3C & 3D* clarifies that if any sum payable by the assessee as interest on any such loan or borrowing or advance referred to in (d) and (e) above, is converted into a loan or borrowing or advance, the interest so converted and not “actually paid” shall not be deemed as actual payment, and hence would not be allowed as deduction. The clarificatory explanations only reiterate the rationale that conversion of interest into a loan or borrowing or advance does not amount to actual payment.

The manner in which the converted interest will be allowed as deduction has been clarified in *Circular No.7/2006 dated 17.7.2006*. The unpaid interest, whenever actually paid to the bank or financial institution, will be in the nature of revenue expenditure deserving deduction in the computation of income. Therefore, irrespective of the nomenclature, the deduction will be allowed in the previous year in which the converted interest is actually paid.

**Illustration 13**

Hari, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat, etc. He borrowed loans from Andhra Pradesh State Financial Corporation and Indian Bank and has not paid interest as detailed hereunder:

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Andhra Pradesh State Financial Corporation (P.Y. 2012-13 &amp; 2013-14)</td>
<td>15,00,000</td>
</tr>
<tr>
<td>(ii) Indian Bank (P.Y. 2013-14)</td>
<td>30,00,000</td>
</tr>
<tr>
<td></td>
<td><strong>45,00,000</strong></td>
</tr>
</tbody>
</table>

Both Andhra Pradesh State Financial Corporation and Indian Bank, while restructuring the loan facilities of Hari during the year 2013-14, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During the year ended 31.03.2014, Hari paid 5 installments to Andhra Pradesh State Financial Corporation and 3 installments to Indian Bank.
Hari claimed the entire interest of `45,00,000 as an expenditure while computing the income from business of purchase and sale of agricultural commodities. Discuss whether his claim is valid and if not what is the amount of interest, if any, allowable.

**Solution**

According to section 43B, any interest payable on the term loans to specified financial institutions and any interest payable on any loans and advances to scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the assessee. Where there is default in the payment of interest by the assessee, such unpaid interest may be converted into loan. Such conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so converted as loan shall be allowed as deduction only in the year in which the converted loan is actually paid.

In the given case of Hari, the unpaid interest of `15,00,000 due to Andhra Pradesh State Financial Corporation (APSFC) and of `30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari that the entire interest of `45,00,000 is to be allowed as deduction in the year of conversion is not tenable. The deduction shall be allowed only to the extent of repayment made during the financial year. Accordingly, the amount of interest eligible for deduction for the A.Y. 2014-15 shall be calculated as follows:

<table>
<thead>
<tr>
<th>Interest outstanding</th>
<th>Number of Installments</th>
<th>Amount per installment</th>
<th>Installments paid</th>
<th>Interest allowable (()</th>
</tr>
</thead>
<tbody>
<tr>
<td>APSFC 15 lakh</td>
<td>60</td>
<td>25,000</td>
<td>5</td>
<td>1,25,000</td>
</tr>
<tr>
<td>Indian Bank 30 lakh</td>
<td>60</td>
<td>50,000</td>
<td>3</td>
<td>1,50,000</td>
</tr>
<tr>
<td><strong>Total amount eligible for deduction</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>2,75,000</strong></td>
</tr>
</tbody>
</table>

**Special Provision for Computation of Cost of Acquisition of Certain Assets [Section 43C]**

(i) Where an asset acquired under a scheme of amalgamation is sold by an amalgamated company as its stock-in-trade then in computing the profits and gains derived from sale of such stock-in-trade the cost of acquisition of stock-in-trade to the amalgamated company shall be the cost of acquisition of such stock-in-trade or the asset to the amalgamating company as increased by the cost if any of any improvement thereto and the expenditure incurred wholly and exclusively in connection with such a transfer.

(ii) The provisions of section 43C will thus apply to the following cases of revaluation:

(a) When the stock-in-trade of the amalgamating company is taken over at reduced price by the amalgamated company under the scheme of amalgamation.
(b) Where a capital asset of the amalgamating company is taken over as stock-in-trade by the amalgamated company after revaluation under the scheme of amalgamation.

(iii) The situation referred to at (b) above will in turn cover three situations:

(1) When the capital asset is converted to stock-in-trade by the amalgamating company with revaluation and the revalued asset is taken over by the amalgamated company under the scheme of amalgamation.
(2) Where the capital asset is taken over as stock-in-trade by the amalgamated company at renewed price at the time of amalgamation.
(3) Where the capital asset of the amalgamating company is taken over by the amalgamated company as a capital asset and has been converted into stock-in-trade and revalued.

(iv) In a case referred to above, where the revaluation and conversion of capital asset into stock-in-trade takes place in the hands of the amalgamated company the provisions of section 45(2) will apply. So in such a case the provision of section 43C will not apply. This has been done with a view to ensure
that a tax payer does not face double taxation in respect of the same transaction. However when the stock-in-trade referred to in item (i) as well as at (a) and (b) above are sold, the provisions of section 43C will apply.

(v) A similar provision in section 43C has also been made to cover cases where the asset sold as stock-in-trade has been acquired by the assessee either by way of full or partial partition of HUF or under a gift or will or an irrevocable trust and such asset is sold as stock-in-trade.

**Stamp Duty Value of land and building to be taken as the full value of consideration in respect of transfer, even if the same are held by the transferor as stock-in-trade [New Section 43CA]**

(i) At present, the provisions of section 50C require adoption of stamp duty value of land or building or both, which are held as a capital asset, if the same are transferred for a consideration which is less than the value adopted, assessed or assessable by any authority of a State Government for the purpose of payment of stamp duty in respect of such transfer.

(ii) However, such provisions are not applicable in case of transfer of immovable property, held by the transferor as stock-in-trade.

(iii) Therefore, as an anti-avoidance measure, new section 43CA has been inserted to provide that where the consideration for the transfer of an asset (other than capital asset), being land or building or both, is less than the stamp duty value, the value so adopted or assessed or assessable (i.e., the stamp duty value) shall be deemed to be the full value of the consideration for the purposes of computing income under the head “Profits and gains of business of profession”.

(iv) Further, where the date of an agreement fixing the value of consideration for the transfer of the asset and the date of registration of the transfer of the asset are not same, the stamp duty value may be taken as on the date of the agreement for transfer instead of on the date of registration for such transfer, provided at least a part of the consideration has been received by any mode other than cash on or before the date of the agreement.

(v) The Assessing Officer may refer the valuation of the asset to a valuation officer as defined in section 2(r) of the Wealth-tax Act, 1957 in the following cases -

1. Where the assessee claims before any Assessing Officer that the value adopted or assessed or assessable by the authority for payment of stamp duty exceeds the fair market value of the property as on the date of transfer and
2. the value so adopted or assessed or assessable by such authority has not been disputed in any appeal or revision or no reference has been made before any other authority, court or High Court.

(vi) Where the value ascertained by the Valuation Officer exceeds the value adopted or assessed or assessable by the Stamp Valuation Authority, the value adopted or assessed or assessable shall be taken as the full value of the consideration received or accruing as a result of the transfer.

The term “assessable” covers transfers executed through power of attorney. The term ‘assessable’ has been defined to mean the price which the stamp valuation authority would have, notwithstanding anything to the contrary contained in any other law for the time being in force, adopted or assessed, if it were referred to such authority for the purposes of the payment of stamp duty.

**Illustration 14**

<table>
<thead>
<tr>
<th>Case</th>
<th>Date of transfer of land / building held as stock-in-trade</th>
<th>Actual Consideration</th>
<th>Stamp duty value on the date of agreement</th>
<th>Stamp duty value on the date of registration</th>
<th>Full value of consideration</th>
<th>Remark</th>
</tr>
</thead>
</table>

Caultimates.com
<table>
<thead>
<tr>
<th></th>
<th>Date</th>
<th>Amount in lakhs</th>
<th>Date</th>
<th>Amount in lakhs</th>
<th>Date</th>
<th>Amount in lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>31/1/2013</td>
<td>100</td>
<td>120</td>
<td>(31/7/2012)</td>
<td>210</td>
<td>(31/1/2013)</td>
</tr>
<tr>
<td>2</td>
<td>1/5/2013</td>
<td>100 (10 lakhs received by cheque on 31/8/2012)</td>
<td>120</td>
<td>(1/9/2012)</td>
<td>210</td>
<td>(1/5/2013)</td>
</tr>
<tr>
<td>3</td>
<td>1/5/2013</td>
<td>100 (10 lakhs received by cash on 31/8/2012)</td>
<td>120</td>
<td>(1/9/2012)</td>
<td>210</td>
<td>(1/5/2013)</td>
</tr>
<tr>
<td>4</td>
<td>31/3/2014</td>
<td>100 (Full amount received on the date of registration)</td>
<td>120</td>
<td>(1/5/2013)</td>
<td>210</td>
<td>(31/3/2014)</td>
</tr>
</tbody>
</table>

**Special Provision in case of income of Public Financial Institutions [Section 43D]**

(i) In the case of a public financial institution or a scheduled bank or a State financial corporation or a State industrial investment corporation, the income by way of interest on such categories of bad and doubtful debts, as may be prescribed having regard to the guidelines issued by the Reserve Bank of India in relation to such debts, shall be chargeable to tax in the previous year in which it is credited to the profit and loss account by the said institutions for that year or in the previous year in which it is actually received by them, whichever is earlier. This provision is now applicable to co-operative banks also [Sub-clause (a)].

(ii) In the case of a public company, the income by way of interest in relation to such categories of bad and doubtful debts as may be prescribed having regard to the guidelines issued by the National Housing Bank established under the National Housing Bank Act, 1987 in relation to such debts shall be chargeable to tax in the previous year in which it is credited to the profit and loss account by the said public company for that year or in the previous in which it is actually received by it, whichever is earlier. [Sub-clause (b)].

**Insurance Business [Section 44]**

The profits and gains of any business of insurance, including any such business carried on by a mutual insurance company or by a co-operative society, shall be computed in accordance with the rules contained in the First Schedule of the Income-tax Act, 1961. This is notwithstanding anything to the contrary contained in the provisions of the Income-tax Act, 1961 relating to computation of income chargeable under the head “Income from house property”, “Capital gains” or “Income from other sources” or in section 199 or in sections 28 to 43B.
Special provisions in the case of certain associations [Section 44A]
This is a provision calculated to encourage the development activities carried on by the trade, professional and other associations other than those whose incomes are already exempted under section 10(23A). This section provides that where the expenditure incurred by an association solely for purposes of protection or advancement of the common interest of its members exceeds the amount collected by the association from the members whether by way of subscription or otherwise, the resulting deficiency shall be allowed as a deduction in computing the income of the association assessable under the head “profits and gains of business or profession”; if there is no such income, then, it will be allowed as a deduction in computing the income under any other head. However, only an amount up to 50% of total taxable income of the association can be set off against the deficiency aforementioned. In computing the taxable income of the association, effect must first be given to the allowances or losses brought forward under any other section of the Act. This section applies only to such associations which do not distribute their income amongst their members except in the form of grants to affiliated associations.

Compulsory maintenance of accounts [Section 44AA]
This section provides that every person carrying on the legal, medical, engineering or architectural profession or accountancy or technical consultancy or interior decoration or any other profession as has been notified by the Central Board of Direct Taxes in the Official Gazette must statutorily maintain such books of accounts and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of the Income-tax Act. The persons carrying on these professions are statutorily obliged to maintain the prescribed books of account and other documents regardless of the quantum of their income and also regardless of the question whether the profession was set up prior to or after the coming into force of this new provision.

The professions notified so far are as follows:

The profession of authorised representative; the profession of film artiste (actor, camera man, director, music director, art director, editor, singer, lyricist, story writer, screen play writer, dialogue writer and dress designer); the profession of Company Secretary; and information technology professionals.

Every taxpayer carrying on any business or profession (other than the professions specified above) must maintain the books of account prescribed by the Central Board of Direct Taxes in the following circumstances:

(a) in cases where the income from the business or profession exceeds ` 1,20,000 or the total sales turnover or gross receipts, as the case may be, in the business or profession exceed `10,00,000 in any one of three years immediately preceding the accounting year; or

(b) in cases where the business or profession is newly set up in any previous year, if his income from business or profession is likely to exceed `1,20,000 or his total sales turnover or gross receipts, as the case may be, in the business or profession are likely to exceed `10,00,000 during the previous year;

(c) in cases where profits and gains from the business are calculated on a presumptive basis under section 44AE or 44BB or 44BBB and the assessee has claimed that his income is lower than the profits or gains so deemed to be the profits and gains of his business.

(d) in cases where the profits and gains from the business are deemed to be the profits and gains of the assessee under section 44AD and he has claimed such income to be lower than the profits and gains so deemed to be the profits and gains of his business and his income exceeds the basic exemption limit during such previous year.

In such cases, compulsory tax audit would also become necessary.
The Central Board of Direct Taxes has been authorised, having due regard to the nature of the business or profession carried on by any class of persons, to prescribe by rules the books of account and other documents including inventories, wherever necessary, to be kept and maintained by the taxpayer, the particulars to be contained therein and the form and manner in which and the place at which they must be kept and maintained. Further, the Central Board of Direct Taxes has also been empowered to prescribe, by rules, the period for which the books of account and other documents are required to be kept and maintained by the taxpayer.

Rule 6F of the Income-tax Rules contains the details relating to the books of account and other documents to be maintained by certain professionals under section 44A.

As per Rule 6F, every person carrying on legal, medical, engineering, or architectural profession or the profession of accountancy or technical consultancy or interior decoration or authorised representative or film artist shall keep and maintain the books of account and other documents specified in sub-rule (2) in the following cases:

– if his gross receipts exceed `1,50,000 in all the 3 years immediately preceding the previous year; or

– if, where the profession has been newly set up in the previous year, his gross receipts are likely to exceed `1,50,000 in that year.

Note: Students may note that professionals whose gross receipts are less than the specified limits given above are also required to maintain books of account but these have not been specified in the Rule. In other words, they are required to maintain such books of account and other documents as may enable the Assessing Officer to compute the total income in accordance with the provisions of this Act.

Sub-rule (2) of Rule 6F: The following books of account and other documents are required to be maintained.

(i) a cash book;
(ii) a journal, if accounts are maintained on mercantile basis;
(iii) a ledger;
(iv) Carbon copies of bills and receipts issued by the person whether machine numbered or otherwise serially numbered, in relation to sums exceeding `25;
(v) Original bills and receipts issued to the person in respect of expenditure incurred by the person, or where such bills and receipts are not issued, payment vouchers prepared and signed by the person, provided the amount does not exceed `50. Where the cash book contains adequate particulars, the preparation and signing of payment vouchers is not required.

In case of a person carrying on medical profession, he will be required to maintain the following in addition to the list given above:

(i) a daily case register in Form 3C.
(ii) an inventory under broad heads of the stock of drugs, medicines and other consumable accessories as on the first and last day of the previous year used for his profession.

The above books of account and documents shall be kept and maintained for a minimum of 6 years from the end of the relevant assessment year. However, where the assessment in relation to any assessment year has been reopened under section 147 within the period specified in section 149, all the books of account and other documents which were kept and maintained at the time of reopening the assessment shall continue to be so kept and maintained till the assessment so reopened has been completed.
The books and documents shall be kept and maintained at the place where the person is carrying on the profession, or where there is more than one place, at the principal place of his profession. However, if he maintains separate set of books for each place of his profession, such books and documents may be kept and maintained at the respective places.

Audit of accounts of certain persons carrying on business or profession [Section 44AB]

(i) It is obligatory in the following cases for a person carrying on business or profession to get his accounts audited before the “specified date” by a Chartered Accountant:

(1) if the total sales, turnover or gross receipts in business exceeds ₹ 100 lakh in any previous year; or

(2) if the gross receipts in profession exceeds ₹ 25 lakh in any previous year; or

(3) where the assessee is covered under section 44AE, 44BB or 44BBB and claims that the profits and gains from business are lower than the profits and gains computed on a presumptive basis. In such cases, the normal monetary limits for tax audit in respect of business would not apply.

(4) where the assessee is covered under section 44AD, and he claims that the profits and gains from business are lower than the profits and gains computed on a presumptive basis and his income exceeds the basic exemption limit.

(ii) The person mentioned above would have to furnish by the specified date a report of the audit in the prescribed forms. For this purpose, the Board has prescribed under Rule 6G, Forms 3CA/3CB/3CD containing forms of audit report and particulars to be furnished therewith.

(iii) In cases where the accounts of a person are required to be audited by or under any other law before the specified date, it will be sufficient if the person gets his accounts audited under such other law before the specified date and also furnish by the said date the report of audit in the prescribed form in addition to the report of audit required under such other law. Thus, for example, the provision regarding compulsory audit does not imply a second or separate audit of accounts of companies whose accounts are already required to be audited under the Companies Act, 1956. The provision only requires that companies should get their accounts audited under the Companies Act, 1956 before the specified date and in addition to the report required to be given by the auditor under the Companies Act, 1956 furnish a report for tax purposes in the form to be prescribed in this behalf by the CBDT.

(iv) However, the requirement of audit under section 44AB does not apply to a person who derives income of the nature referred to in sections 44B and 44BBA.

(v) The expression “specified date” in relation to the accounts of the previous year or years relevant to any assessment year means the due date for furnishing the return of income under section 139(1). For due date of furnishing return of income, refer section 139(1) in Chapter 10 “Provisions for filing return of income”.

(vi) It may be noted that under section 271B, penal action can be taken for not getting the accounts audited and for not filing the audit report by the specified date. In cases where the audit report has been filed before furnishing of the return, non furnishing of a copy of the audit report or proof of its filing by the specified date along with the return of income will, however, be only a defect under section 139(9) which can be rectified.

Special provisions for computing profits and gains of business on presumptive basis [Section 44AD]
(i) The presumptive taxation scheme under section 44AD covers all small businesses with total turnover/gross receipts of up to ` 100 lakh (except the business of plying, hiring and leasing goods carriages covered under section 44AE).

(ii) Resident individuals, HUFs and partnership firms (but not LLPs) would be covered under this scheme.

(iii) The scheme would not apply to an assessee who is availing deductions under section 10AA or deduction under any provisions of Chapter VIA under the heading “C.—Deductions in respect of certain incomes” in the relevant assessment year.

(iv) The presumptive rate of tax would be 8% of total turnover or gross receipts. However, the assessee has the option to declare in his return of income, an amount higher than the presumptive income so calculated, claimed to have been actually earned by him.

(v) All deductions allowable under sections 30 to 38 shall be deemed to have been allowed in full and no further deduction shall be allowed. However, in the case of a firm, salary and interest would be allowed as deduction subject to the conditions and limits prescribed under section 40(b).

(vi) The written down value of any asset of such business shall be deemed to have been calculated as if the assessee had claimed and had been actually allowed the deduction in respect of depreciation for each of the relevant assessment years.

(vii) The intention of widening the scope of this scheme is to reduce the compliance and administrative burden on small businessmen and relieve them from the requirement of maintaining books of account. Such assessees opting for the presumptive scheme are not required to maintain books of account under section 44AA or get them audited under section 44AB.

(viii) Further, they would also be relieved from the requirement of advance tax payments. It would be sufficient compliance if they pay their tax while filing their return of income before the due date.

(ix) An assessee with turnover of up to ` 100 lakh, who shows an income below the presumptive rate prescribed under these provisions, will, in case his total income exceeds the taxable limit, be required to maintain books of accounts under section 44AA and also get them audited under section 44AB.

Thus, merely because an eligible assessee does not opt for presumptive taxation under section 44AD, it would not make him liable to maintain books of account under section 44AA or get the same audited under section 44AB. He will have to comply with these requirements only if his total income exceeds the taxable limit. If his total income does not exceed the taxable limit, the requirement of maintaining books of accounts under section 44AA and having the same audited under section 44AB would not arise.

(x) The following persons are specifically excluded from the applicability of the presumptive provisions of section 44AD:

(a) a person carrying on profession as referred to in section 44AA(1) i.e., legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or any other profession as is notified by the Board (namely, authorized representatives, film artists, company secretaries and profession of information technology have been notified by the Board for this purpose);

(b) a person earning income in the nature of commission or brokerage; or

(c) a person carrying on any agency business.
Special provisions for computing profits and gains of business of plying, hiring or leasing goods carriages [Section 44AE]

(i) This section provides for estimating business income of an owner of trucks from the plying, hire or leasing of such trucks;

(ii) The scheme applies to persons owning not more than 10 trucks at any time during the previous year;

(iii) The estimated income from each truck in case of a heavy goods vehicle will be deemed to be \( \text{'5,000} \) for every month or part of a month during which the truck is owned by the assessee for the previous year. The assessee can also declare a higher amount in his return of income. In such case, the latter will be considered to be his income;

(iv) In case of a truck, other than a heavy goods vehicle, the estimated income will be deemed to be \( \text{'4,500} \) for every month or part of the month during which such truck is owned by the assessee in the previous year. However, he may also declare a higher income and in such a case, the higher amount will be considered to be his income;

(v) The assessee will be deemed to have been allowed the deductions under sections 30 to 38. Accordingly, the written down value of any asset used for the purpose of the business of the assessee will be deemed to have been calculated as if the assessee had claimed and had actually been allowed the deduction in respect of depreciation for each of the relevant assessment years.

(vi) The assessee joining the scheme will not be required to maintain books of account under section 44AA and get the accounts audited under section 44AB in respect of such income.

An assessee may claim lower profits and gains than the deemed profits and gains specified in subsection (1) of that section subject to the condition that the books of account and other documents are kept and maintained as required under sub-section (2) of section 44AA and the assessee gets his accounts audited and furnishes a report of such audit as required under section 44AB.

Illustration 15
An assessee owns a light commercial vehicle for 9 months 15 days, a medium goods vehicle for 9 months and a medium goods vehicle for 12 months during the previous year. Compute his income applying the provisions of section 44AE.

Solution
His profits and gains from the 3 trucks shall be deemed to be \( \text{'4,500} \times 10 + \text{'4,500} \times 9 + \text{'4,500} \times 12 = \text{'1,39,500} \).

Illustration 16
An assessee owns a heavy goods vehicle for 9 months and 7 days, medium goods vehicle for 9 months and light commercial vehicle for 12 months during the previous year. Compute his income applying the provisions of section 44AE.

Solution
His profits and gains from the 3 trucks shall be deemed to be \( \text{'5,000} \times 10 + \text{'4,500} \times 9 + \text{'4,500} \times 12 = \text{'1,44,500} \).

Special provision for computing the profits and gains of shipping business in case of non-residents [Section 44B]

(i) This section provides for computation of the profits and gains of the business of shipping carried on by non-residents to the extent they are chargeable to income-tax in India.
According to this, a sum equal to 7½% of the aggregate of the following amounts must be deemed to be the profits and gains of the business of shipping chargeable to tax under the head ‘profits and gains of business or profession’.

(ii) The amount paid or payable, whether within India or outside, to the assessee or to any person on his behalf on account of the carriage of passengers, livestock, mail or goods shipped at any port in India.

(iii) The amount received or deemed to be received in India by the assessee himself or by any other person on behalf of or on account of the carriage of passengers, livestock, mail or goods shipped at any port outside India.

The total of the above two amounts must be ascertained and 7½% thereof would be calculated and taken as the income from the business chargeable to tax in India. These provisions for computation of the income from the shipping business in case of non-residents would apply notwithstanding anything to the contrary contained in the provisions of sections 28 to 43A of the Income-tax Act. In other words, the income would be computed on this basis without applying the various provisions contained in sections 28 to 43A. Consequential provisions are also seen in section 172.

For the purposes of sub-section (2), receipts forming the basis of estimates on non resident shipping lines will include demurrage and handling charges.

Provisions for computation of taxable income from activities connected with exploration of mineral oils [Section 44BB]

(i) The computation of taxable income of non-resident taxpayer engaged in the business of providing services and facilities in connection with or supplying plant and machinery on hire, used or to be used in the exploration for, and exploitation of mineral oils involves a number of complications.

(ii) As a measure of simplification, section 44BB provides for determination of income of such taxpayer at 10% of the aggregate of certain amounts. The amounts in respect of which the provisions will apply would be the amounts paid or payable to the taxpayer or to any person on his behalf whether in or out of India, on account of the provision of such services or facilities or supplying plant and machinery for the aforesaid purposes. This amount will also include facilities or supply of plant and machinery. This provision will not, however apply to any income to which the provisions of section 42, 44D, 44DA, 115A or 293A apply. It may be noted that section 44BB applies only to non-resident assessees.

(iii) Such taxpayers may claim lower income than the present presumptive rate of 10%, if they keep and maintain books of accounts and documents as required under sub-section (2) of section 44AA and get their accounts audited under the provisions of section 44AB of the Act. The assessment in all such cases shall be done by the Assessing Officer under section 143(3).

Note - If the income of a non-resident is in the nature of fees for technical services, it shall be taxable under the provisions of either section 44DA or section 115A irrespective of the business to which it relates. Section 44BBB would apply only in a case where consideration is for services and other facilities relating to exploration activity which are not in the nature of technical services.

Special provision for computing profits and gains of the business of operation of aircraft in the case of non-residents [Section 44BBA]

Under section 44BBA(1), a sum equal to 5% of the aggregate of the amounts specified in sub-section (2) is deemed to be the profits and gains chargeable to tax under the head "Profits and gains of business or profession". Sub-section (2) specifies the following amounts -
(a) the amount paid or payable, whether in or out of India, to the assessee or to any person on his behalf on account of the carriage of passengers, livestock, mail or goods from any place in India; and
(b) the amount received or deemed to be received in India by or on behalf of the assessee on account of the carriage of passengers, livestock, mail or goods from any place outside India.

Illustration 17
Mr. Tiwari, a non-resident, operates an aircraft between Bangkok and Mumbai. He received the following amounts in the course of the business of operation of aircraft during the year ending 31.03.2014:

(i) `3 crore in India on account of carriage of passengers from Mumbai.
(ii) `2 crore in India on account of carriage of goods from Mumbai.
(iii) `1 crore in India on account of carriage of passengers from Bangkok.
(iv) `2 crore in Bangkok on account of carriage of passengers from Mumbai.

The total expenditure incurred by Mr. Tiwari for the purposes of the business during the year ending 31.03.2014 was `1.8 crore.

Compute the income of Mr. Tiwari chargeable to tax in India under the head “Profits and gains of business or profession” for the assessment year 2014-15.

Solution
Keeping in view the provisions of section 44BBA, the income of Mr. Tiwari chargeable to tax in India under the head "Profits and gains of business or profession" is worked out hereunder –

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount received in India on account of carriage of passengers from Mumbai</td>
<td>3,00,00,000</td>
</tr>
<tr>
<td>Amount received in India on account of carriage of goods from Mumbai</td>
<td>2,00,00,000</td>
</tr>
<tr>
<td>Amount received in India on account of carriage of passengers from Bangkok</td>
<td>1,00,00,000</td>
</tr>
<tr>
<td>Amount received in Bangkok on account of carriage of passengers from Mumbai</td>
<td>2,00,00,000</td>
</tr>
</tbody>
</table>

Income from business under section 44BBA at 5% of `8,00,00,000 is `40,00,000, which is the income of Mr. Tiwari chargeable to tax in India under the head “Profits and gains of business or profession” for the A.Y.2014-15.

Special provision for computing profits and gains of foreign companies engaged in the business of civil construction etc. in certain turnkey power projects [Section 44BBB]
(i) Under this provision in the case of a foreign company engaged in the business of construction or the business of erection of plant or machinery or testing or commissioning thereof in connection with a turnkey power project approved by the Central Government in this behalf, a sum equal to 10% of the amount paid or payable (whether in or out of India) to the said assessee or to any person on his behalf on account of such civil construction, erection, testing or commissioning shall be deemed to be the profits and gains of such business chargeable to tax under the head ‘profits and gains of business or profession’.
(ii) However, such taxpayers may claim lower income than the present presumptive rate of 10%, if they keep and maintain books of accounts and documents as required under section 44AA(2) and get their accounts audited under the provisions of section 44AB. The assessment in all such cases shall be done by the Assessing Officer under section 143(3).

Special provisions for computing income by way of royalties etc. in case of non-residents [Section 44DA]
The provisions of this section are as follows -
(i) The income by way of royalty or fees for technical services received from Government or an Indian concern in pursuance of an agreement made by a non-corporate non-resident or a foreign company
with Government or the Indian concern after the 31st March, 2003 in respect of such non-corporate non-resident or a foreign company which carries on business in India, shall be computed on the basis of books of accounts required to be maintained under the Act.

(ii) Such business should be carried on through a permanent establishment, or the assessee should perform professional services from a fixed place of profession in India.

(iii) They should keep and maintain books of account and other documents in accordance with the provisions contained in section 44AA.

(iv) They should get their accounts audited by an accountant as defined in the Explanation below section 288(2) and furnish along with the return of income, the report of such audit in the prescribed form duly signed and verified by such accountant.

(v) No deduction will be allowed while computing income of such non-resident, of the expenditure which is not wholly and exclusively incurred for the business of such permanent establishment or fixed place and also of any amount paid by the permanent establishment to its head office or any of its offices.

(vi) There have been legal decisions which have expressed contradictory views regarding the scope and applicability of section 44BB vis-à-vis section 44DA on the issue of taxability of fee for technical services relating to the exploration sector.

(vii) In order to reflect the correct legislative intention regarding taxation of income by way of fee for technical services, section 44BB has been amended to exclude the applicability of section 44BB to the income which is covered under section 44DA. A similar amendment has been made in section 44DA to provide that provisions of section 44BB would not be applicable in respect of the income covered under section 44DA.

(viii) Therefore, if the income of a non-resident is in the nature of fees for technical services, it shall be taxable under the provisions of either section 44DA or section 115A irrespective of the business to which it relates. Section 44BB would apply only in a case where consideration is for services and other facilities relating to exploration activity which are not in the nature of technical services.

**Method of computing deduction in the case of business reorganisation of co-operative banks [Section 44DB]**

(i) This section provides the manner in which the deduction under the following sections are to be allowed in a case where business reorganisation of a co-operative bank has taken place during the financial year –

   (1) Section 32 (Depreciation);
   (2) Section 35D (Amortisation of certain preliminary expenses);
   (3) Section 35DD (Amortisation of expenses in case of amalgamation or demerger);
   (4) Section 35DDA (Amortisation of expenditure incurred under voluntary retirement scheme).

(ii) Business reorganisation means the reorganisation of business involving the amalgamation or demerger of a co-operative bank.

(iii) Co-operative bank shall have the meaning assigned to it in clause (cci) of section 5 of the Banking Regulation Act, 1949 i.e., a primary co-operative bank or Central Co-operative bank or a State co-operative bank.

(iv) Predecessor co-operative bank means the amalgamating co-operative bank or the demerged co-operative bank, as the case may be.
(v) Successor co-operative bank means the amalgamated co-operative bank or the resulting bank, as the case may be.

(vi) The amount of deduction allowable to the predecessor co-operative bank under the above-mentioned sections has to be determined in accordance with the following formula:
\[ A \times B / C \]
where:
- \( A \) = the amount of deduction allowable to the predecessor co-operative bank if the business reorganisation had not taken place;
- \( B \) = the number of days comprised in the period beginning with the 1st day of the financial year and ending on the day immediately preceding the date of business reorganisation; and
- \( C \) = the total number of days in the financial year in which the business reorganisation has taken place.

(vii) The amount of deduction allowable to the successor co-operative bank under the abovementioned sections has to be determined in accordance with the formula:
\[ A \times B / C \]
where:
- \( A \) = the amount of deduction allowable to the predecessor co-operative bank if the business reorganisation had not taken place;
- \( B \) = the number of days comprised in the period beginning with the date of business reorganisation and ending on the last day of the financial year; and
- \( C \) = the total number of days in the financial year in which the business reorganisation has taken place.

For example, let us take a case where the deduction allowable under section 32 to the predecessor co-operative bank is, say, `1,20,000 and the business re-organisation took place on 01.11.2013. Then, the deduction allowable to the predecessor co-operative bank under section 32 would be `70,356 i.e., `1,20,000 x 214/365. The deduction allowable to the successor co-operative bank would be `49,644 i.e., `1,20,000 x 151/365.

(viii) In a case where an undertaking of the predecessor co-operative bank entitled to the deduction under sections 35D, 35DD or 35DDA is transferred before the expiry of the period specified therein to a successor co-operative bank on account of business reorganisation, the provisions of section 35D, section 35DD or section 35DDA shall apply to the successor co-operative bank in the financial years subsequent to the year of business reorganisation as they would have applied to the predecessor co-operative bank, as if the business reorganisation had not taken place.

(ix) Amalgamated co-operative bank means -
(1) a co-operative bank with which one or more amalgamating co-operative banks merge; or
(2) a co-operative bank formed as a result of merger of two or more amalgamating cooperative banks.

(x) Amalgamating co-operative bank means -
(1) a co-operative bank which merges with another co-operative bank; or
(2) every co-operative bank merging to form a new co-operative bank.

(xi) Amalgamation means the merger of an amalgamating co-operative bank or banks with an amalgamated co-operative bank, in such a manner that -
(1) all the assets and liabilities of the amalgamating co-operative bank or banks immediately before the merger (other than the assets transferred, by sale or distribution on winding up, to the amalgamated co-operative bank) become the assets and liabilities of the amalgamated co-operative bank;
(2) the members holding 75% or more voting rights in the amalgamating co-operative bank become members of the amalgamated co-operative bank; and

(3) the shareholders holding 75% or more in value of the shares in the amalgamating co-operative bank (other than the shares held by the amalgamated co-operative bank or its nominee or its subsidiary, immediately before the merger) become shareholders of the amalgamated co-operative bank.

(xii) Demerger means the transfer by a demerged co-operative bank of one or more of its undertakings to any resulting co-operative bank, in such manner that -

(1) all the assets and liabilities of the undertaking or undertakings immediately before the transfer become the assets and liabilities of the resulting co-operative bank;

(2) the assets and the liabilities are transferred to the resulting co-operative bank at values (other than change in the value of assets consequent to their revaluation) appearing in its books of account immediately before the transfer;

(3) the resulting co-operative bank issues, in consideration of the transfer, its membership to the members of the demerged co-operative bank on a proportionate basis;

(4) the shareholders holding 75% or more in value of the shares in the demerged cooperative bank (other than shares already held by the resulting bank or its nominee or its subsidiary immediately before the transfer), become shareholders of the resulting co-operative bank, otherwise than as a result of the acquisition of the assets of the demerged co-operative bank or any undertaking thereof by the resulting co-operative bank;

(5) the transfer of the undertaking is on a going concern basis; and

(6) the transfer is in accordance with the conditions specified by the Central Government, by notification in the Official Gazette, having regard to the necessity to ensure that the transfer is for genuine business purposes.

(xiii) Demerged co-operative bank means the co-operative bank whose undertaking is transferred, pursuant to a demerger, to a resulting bank.

(xiv) Resulting co-operative bank means -

(1) one or more co-operative banks to which the undertaking of the demerged cooperative bank is transferred in a demerger; or

(2) any co-operative bank formed as a result of demerger.

Illustration 18
Alpha Co-operative Bank amalgamated with Beta Co-operative Bank on 01.12.2013. The depreciation for the year ended 31.03.2014 calculated as per Income-tax Rules, 1962, allowable to Alpha Co-operative Bank had the amalgamation had not taken place amounts to `2,40,000. Compute the deduction on account of depreciation allowable in the hands of Alpha Co-operative Bank and Beta Co-operative Bank for A.Y. 2014-15.

Solution
(i) The amount of deduction allowable to the amalgamating co-operative bank (i.e. Alpha Co-operative bank, in this case) under section 32 has to be determined in accordance with the following formula -

\[ A \times \frac{B}{C} \]

\[ A = \text{the amount of deduction allowable to the predecessor co-operative bank (i.e. Alpha Co-operative bank, in this case) if the business reorganisation had not taken place. In this case, the amount of deduction is `2,40,000.} \]
B = the number of days comprised in the period beginning with the 1st day of the financial year (i.e. 01.04.2013, in this case) and ending on the day immediately preceding the date of business reorganization (i.e. 30.11.2013, in this case); and

C = the total number of days in the financial year in which the business reorganisation has taken place (i.e. 365 days).

(ii) The amount of deduction allowable to the amalgamated co-operative bank (i.e. Beta Cooperative bank, in this case) under section 32 has to be determined in accordance with the formula -

\[ A \times \frac{B}{C} \]

A = the amount of deduction allowable to the predecessor co-operative bank (i.e. Alpha Co-operative bank, in this case) if the business reorganisation had not taken place. In this case, the amount of deduction is `2,40,000.

B = the number of days comprised in the period beginning with the date of business reorganisation (i.e. 01.12.2013, in this case) and ending on the last day of the financial year (i.e. 31.3.2014); and

C = the total number of days in the financial year in which the business reorganisation has taken place (i.e. 365 days).

(iii) In this case, the deduction that would have been allowable under section 32 to Alpha cooperative bank had the business reorganization had not taken place is `2,40,000 and the business re-organisation took place on 01.12.2013. Therefore, the deduction allowable to Alpha co-operative bank under section 32 would be `1,60,438 i.e., `2,40,000 x 244/365. The deduction allowable to Beta co-operative bank would be `79,562 i.e., `2,40,000 x 121/365.

Computation of business income in cases where income is partly agricultural and partly business in nature

(i) Income from the manufacture of rubber [Rule 7A]
(1) Income derived from the sale of centrifuged latex or cenex or latex based crepes or brown crepes or technically specified block rubbers manufactured or processed from field latex or coagulum obtained from rubber plants grown by the seller in India shall be computed as if it were income derived from business, and 35% of such income shall be deemed to be income liable to tax.
(2) In computing such income, an allowance shall be made in respect of the cost of planting rubber plants in replacement of plants that have died or become permanently useless in an area already planted, if such area has not previously been abandoned, and for the purpose of determining such cost, no deduction shall be made in respect of the amount of any subsidy which, under the provisions of clause (31) of section 10, is not includible in the total income.

(ii) Income from the manufacture of coffee [Rule 7B]
(1) Income derived from the sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax.
(2) Income derived from the sale of coffee grown cured, roasted and grounded by the seller in India, with or without mixing of chicory or other flavouring ingredients, shall be computed as if it were income derived from business, and 40% of such income shall be deemed to be income liable to tax.
(3) In computing such income, an allowance shall be made in respect of the cost of planting coffee plants in such replacement of plants that have died or become permanently useless in an area already planted, if such area has not previously been abandoned, and for the purpose of determining such cost, no deduction shall be made in respect of the amount of any subsidy which, under the provisions of clause (31) of section 10, is not includible in the total income.
(iii) **Income from the manufacture of tea [Rule 8]**

(1) Income derived from the sale of tea grown and manufactured by the seller in India shall be computed as if it were income derived from business, and 40% of such income shall be deemed to be income liable to tax.

(2) In computing such income, an allowance shall be made in respect of the cost of planting bushes in replacement of bushes that have died or become permanently useless in an area already planted, if such area has not previously been abandoned, and for the purpose of determining such cost, no deduction shall be made in respect of the amount of any subsidy which, under the provision of section 10(31), is not includible in the total income.

**Question**

Describe average rate of tax and maximum marginal rate under section 2(10) and 2(29C) of the Income-tax Act, 1961.

**Answer**

As per section 2(10), "**Average Rate of tax**" means the rate arrived at by dividing the amount of income-tax calculated on the total income, by such total income. Section 2(29C) defines "**Maximum marginal rate**" to mean the rate of income-tax (including surcharge on the income-tax, if any) applicable in relation to the highest slab of income in the case of an individual, AOP or BOI, as the case may be, as specified in Finance Act of the relevant year.

**Question**

Write short note on “Income accruing” and “Income due”. Can an income which has been taxed on accrual basis be assessed again on receipt basis?

**Answer**

‘Accrue’ refers to the right to receive income, whereas ‘due’ refers to the right to enforce payment of the same. For e.g. salary for work done in December will ‘accrue’ throughout the month, day to day, but will become ‘due’ on the salary bill being passed on 31st December or 1st January. Similarly, on Government securities, interest payable on specified dates arise during the period of holding, day to day, but will become ‘due’ for payment on the specified Dates.

Income which has been taxed on accrual basis cannot be assessed again on receipt basis, as it will amount to double taxation. For example, when interest on bank deposit is offered on accrual basis, amounts received on maturity of such deposit including interest thereon cannot be treated as income again.
Illustration 1: Mr. Nitin started his business on 01.04.2013 and purchased various assets as given below:

1. He purchased one plant and machinery on 07.04.2013 for `11,00,000 and it was put to use on 10.05.2013.
2. He purchased furniture and fixtures on 07.06.2013 for `3,00,000 and it was put to use on the same date.
3. He purchased one motor car on 01.09.2013 for `2,50,000 and it was put to use on the same date.
4. He purchased three computers on 01.10.2013 for `1,50,000 and it was put to use on 07.10.2013.
5. He purchased two mobile phones on 01.11.2013 for `15,000 and they were put to use on the same date.
6. He purchased one scooter to be used by the staff on 01.03.2014 for `35,000 and it was put to use on 31.03.2014.
7. He purchased one residential building on 01.03.2014 for `5,00,000 and it was put to use on same date.

Compute depreciation allowed for the Assessment Year 2014-15.

Solution:

Block I
Plant and machinery, depreciation @ 15%
- Purchased on 07.04.2013, put to use on 10.05.2013: 11,00,000
- Purchased on 01.11.2013, put to use on same date: 15,000
- Purchased on 01.03.2013, put to use on 31.03.2014: 35,000
- Written down value as on 31.03.2014: 11,50,000
- Depreciation @ 7.5% on `50,000: 3,750
- Depreciation @ 15% on `11,00,000: 1,65,000

Block II
Furniture and fixture, depreciation @ 10%
- Purchased on 07.06.2013, put to use on same date: 3,00,000
- Depreciation @ 10%: 30,000

Block III
Motor car, depreciation @ 15%
- Purchased on 01.09.2013, put to use on same date: 2,50,000
- Depreciation @ 15%: 37,500

Block IV
Computer, depreciation @ 60%
- Purchased on 01.10.2013, put to use on 07.10.2013: 1,50,000
- Depreciation @ 30%: 45,000

Block V
Residential building, depreciation @ 5%
- Purchased on 01.03.2014, put to use on same date: 5,00,000
- Depreciation @ 2.5%: 12,500
- Total Depreciation for previous year 2013-14: 2,93,750

Illustration 2: Mr. Ramaswami has an existing business as on 01.04.2010. He has plants P1, P2 and P3 with written down value ` 70,00,000 and rate of depreciation is 15%.
He has purchased plant P4 on 01.07.2010 which was put to use on 01.09.2010 for `35,00,000.

He sold plant P1 on 01.01.2011 for `11,00,000.

He purchased plant P5 on 31.03.2011 and was put to use on 01.11.2011 for `26,00,000.

He purchased plant P6 on 01.12.2011 and was put to use on 31.03.2012 for `20,00,000.

He purchased plant P7 on 01.03.2012 and put to use on 10.12.2012 for `10,00,000.

He sold plant P2 on 31.03.2013 for `9,00,000.

He purchased plant P8 on 01.07.2013 and was put to use on 01.01.2014 for `27,00,000.

He purchased plant P9 on 31.03.2014 and was put to use on 01.04.2014 `26,00,000.

Determine depreciation for various years.

**Solution:**

**Plant and Machinery, Depreciation @ 15%**

**Previous Year 2010-11**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written down value P1, P2 and P3 as on 01.04.2010</td>
<td>70,00,000.00</td>
</tr>
<tr>
<td>Purchased P4 on 01.07.2010, put to use on 01.09.2010</td>
<td>35,00,000.00</td>
</tr>
<tr>
<td>Sale P1 on 01.01.2011</td>
<td>(11,00,000.00)</td>
</tr>
<tr>
<td>Written down value P2, P3 and P4 on 31.03.2011</td>
<td>94,00,000.00</td>
</tr>
<tr>
<td>Depreciation @ 15%</td>
<td>14,10,000.00</td>
</tr>
</tbody>
</table>

**Previous Year 2011-12**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written down value P2, P3 and P4 on 01.04.2011</td>
<td>79,90,000.00</td>
</tr>
<tr>
<td>Purchased P5 on 31.03.2011, put to use on 01.11.2011</td>
<td>26,00,000.00</td>
</tr>
<tr>
<td>Purchased P6 on 01.12.2011, put to use on 31.03.2012</td>
<td>20,00,000.00</td>
</tr>
<tr>
<td>Written down value P2, P3, P4, P5 and P6 on 31.03.2012</td>
<td>1,25,90,000.00</td>
</tr>
<tr>
<td>Depreciation @ 15% on `1,05,90,000</td>
<td>15,88,500.00</td>
</tr>
<tr>
<td>Depreciation @ 7.5% on `20,00,000</td>
<td>1,50,000.00</td>
</tr>
</tbody>
</table>

**Previous Year 2012-13**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written down value P2, P3, P4, P5 and P6 on 01.04.2012</td>
<td>1,08,51,500.00</td>
</tr>
<tr>
<td>Purchased P7 on 01.03.2012, put to use on 10.12.2012</td>
<td>10,00,000.00</td>
</tr>
<tr>
<td>Sale P2 on 31.03.2013</td>
<td>(9,00,000.00)</td>
</tr>
<tr>
<td>Written down value P3, P4, P5, P6 and P7 on 31.03.2013</td>
<td>1,09,51,500.00</td>
</tr>
<tr>
<td>Depreciation @ 15% on `1,09,51,500</td>
<td>16,42,725.00</td>
</tr>
</tbody>
</table>

**Previous Year 2013-14**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written down value P3, P4, P5, P6 and P7 on 01.04.2013</td>
<td>93,08,775.00</td>
</tr>
<tr>
<td>Purchased P8 on 01.07.2013, put to use on 01.01.2014</td>
<td>27,00,000.00</td>
</tr>
<tr>
<td>Written down value P3, P4, P5, P6, P7 and P8 on 31.03.2014</td>
<td>1,20,08,775.00</td>
</tr>
<tr>
<td>Depreciation @ 15% on `93,08,775</td>
<td>13,96,316.25</td>
</tr>
<tr>
<td>Depreciation @ 7.5% on `27,00,000</td>
<td>2,02,500.00</td>
</tr>
</tbody>
</table>

**Illustration 3:** Mr. X, a resident individual (date of birth 31.03.1949) has business income of `5 lakhs after debiting depreciation of `64,000 in connection with the following assets.
1. One computer purchased on 31.03.2013 and put to use on 31.03.2014 for ₹40,000 and one printer purchased on 31.03.2014 for ₹10,000 and put to use on 01.04.2014.

2. One building purchased on 04.10.2013 and put to use on 05.10.2013 for ₹4,00,000 and the building was used for business purpose.

3. Mr. X has purchased NSC of ₹20,000.

Compute his Tax Liability for the Assessment Year 2014-15.

**Solution:**

Income under the head Business Profession 5,00,000
Depreciation of computer 40,000 x 60% = ₹24,000
Depreciation of building 4,00,000 x 5% = ₹20,000
Total depreciation = ₹44,000
Excessive depreciation added back 20,000
Income under the head Business Profession 5,20,000
Gross Total Income 5,20,000
Less: Deduction u/s 80C 20,000
Total Income 5,00,000

**Computation of Tax Liability**

Tax on ₹5,00,000 at slab rate 25,000
Less: Rebate u/s 87A 2,000
Tax before Education cess 23,000
Add: Education cess @ 2% 460
Add: SHEC @ 1% 230
Tax Liability 23,690

**Illustration 4:** Mr. X has following assets with him as on 01.04.2013

<table>
<thead>
<tr>
<th>Details of Assets</th>
<th>Written Down Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Motor Car</td>
<td>1,60,000</td>
</tr>
<tr>
<td>2. Laptop</td>
<td>23,000</td>
</tr>
<tr>
<td>3. Furniture Fixture</td>
<td>11,000</td>
</tr>
</tbody>
</table>

Due to a fire in the office premises, laptop and furniture-fixture were destroyed and he has received a claim of ₹19,000 for laptop and ₹12,000 for furniture.

He has computed income from business ₹3,00,000 before taking into consideration depreciation or capital gains with regard to the above assets. Compute his Tax Liability for Assessment Year 2014-15.

**Solution:**

**Block I**

**Motor Car**

Written down value 1,60,000
Depreciation @ 15% 24,000
Income Under The Head Business/Profession

**Block II**

**Laptop/Computers**
- Written down value: 23,000
- Less: Insurance claim: 19,000
- Short term capital loss: 4,000

**Block III**

**Furniture and Fixture**
- Written down value: 11,000
- Less: Insurance claim: 12,000
- Short term capital gain: 1,000
- Income from Business/Profession: 3,00,000
- Less: Total Depreciation: 24,000
- Income under the head Business/Profession: 2,76,000

**Computation of Total Income**
- Income under the head Business/Profession: 2,76,000
- Income under the head Capital Gains: Nil
- Gross Total Income: 2,76,000
- Less: Deductions u/s 80C to 80U: Nil
- Total Income: 2,76,000

**Computation of Tax Liability**
- Tax on `2,76,000 at slab rate: 7,600
- Less: Rebate u/s 87A: 2,000
- Tax before Education cess: 5,600
- Add: Education cess @ 2%: 112
- Add: SHEC @ 1%: 56
- Tax Liability: 5,768
- Rounded off u/s 288B: 5,770
- Short term capital loss Carried forward: 3,000

{Short term capital loss can be set off either from Short term capital gain or from Long term capital gain but it cannot be set off from income of any other head}

**Illustration 5:**

**Block I**
- Plant and machinery (Consisting of 10 looms)
  - Rate of depreciation: 15%
  - Written down value: 6,50,000

**Block II**
- Buildings (Consisting of 3 buildings)
  - Rate of depreciation: 10%
  - Written down value: 14,50,000
  - Acquired on 05.07.2013 and put to use on 01.09.2013 – 5 looms for 4,20,000
  - Sold on 07.12.2013 – 15 looms for 13,50,000
  - Acquired on 10.01.2014 and put to use on 15.03.2014 – 2 looms for 5,80,000

Compute depreciation claim for the Assessment Year 2014-15.

**Solution:**
Computation of depreciation

Block I

Plant and machinery, depreciation @ 15%
- Opening written down value of 10 looms on 01.04.2013: 6,50,000
- Purchase 5 looms on 05.07.2013, put to use on 01.09.2013: 4,20,000
- Purchase 2 looms on 10.01.2014, put to use on 15.03.2014: 5,80,000
- Sale of 15 looms on 07.12.2013: (13,50,000)
- Written down value of 2 looms as on 31.03.2014: 3,00,000
- Depreciation @ 7.5%: 22,500

Block II

Building, depreciation @ 10%
- Opening written down value on 01.04.2013: 14,50,000
- Depreciation @ 10% for financial year: 1,45,000
- Total Depreciation: 1,67,500

Illustration 6: Mr. X, a citizen of India and non-resident submits the following information with regard to the assets purchased in India during the year 2013-14. Compute depreciation allowed and also his Tax Liability for the Assessment Year 2014-15.

<table>
<thead>
<tr>
<th>Details of Assets</th>
<th>Actual Cost</th>
<th>Date of Purchase</th>
<th>Date of putting to use</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Motor Car</td>
<td>3,45,000</td>
<td>01.01.2014</td>
<td>01.03.2014</td>
</tr>
<tr>
<td>2. Computer</td>
<td>45,000</td>
<td>31.03.2014</td>
<td>01.04.2014</td>
</tr>
<tr>
<td>3. Office tables and chairs</td>
<td>23,000</td>
<td>25.03.2014</td>
<td>26.03.2014</td>
</tr>
<tr>
<td>4. Trademark</td>
<td>2,30,000</td>
<td>01.10.2013</td>
<td>03.10.2013</td>
</tr>
</tbody>
</table>

Mr. X has income under the head business/profession `7,00,000 after debiting depreciation of `1,93,725 in connection with the above assets and received rent of `1,20,000 from a house in USA which was let out to a person Mr. Y who has deposited the rent in the branch of an Indian bank in New York in the account of Mr. X and subsequently this amount was remitted in India.

Mr. X also has income from a business in USA `2,50,000 and this income was received directly in India.

Solution:

Computation of Depreciation

Block I

Motor Car @ 15%
- Purchase on 01.01.2014, put to use on 01.03.2014: 3,45,000.00
- Depreciation @ 7.5%: 25,875.00

Block II

Furniture and fixture @ 10%
- Purchase on 25.03.2014, put to use on 26.03.2014: 23,000.00
- Depreciation @ 5%: 1,150.00

Block III
Income Under The Head Business/Profession

Trademark @ 25%

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase on 01.10.2013, put to use on 03.10.2013</td>
<td>2,30,000.00</td>
</tr>
<tr>
<td>Depreciation @ 25%</td>
<td>57,500.00</td>
</tr>
<tr>
<td>Total Depreciation</td>
<td>84,525.00</td>
</tr>
</tbody>
</table>

Income under the head Business/Profession | 8,09,200.00

(Excessive depreciation of `1,09,200 added back)

Income from a business in USA | 2,50,000.00

Gross Total Income | 10,59,200.00

Less: Deduction u/s 80C to 80U | Nil

Total Income | 10,59,200.00

Computation of Tax Liability

Tax on `10,59,200 at slab rate | 1,47,760.00
Add: Education cess @ 2% | 2,955.20
Add: SHEC @ 1% | 1,477.60
Tax Liability | 1,52,192.80
Rounded off u/s 288B | 1,52,190.00

Note: Rent received in USA is not taxable because Mr. X is non-resident.

Illustration 7: From the following data calculate the depreciation admissible to an individual carrying on business for the assessment year 2014-15.

1. Factory Building – Written down value on 01.04.2013 was `12,00,000.
2. Plant and Machinery (Rate 15%) – Written down value on 01.04.2013 is `8,70,000.
3. Purchase of new plant (eligible for additional depreciation) on 30.06.2013 (Put to use on 01.07.2013) `1,20,000.
4. Purchase of new plant (eligible for additional depreciation) on 31.12.2013 (Put to use on 01.01.2014) `1,10,000.
5. Sale of old Plant on 01.12.2013 `6,40,000.
6. Motor Car (Rate 15%) – Written down value on 01.04.2013 was `1,20,000.
7. Sale of Car on 30.09.2013 `1,50,000.

Solution:

Factory Building, Depreciation @ 10%

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written down value on 01.04.2013</td>
<td>12,00,000</td>
</tr>
<tr>
<td>Depreciation @ 10%</td>
<td>1,20,000</td>
</tr>
</tbody>
</table>

Plant and Machinery, Depreciation @ 15%

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written down value on 01.04.2013</td>
<td>8,70,000</td>
</tr>
<tr>
<td>Purchase on 30.06.2013, put to use on 01.07.2013</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Purchase on 31.12.2013, put to use on 01.01.2014</td>
<td>1,10,000</td>
</tr>
<tr>
<td>Sale of old plant on 01.12.2013</td>
<td>(6,40,000)</td>
</tr>
<tr>
<td>Written down value on 31.03.2014</td>
<td>4,60,000</td>
</tr>
<tr>
<td>Depreciation @ 15% on `3,50,000</td>
<td>52,500</td>
</tr>
<tr>
<td>Depreciation @ 7.5% on `1,10,000</td>
<td>8,250</td>
</tr>
</tbody>
</table>
**Additional depreciation**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,20,000 x 20%</td>
<td>24,000</td>
<td>20%</td>
</tr>
<tr>
<td>1,10,000 x 10%</td>
<td>11,000</td>
<td>10%</td>
</tr>
</tbody>
</table>

**Motor Car, Depreciation @ 15%**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written down value on 01.04.2013</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Sale on 30.09.2013</td>
<td>(1,50,000)</td>
</tr>
<tr>
<td>Short term capital gain</td>
<td>30,000</td>
</tr>
</tbody>
</table>

**Illustration 8:** ABC Ltd. an industrial undertaking has started manufacturing on 01.05.2013 and the company has purchased the following asset:

2. Air-conditioner and generator for `2,00,000, purchased on 01.08.2013 and put to use on 10.08.2013 for use in office premises.
4. One T.V. and one fridge for `50,000, purchased and put to use on 01.05.2013.
5. Furniture and fixture for use in factory `5,00,000, purchased and put to use on 01.06.2013.

Depreciation and additional depreciation shall be allowed in the manner given below:

**Solution:**

**Computation of Depreciation**

**Block –I**

**Plant and machinery, depreciation @ 15%**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant and Machinery purchased on 01.07.2013, put to use on 15.07.2013</td>
<td>30,00,000</td>
</tr>
<tr>
<td>Air-conditioner and generator purchased on 01.08.2013, put to use on 10.08.2013</td>
<td>2,00,000</td>
</tr>
<tr>
<td>One T.V. and one fridge purchased and put to use on 01.05.2013</td>
<td>50,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation @ 15%</td>
<td>4,87,500</td>
</tr>
<tr>
<td>Additional depreciation on plant and machinery for use in factory [30,00,000 x 20%]</td>
<td>6,00,000</td>
</tr>
</tbody>
</table>

**Block –II**

**Motor Car, depreciation @ 15%**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor Car purchased on 01.09.2013 and put to use on 10.09.2013</td>
<td>10,00,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation @ 15%</td>
<td>1,50,000</td>
</tr>
</tbody>
</table>

**Block –III**

**Furniture and Fixtures, depreciation @ 10%**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and fixture for use in factory, purchased and put to use on 01.06.2013</td>
<td>5,00,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation @ 10%</td>
<td>50,000</td>
</tr>
</tbody>
</table>

**Illustration 9:** On 01.04.2013 ABC Ltd. owns plants A, B, C and D (rate of depreciation 15%) depreciated value of the block as on 01.04.2013 is `5,40,000. On 14.06.2013 plant E which was initially purchased for `96,000 for conducting scientific research is transferred from laboratory to the factory. No other asset is purchased or sold. Find out depreciation allowed for the previous year 2013-14.
Solution:  
**Computation of written down value as on 31st March 2014**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written down value as on 31.03.2014 before charging depreciation</td>
<td>5,40,000</td>
</tr>
<tr>
<td>Depreciation @ 15%</td>
<td>81,000</td>
</tr>
</tbody>
</table>

**Illustration 10:** An Assessee starts business of setting up and operating a warehousing facility for agricultural produce on 01.06.2013. Following information is given to you:

(i) Profits from operating warehousing facility `35,00,000

The following assets have been purchased for warehousing facility and the profit of `35,00,000 is computed without giving effect to the following:

(i) Machinery purchased on 30.06.2012 `9,00,000
(ii) Land purchased on 30.06.2012 `15,00,000
(iii) Machinery purchased on 31.12.2013 `9,00,000
(iv) Building purchased on 31.12.2012 `10,00,000
(v) Building Constructed on 31.05.2013 `19,00,000
(vi) Goodwill purchased on 31.05.2013 `9,00,000

**Solution:**
**Deduction allowable under section 35AD**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery purchased on 30.06.2012 (9,00,000 x 1.5)</td>
<td>13,50,000</td>
</tr>
<tr>
<td>Machinery purchased on 31.12.2013 (9,00,000 x 1.5)</td>
<td>13,50,000</td>
</tr>
<tr>
<td>Building purchased on 31.12.2012 (10,00,000 x 1.5)</td>
<td>15,00,000</td>
</tr>
<tr>
<td>Building constructed on 31.05.2013 (19,00,000 x 1.5)</td>
<td>28,50,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>70,50,000</td>
</tr>
</tbody>
</table>

**Profit of specified business**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Deduction under section 35AD</td>
<td>70,50,000</td>
</tr>
<tr>
<td>Loss to be carried forward indefinitely</td>
<td>35,50,000</td>
</tr>
</tbody>
</table>

The loss of `35,50,000 can be set-off only against the profits of specified business in current year and next years. Such loss can be carried forward indefinitely.

**Illustration 11:** ABC Ltd. (an Indian Company) was incorporated on 01.07.2012 and it commenced its business w.e.f. 01.04.2013 and it was registered under DVAT, 2005 and the project cost of the company was `3 crores and capital employed is `4 crores. The company has incurred `25 lakh on preparation of feasibility report and project report and the work was taken up by an approved institution in the year 2012-13. The company has submitted the information as given below:

Purchased Raw Material for `100 lakhs and paid Excise Duty @ 10% plus EC plus SHEC and DVAT @ 4% and incurred processing charges of `10 lakhs and all the goods were sold for `150 lakhs plus DVAT @ 12.5%.
Compute Income and Tax Liability of the Company for Assessment Year 2014-15 and also show the treatment for VAT.

**Solution:**

Gross Sales 150,00,000
Less cost of Raw Material 110,30,000
(CENVAT Credit for Excise Duty is not allowed because as per Notification No. 8/2003, output Excise Duty is exempt on first 150 lakhs)
Less: processing charges 10,00,000
Less: Expenses u/s 35D
Actual Expense 25,00,000
5% of Capital Employed 20,00,000
Installment Allowed 20,00,000/ 5 = 4,00,000
Income under the head Business/Profession 25,70,000

**Computation of Tax Liability**

Tax on `25,70,000 @ 30% 7,71,000
Add: Education Cess @ 2% 15,420
Add: SHEC @ 1% 7,710
Tax Liability 7,94,130

**Calculation of VAT Liability**

Output VAT 150 lakh x 12.5% = 18.75 lakhs
Less VAT Credit 4.412 lakhs
(Cost of Goods Purchased = 100 Lakhs
Plus Excise Duty = 10.3 lakhs
Total Cost Before VAT = 110.3 lakhs
VAT paid on Purchases 110.3 x 4% = 4.412 lakhs)
Net Tax Payable 14.338 lakhs

**Illustration 12:** ABC Ltd. an Indian company has incurred expenditure before the commencement of business asunder:

1. Expenditure on advertisements `3 lakhs.
2. Expenditure on preparation of project report and the report was prepared by a concern which is approved by the Board `85,000.
3. Expenditure in connection with travelling and stay in hotels `45,000.
4. Expenditure on drafting and printing of memorandum and articles of associations `4 lakhs.

All the above expenditures have been debited to the profit and loss account and the company has computed income to be `7 lakh.

The company has commenced its business on 01.06.2013.

Company’s project cost is `50 lakhs and capital employed is 57 lakhs.

Compute company’s Tax Liability for Assessment Year 2014-15.

**Solution:**
**Income Under The Head Business/Profession**

Net profit as per profit and loss account  7,00,000
Add:
- Expenditure on advertisement  3,00,000
- Expenditure in connection with travelling and stay in hotels  45,000
- Excessive expenditure under section 35D  4,28,000

<table>
<thead>
<tr>
<th>Working Note:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible expenditure under section 35D</td>
</tr>
<tr>
<td>1. Expenditure on preparation of project report  85,000</td>
</tr>
<tr>
<td>2. Expenditure on drafting and printing of memorandum and articles of associations  4,00,000</td>
</tr>
<tr>
<td>Total =  4,85,000</td>
</tr>
<tr>
<td>Expenditure allowed under section 35D can not exceed 5% of the capital employed</td>
</tr>
<tr>
<td>57,00,000 x 5% = 2,85,000</td>
</tr>
<tr>
<td>Instalment allowed 2,85,000/5 = 57,000</td>
</tr>
<tr>
<td>Expenditure disallowed = 4,85,000 – 57,000 =  4,28,000</td>
</tr>
<tr>
<td>Income under the head Business/Profession  14,73,000</td>
</tr>
<tr>
<td>Gross Total Income  14,73,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U  Nil</td>
</tr>
<tr>
<td>Total Income  14,73,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

- Tax on `14,73,000 @ 30%  4,41,900
- Add: Education cess @ 2%  8,838
- Add: SHEC @ 1%  4,419
- Tax Liability  4,55,157
- Rounded off u/s 288B  4,55,160

**Illustration 13:** Mr. X has started a business w.e.f 01.04.2013 and has submitted informations as given below:

1. Purchased goods in April’ 2013 for `5,00,000 plus Delhi VAT @ 12.5%
2. Purchased goods in May’ 2013 for `3,00,000 plus Delhi VAT @ 12.5%
3. Sold all the goods upto 31st May’ 2013 for `10,00,000

He has taken registration under Delhi VAT w.e.f 01.06.2013 and has opted for composition scheme and purchased/sold goods as given below:

1. Purchased goods from 01.06.2013 to 31.12.2013 for `30,00,000 plus Delhi VAT @ 12.5%
2. Sold all such goods upto 31.12.2013 for `40,00,000

Rate of composition tax is 1%.

Since his turnover upto 31.12.2013 is `50,00,000, he has shifted to the normal system and his purchases from 01.01.2014 upto 31.03.2014 is `20,00,000 plus Delhi VAT @ 12.5% and the goods were sold for `30,00,000 plus Delhi VAT @ 12.5%.

Other expenses incurred are `4,00,000 which includes rent of own building `1,20,000 and premium for Medi-claim policy `10,000 paid by cheque and purchase of one motor car - NANO for `1,50,000 for business use. It was purchased and put to use on 01.01.2014. 30% use was for personal purpose.
Purchase bill of `5,00,000 plus VAT of April’ 2013 was paid by bearer cheque and a purchase bill of `1,00,000 plus VAT in May’ 2013 was paid in cash.

Compute Income Tax Liability for Assessment Year 2014-15 and show the working for VAT.

**Solution:**

<table>
<thead>
<tr>
<th>Gross Sales</th>
<th>80,00,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Cost of goods sold</td>
<td>56,00,000.00</td>
</tr>
<tr>
<td>(9,00,000 + 33,75,000 + 20,00,000)</td>
<td></td>
</tr>
<tr>
<td>(62,75,000 – 6,75,000 )</td>
<td></td>
</tr>
<tr>
<td>`6,75,000 has been disallowed under section 40A(3).</td>
<td></td>
</tr>
<tr>
<td>Less: Composition tax</td>
<td>40,000.00</td>
</tr>
<tr>
<td>(1% of `40,00,000)</td>
<td></td>
</tr>
<tr>
<td>Less: Other expenses</td>
<td>1,20,000.00</td>
</tr>
<tr>
<td>(4,00,000 – 1,20,000 – 10,000 – 1,50,000)</td>
<td></td>
</tr>
<tr>
<td>Less: Depreciation on motor car</td>
<td>7,875.00</td>
</tr>
<tr>
<td>(1,50,000 x 7.5% x 70%)</td>
<td></td>
</tr>
<tr>
<td>Income under the head Business/Profession</td>
<td>22,32,125.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>22,32,125.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80D</td>
<td>10,000.00</td>
</tr>
<tr>
<td>Total Income</td>
<td>22,22,125.00</td>
</tr>
<tr>
<td>Rounded off u/s 288A</td>
<td>22,22,130.00</td>
</tr>
</tbody>
</table>

**Computation of tax liability**

| Tax on `22,22,130 at slab rate | 4,96,639.00 |
| Add: Education cess @ 2% | 9,932.78 |
| Add: SHEC @ 1% | 4,966.39 |
| Tax Liability | 5,11,538.17 |
| Rounded off u/s 288B | 5,11,540.00 |

**Working for VAT**

| Composition tax | 40,000 |
| (40,00,000 x 1%) | |
| Output tax | 3,75,000 |
| (30,00,000 x 12.5%) | |
| Less: Input tax credit | 2,50,000 |
| (20,00,000 x 12.5%) | |
| Net Tax | 1,25,000 |

**Illustration 14:** ABC Ltd. a power generating unit has purchased one lightning arrestor for `10 lakhs on 01.10.2011 and it was put to use on 01.01.2012 and depreciation was allowed on SLM @ 7.84%, it was sold on 01.07.2013, for `11 lakhs, in this case amount of balancing charge shall be:

**Solution:**

Sale price = `11 lakhs, profit on sale `11,00,000 – 8,82,400 = 2,17,600

Out of which balancing charge shall be `1,17,600/- i.e. excess to the extent of difference between the actual cost and the written down value (10,00,000 – 8,82,400 = 1,17,600) and any excess over the actual cost shall be considered to be capital gains under section 50A

**Illustration 15:** Dr. Prakash purchased a residential building on 01.12.2011 for `12,00,000 and it was put to use on the same date. Till 01.12.2013 the same was self-occupied as residence. On this date, the building was brought into use for the purpose of his medical profession (it was used as residential building). What would be the depreciation allowable for the Assessment Year 2014-15?

**Solution:**

**Computation of depreciation for the Assessment Year 2014-15**
In this case notional depreciation shall be allowed as per explanation No.5 to section 43(1) and depreciation allowable for the Assessment Year 2014-15 shall be computed in the manner given below:

Cost of building as on December 1st, 2011 12,00,000
Less: depreciation for the previous year 2011-12 30,000
(2.5% of `12,00,000)
(As building purchased during the year 2011-12 is put to use for less than 180 days during the year)
Written down value as on 01.04.2012 11,70,000
Less: depreciation for previous year 2012-13 @ 5% 58,500
Written down value as on 01.04.2013 11,11,500
Depreciation for the previous year 2013-14 @ 5% 55,575

Illustration 16: Mr. X (age 82 years) has one house which is 50% in business/profession and 50% is let out @ 10,000 p.m. and municipal taxes for the entire house are `7,000 which were paid on 10.04.2014 and business income of Mr. X before debiting any expense of house property is `7,80,000. Compute tax liability for the Assessment Year 2014-15.

Solution:
Income under the head business/profession shall be
`7,80,000 – `3,500 7,76,500.00

Income under the head House Property
Gross annual value 1,20,000.00
Less: Municipal taxes (allowed only on actual payment basis) Nil
Net annual value 1,20,000.00
Less: 30% of NAV u/s 24(a) 36,000.00
Less: Interest on capital borrowed u/s 24(b) Nil
Income under the head House Property 84,000.00
Gross Total Income 8,60,500.00
Less: Deduction u/s 80C to 80U Nil
Total Income 8,60,500.00

Computation of Tax Liability
Tax on `8,60,500 at slab rate 72,100.00
Add: Education cess @ 2% 1,442.00
Add: SHEC @ 1% 721.00
Tax Liability 74,263.00
Rounded off u/s 288B 74,260.00

Illustration 17: Mr. X has computed his income `3,50,000 and some of the amounts debited to the profit and loss account are as given below:

1. Household expense `5,000
2. Rent for own building `1,20,000 (half of the building is in personal use and balance half in business use).
3. Municipal tax of the building `3,000 (amount was paid on 01.04.2014)
4. Expenditure on repairs of the building `4,000.
5. Premium paid for insurance of the building `2,000.
6. Mr. X has purchased one motor car for `3,00,000 on 01.01.2014 and it was put to use on the same date.
The car was used for personal purpose as well as official use (50% official and 50% personal). Assessee has also debited petrol expenses of ₹5,000.

7. He has debited ₹20,000 being the amount invested in public provident fund.

His tax liability for the Assessment Year 2014-15 shall be computed in the manner given below:

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income as per profit and loss account</td>
<td>₹3,50,000.00</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
</tr>
<tr>
<td>1. Household expenses</td>
<td>₹5,000.00</td>
</tr>
<tr>
<td>2. Rent of the own building</td>
<td>₹1,20,000.00</td>
</tr>
<tr>
<td>3. Municipal tax</td>
<td>₹1,500.00</td>
</tr>
<tr>
<td>4. Repairs</td>
<td>₹2,000.00</td>
</tr>
<tr>
<td>5. Insurance</td>
<td>₹1,000.00</td>
</tr>
<tr>
<td>6. Capital expenditure on motor car</td>
<td>₹3,00,000.00</td>
</tr>
<tr>
<td>7. Petrol</td>
<td>₹2,500.00</td>
</tr>
<tr>
<td>8. Public Provident Fund</td>
<td>₹20,000.00</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>Depreciation of motor car</td>
<td>(₹11,250.00)</td>
</tr>
<tr>
<td>Income under the head Business/Profession</td>
<td>₹7,90,750.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>₹7,90,750.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C</td>
<td>₹20,000.00</td>
</tr>
<tr>
<td>Total Income</td>
<td>₹7,70,750.00</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ₹7,70,750 at slab rate</td>
<td>₹84,150.00</td>
</tr>
<tr>
<td>Add: Education cess @ 2%</td>
<td>₹1,683.00</td>
</tr>
<tr>
<td>Add: SHEC @ 1%</td>
<td>₹841.50</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>₹86,674.50</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>₹86,670.00</td>
</tr>
</tbody>
</table>

**Illustration 18:** XY Partnership firm is engaged in a business and turnover from business is ₹60,00,000 and the firm has paid salary of ₹10,000 p.m., to each of the partner and has paid interest @ 13% p.a. to each of the partner on the capital of ₹5,00,000 of each of the partner. The firm has LTCG of ₹3,00,000.

The firm has donated ₹40,000 to National Children’s Fund paid by cheque

The firm has complied with all the conditions of section 184 and salary and interest is allowed as per the instrument.

Compute the Tax Liability of the firm and also that of the partners for A.Y.2014-15

**Solution:**

**Computation of income under the head Business/Profession**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presumptive income u/s 44AD (60,00,000 x 8%)</td>
<td>₹4,80,000</td>
</tr>
<tr>
<td>Less: interest paid to partners</td>
<td></td>
</tr>
<tr>
<td>Mr. X 5,00,000 x 12%</td>
<td>₹60,000</td>
</tr>
<tr>
<td>Mr. Y 5,00,000 x 12%</td>
<td>₹60,000</td>
</tr>
<tr>
<td>Book Profit</td>
<td>₹3,60,000</td>
</tr>
<tr>
<td>Less: Salary Paid</td>
<td></td>
</tr>
</tbody>
</table>

**Working Note: Salary Payable**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Income Under The Head Business/Profession

<table>
<thead>
<tr>
<th>(a) 3,00,000 x 90%</th>
<th>2,70,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b) 60,000 x 60%</td>
<td>36,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,06,000</td>
</tr>
</tbody>
</table>

Mr. X 10,000 x 12 1,20,000
Mr. Y 10,000 x 12 1,20,000
Income under the head Business and Profession 1,20,000

**Computation of Long Term Capital Gain**
Long Term Capital Gain 3,00,000

**Computation of Total Income**
Gross Total Income 4,20,000
Less: Deductions u/s 80G 20,000
Total Income 4,00,000

**Computation of Tax Liability**
Tax on `3,00,000 @ 20% 60,000
Tax on `1,00,000 @ 30% 30,000
Add: Education cess @ 2% 1800
Add: SHEC @ 1% 900
Tax Liability 92,700

**Computation of income under the head Business/Profession of Mr. X**
Interest received 60,000
Salary 1,20,000
Income under the head Business/Profession 1,80,000
Total Income 1,80,000
Tax Liability Nil

**Computation of income under the head Business/Profession of Mr. Y**
Interest received 60,000
Salary 1,20,000
Income under the head Business/Profession 1,80,000
Total Income 1,80,000
Tax Liability Nil

**Illustration 19:** XY partnership firm is engaged in a business and turnover of business is ` 55 lakhs and the firm has paid interest @13% to the partners on capital of ` 5 lakhs to each of the partners and has allowed a salary of ` 10,000 p.m. to each of the partners & both of the partners are working partner & salary & interest is allowed as per the instrument.

The firm has LTCG of ` 3 lakhs & has donated ` 50,000 to Prime minister National Relief fund by cheque and the firm has brought forward business loss of ` 20,000 of P.Y 2012-13.

Compute tax liability of firm and also that of partners for the A.Y 2014-15.

**Solution:**

**Computation of Business Income**
Gross Receipts 55,00,000
Presumptive Income u/s 44AD (` 55,00,000 x 8 %) 4,40,000
Less: Interest on partners capital as per section 40(b) Mr. X ` 5,00,000 x 12% (60,000)
Mr. Y `5,00,000 x 12% (60,000)
Book profits 3,20,000

Maximum salary allowed shall be
` 3,00,000 x 90% = `2,70,000
` 20,000 x 60% = `12,000
Maximum salary allowed `2,82,000
Since salary paid to partners is below the limit u/s 40(b),
hence it is allowed to the extent of salary paid.

Less: Salary allowed as per section 40(b)
Mr. X 1,20,000
Mr. Y 1,20,000

Income under head Business/Profession 80,000

Less: Brought forward loss (20,000)
Income under head Business /Profession 60,000
LTCG 3,00,000
Gross Total Income 3,60,000
Less: Deduction u/s 80G 50,000
Total Income 3,10,000

Computation of Tax Liability
Tax on ` 10,000 @ 30% 3,000
Tax LTCG ` 3,00,000 @ 20% 60,000
Tax before Education Cess 63,000
Add: Education cess@ 2% 1,260
Add: SHEC@ 1% 6,30
Tax Liability 64,890

Computation of Income and Tax of Partners

<table>
<thead>
<tr>
<th>Mr. X</th>
<th>Mr. Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head B/P</td>
<td></td>
</tr>
<tr>
<td>Interest on capital 60,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Salary 1,20,000</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Gross Total Income 1,80,000</td>
<td>1,80,000</td>
</tr>
<tr>
<td>Deduction u/s 80C to 80U NIL</td>
<td>NIL</td>
</tr>
<tr>
<td>Total Income 1,80,000</td>
<td>1,80,000</td>
</tr>
<tr>
<td>Tax Liability NIL</td>
<td>NIL</td>
</tr>
</tbody>
</table>

Illustration 20: Mr. Gagan retired from Govt. service in March 2013. He got `20,00,000 on account of retirement benefits. Out of the aforesaid sum, he purchased on 23rd April 2013 a few motor vehicles and got their delivery on that date.

The particulars of the vehicles are given below–

<table>
<thead>
<tr>
<th>Vehicle</th>
<th>Number</th>
<th>Cost of the vehicle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heavy goods vehicle</td>
<td>2</td>
<td>`9,00,000</td>
</tr>
<tr>
<td>Medium goods vehicle</td>
<td>4</td>
<td>`4,50,000</td>
</tr>
<tr>
<td>Light commercial Vehicle</td>
<td>3</td>
<td>`3,20,000</td>
</tr>
</tbody>
</table>

He formed GM and Associates (A sole proprietorship concern) along with his son Mahinder as an employee
on 01.06.2013 and started plying the vehicles from 04.06.2013. On an average every vehicle remains off the road for about a week for repairs and maintenance. GM and Associates maintains no accounts and vouchers, as per section 44AA. However, it maintains a rough record of its’ receipts and outgoings which is given below –

<table>
<thead>
<tr>
<th>Receipts</th>
<th>₹3,70,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Expenses (Excluding depreciation and salaries to M)</td>
<td>₹60,000</td>
</tr>
<tr>
<td>Total</td>
<td>₹3,10,000</td>
</tr>
</tbody>
</table>

You are required to compute the Total Income of GM and Associates from the business of goods carriage for the previous year 2013-14 assuming rate of depreciation is 40% and salary to Mahinder is ₹1,00,000 p.a.

**Solution:**

**Computation of Business Income**

*As per section 44AE*

- Heavy goods vehicle
  \[
  \text{₹5,000} \times 2 \times 12 = 1,20,000
  \]

- Medium goods vehicle
  \[
  \text{₹4,500} \times 4 \times 12 = 2,16,000
  \]

- Light commercial vehicles
  \[
  \text{₹4,500} \times 3 \times 12 = 1,62,000
  \]

**Business Income**

\[
4,98,000
\]

**Gross Total Income**

\[
4,98,000
\]

**Less: Deduction u/s 80C to 80U**

Nil

**Total Income**

\[
4,98,000
\]

**Illustration 21:** Z Ltd. is a non-resident shipping company and the company was supposed to receive 200 lakhs in connection with carriage of passengers or goods shipped outside India out of which 50 lakhs were received in India and 75 lakhs outside India and balance is yet to be received.

The company was also supposed to receive 300 lakhs in connection with goods etc. shipped in India and the company has received 60 lakhs in India and 75 lakhs outside India and balance is yet to be received.

Compute income of the company under the head business profession and also tax liability of the company for the assessment year 2014-15.

**Solution:**

**Computation of income u/s 44B**

- Income received in India 50 Lakhs
- Income accruing and arise in India 300 Lakhs
- Income under the head Business/Profession
  \[
  350 \text{ lakhs} \times 7.5\% = 26.25 \text{ Lakhs}
  \]
- Tax on ₹26,25,000 @ 40% 10,50,000.00
- Add: Education cess @ 2% 21,000.00
- Add: SHEC @ 1% 10,500.00
- Tax liability 10,81,500.00

**Illustration 22:** Z Ltd. in a NR shipping company and during the year the company was supposed to receive 200 lakhs in connection with goods etc. loaded outside India out of which 75 lakhs were received in India
Income Under The Head Business/Profession

and `85 lakhs outside India and balance is yet to be received.

The company was also supposed to receive `300 lakhs in connection with goods etc. loaded in India out of which `150 lakhs were received in India and `50 lakhs outside India and balance is yet to receive, compute the income and Tax Liability of the company for the Assessment Year 2014-15.

**Solution:**
Income received in India 75 Lakhs
Add: Income accruing/arising in India 300 Lakhs
Total Income 375 Lakhs
Taxable income @ 7.5% 28.125 Lakhs
Tax on `28,12,500 @ 40% 11,25,000.00
Add: Education cess @ 2% 22,500.00
Add: SHEC @ 1% 11,250.00
Tax Liability 11,58,750.00

**Illustration 23:** Mr. Vimal, a non-resident, operates an Aircraft between New York to Chennai. For the financial year ended on 31.03.2014, he received the amounts asunder:

(i) For carrying passengers from Chennai `65,00,000.

(ii) For carrying passengers from New York `95,00,000 received in India.

(iii) For carrying of goods from Chennai `45,00,000

The total expenditure incurred by Mr. Vimal for the purpose of business for the financial year 2013-14 was `1.60 crores.

Compute the income of Mr. Vimal under the head “Profits and Gains from business or profession” for the financial year ended on 31.03.2014 relevant to Assessment Year 2014-15.

**Solution:**
*Computation of taxable income of Mr. Vimal*

*As per section 44BBA*
For carrying passengers from Chennai 65,00,000
For carrying passengers from New York received in India 95,00,000
For carrying of goods from Chennai 45,00,000
Total Gross receipts 2,05,00,000
Presumptive income under section 5% of `2,05,00,000 10,25,000

**Illustration 24:** Mr. X, aged 75 years, has submitted his profit and loss account for the year ending 31.03.2014 as given below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (₹)</th>
<th>Particulars</th>
<th>Amount (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Stock</td>
<td>13,50,000</td>
<td>Sales</td>
<td>105,00,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>75,00,000</td>
<td>Gift from friend</td>
<td>1,200</td>
</tr>
<tr>
<td>Franchises</td>
<td>1,00,000</td>
<td>Bad debts recovered</td>
<td>2,900</td>
</tr>
<tr>
<td>Advertisement</td>
<td>9,000</td>
<td>Rental income from House Property</td>
<td>1,40,000</td>
</tr>
<tr>
<td>Income Tax of previous year 2011-12</td>
<td>7,000</td>
<td>Income tax refund</td>
<td>700</td>
</tr>
<tr>
<td>Income tax (advance)</td>
<td>1,200</td>
<td>Dividends from a foreign company</td>
<td>3,000</td>
</tr>
<tr>
<td>Addition to the office building</td>
<td>45,000</td>
<td>Closing stock</td>
<td>1,80,000</td>
</tr>
<tr>
<td>Investment in public provident fund</td>
<td>70,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>17,45,600</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Additional information:
1. Opening and closing stocks are undervalued by 10%.
2. Franchises were purchased on 01.07.2013 and were put to use on 03.10.2013.
3. Advertisement expenditure relates to a neon sign board which was purchased and put to use on 01.08.2013.
4. Office building has written down value of ₹56,00,000 as on 01.04.2013 and addition was made to the building by constructing additional room on the roof. Construction was completed on 01.11.2013 and it was put to use on the same date. The expenditure of ₹45,000 includes cost of wiring and switches of ₹4,500. No depreciation has been debited with regard to the building.
5. Sale includes sale of ₹1,20,000 to the proprietor and the cost of these goods was ₹1,00,000 and market price ₹1,25,000.
6. Bad debts recovered were allowed earlier.

Compute his Tax Liability for the Assessment Year 2014-15.

**Solution:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit as per profit &amp; loss account</td>
<td>17,45,600.00</td>
</tr>
<tr>
<td>Add: inadmissible expenses</td>
<td></td>
</tr>
<tr>
<td>1. Franchises, being capital expenditure</td>
<td>1,00,000.00</td>
</tr>
<tr>
<td>2. Advertisement, being capital expenditure</td>
<td>9,000.00</td>
</tr>
<tr>
<td>3. Income tax (income tax and wealth tax not allowed as per sec 40(a))</td>
<td>8,200.00</td>
</tr>
<tr>
<td>4. Addition to office building, being capital expenditure</td>
<td>45,000.00</td>
</tr>
<tr>
<td>5. Investment in public provident fund (not a revenue expenditure)</td>
<td>70,000.00</td>
</tr>
<tr>
<td>Add: incomes not credited to profit &amp; loss account</td>
<td></td>
</tr>
<tr>
<td>Closing stock undervalued by 10% (1,80,000 x 1/90)</td>
<td>20,000.00</td>
</tr>
<tr>
<td>Deduct expenditures not debited to profit &amp; loss account</td>
<td></td>
</tr>
<tr>
<td>Opening stock undervalued by 10% (13,50,000 x 1/90)</td>
<td>1,50,000.00</td>
</tr>
<tr>
<td>Depreciation</td>
<td>5,88,150.00</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Franchises 1,00,000 x 25%</td>
<td>25,000</td>
</tr>
<tr>
<td>2. Furniture/fixture @ 10%</td>
<td></td>
</tr>
<tr>
<td>- Neon sign board 9,000 x 10%</td>
<td>900</td>
</tr>
<tr>
<td>- Wirings etc. in the building 4,500 x 5%</td>
<td>225</td>
</tr>
<tr>
<td>3. Office building 56,00,000 x 10%</td>
<td>5,60,000</td>
</tr>
<tr>
<td>Addition 40,500 x 5%</td>
<td>2,025</td>
</tr>
<tr>
<td>Total Depreciation</td>
<td>5,88,150</td>
</tr>
</tbody>
</table>

**Deduct amounts credited to profit & loss, but not considered to be incomes**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Gift from friend (any gift is not considered to be income except gift received from client or gift received from any person in excess of ₹50,000 w.e.f 01.04.2006 onwards)</td>
<td>1,200.00</td>
</tr>
<tr>
<td>2. Rental income from House Property</td>
<td>1,40,000.00</td>
</tr>
<tr>
<td>3. Income tax refund</td>
<td>700.00</td>
</tr>
<tr>
<td>4. Dividends from a foreign company (to be taxed under the head other sources)</td>
<td>3,000.00</td>
</tr>
<tr>
<td>5. Sale to the proprietor should be at cost price</td>
<td>20,000.00</td>
</tr>
</tbody>
</table>

Income under the head business/profession 10,94,750.00
Income under the head other sources 3,000.00

**Income under the head house property**
- Gross Annual Value 1,40,000.00
- Less: Municipal taxes Nil
- Net Annual Value 1,40,000.00
- Less: 30% of NAV u/s 24(a) 42,000.00
- Less: Interest on capital borrowed u/s 24(b) Nil
- Income under the head House Property 98,000.00
- Gross Total Income 11,95,750.00
- Less: Deduction u/s 80C 70,000.00
- Total Income 11,25,750.00

**Computation of Tax liability**
- Tax on `11,25,750 at slab rate 1,62,725.00
- Add: Education cess @ 2% 3,254.50
- Add: SHEC @ 1% 1,627.25
- Tax Liability 1,67,606.75
- Rounded off u/s 288B 1,67,610.00

**Illustration 25:** Mr. X is an Advocate in the Supreme Court and he keeps his books of accounts on cash basis and his receipts and payments a/c for the year 2013-14 is as given below:

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Amount `</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance b/f</td>
<td>4,50,000</td>
</tr>
<tr>
<td>Legal consultancy fee</td>
<td>9,20,000</td>
</tr>
<tr>
<td>Interest on units of UTI</td>
<td>12,000</td>
</tr>
<tr>
<td>Remuneration from Delhi University for setting one paper for LLB exams</td>
<td>4,000</td>
</tr>
<tr>
<td>Honorarium for delivering lectures as guest speaker</td>
<td>3,000</td>
</tr>
<tr>
<td>Sales proceeds of an old computer with w.d.v as on 01.04.2013 `2,300</td>
<td>7,000</td>
</tr>
<tr>
<td>Sale proceeds of one house which was purchased on 01.04.2012 for `6,70,000</td>
<td>9,80,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Payments</th>
<th>Amount `</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent of building in the use of profession</td>
<td>2,20,000</td>
</tr>
<tr>
<td>Office expenses</td>
<td>30,000</td>
</tr>
<tr>
<td>New computer purchased on 01.11.2013 and put to use on the same date</td>
<td>35,000</td>
</tr>
<tr>
<td>Computer purchased on 10.11.2013 and put to use on the same date</td>
<td>25,000</td>
</tr>
<tr>
<td>Motor car purchased on 01.12.2013 and put to use on the same date</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Legal books purchased on 01.01.2014 and put to use on the same date</td>
<td>9,000</td>
</tr>
<tr>
<td>Income tax paid being advance tax under section 207 to 219</td>
<td>12,000</td>
</tr>
<tr>
<td>Subscription to Bar Association</td>
<td>3,000</td>
</tr>
<tr>
<td>Deposit in public provident fund in the name of major son</td>
<td>12,000</td>
</tr>
<tr>
<td>Balance carried forward</td>
<td>16,30,000</td>
</tr>
</tbody>
</table>

23,76,000

Compute Tax Liability for the Assessment Year 2014-15.

**Solution:**

**Computation of income under the head Business/Profession**
- Legal consultancy fees 9,20,000.00

Less:
- Rent of building 2,20,000.00
- Office expenses 30,000.00
- Depreciation on computer 16,590.00
Income Under The Head Business/Profession

**Working Note:**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer – w.d.v</td>
<td>2,300</td>
</tr>
<tr>
<td>Sale of computer</td>
<td>7,000</td>
</tr>
<tr>
<td>New computer purchased and put to use on 01.11.2013</td>
<td>35,000</td>
</tr>
<tr>
<td>Computer purchased and put to use on 10.11.2013</td>
<td>25,000</td>
</tr>
<tr>
<td>Balance</td>
<td>55,300</td>
</tr>
<tr>
<td>Depreciation @ 30%</td>
<td>16,590</td>
</tr>
</tbody>
</table>

- Depreciation on car

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor car – Purchase and put to use on 01.12.2013</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Depreciation @ 7.5% on</td>
<td>30,000</td>
</tr>
</tbody>
</table>

- Depreciation on books

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Books purchased and put to use on 01.01.2014</td>
<td>9,000</td>
</tr>
<tr>
<td>Depreciation @ 30% on 9,000</td>
<td>2,700</td>
</tr>
</tbody>
</table>

- Subscription to bar association

Income under the head Business/Profession 6,17,710.00

**Computation of income under the head Capital Gains on sale of house**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Value of Consideration</td>
<td>9,80,000</td>
</tr>
<tr>
<td>Less: Cost of acquisition</td>
<td>6,70,000</td>
</tr>
<tr>
<td>Income under the head Capital Gains (STCG)</td>
<td>3,10,000</td>
</tr>
</tbody>
</table>

**Computation of income under the head Other Sources**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remuneration from Delhi University</td>
<td>4,000.00</td>
</tr>
<tr>
<td>Honorarium for delivering lectures</td>
<td>3,000.00</td>
</tr>
<tr>
<td>Interest from UTI [exempt u/s 10(35)]</td>
<td>Nil</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>7,000.00</td>
</tr>
</tbody>
</table>

**Computation of Total Income**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head Business/Profession</td>
<td>6,17,710</td>
</tr>
<tr>
<td>Income under the head Capital Gains (STCG)</td>
<td>3,10,000</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>7,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>9,34,710</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C</td>
<td>12,000.00</td>
</tr>
<tr>
<td>Total Income</td>
<td>9,22,710</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on 9,22,710 at slab rate</td>
<td>1,14,542</td>
</tr>
<tr>
<td>Add: Education cess @ 2%</td>
<td>2,290.84</td>
</tr>
<tr>
<td>Add: SHEC @ 1%</td>
<td>1,145.42</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>1,17,978.26</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>1,17,980.00</td>
</tr>
</tbody>
</table>

**Illustration 26:** Mr. X submits the profit and loss account for the year ending 31.03.2014 asunder–
Computation of income under the head Business/Profession

<table>
<thead>
<tr>
<th>(Debits)</th>
<th><code> </code></th>
<th>(Credits)</th>
<th><code> </code></th>
</tr>
</thead>
<tbody>
<tr>
<td>Household expense</td>
<td>20,000</td>
<td>Gross Profit</td>
<td>3,28,500</td>
</tr>
<tr>
<td>Interest on loan taken from Mrs. X</td>
<td>2,000</td>
<td>Income tax refund</td>
<td>3,000</td>
</tr>
<tr>
<td>Income tax</td>
<td>12,000</td>
<td>Interest on income tax refund</td>
<td>300</td>
</tr>
<tr>
<td>Interest on loan for payment of income tax</td>
<td>1,200</td>
<td>Sales tax refund</td>
<td>1,000</td>
</tr>
<tr>
<td>Contribution to Unrecognised Provident Fund</td>
<td>4,000</td>
<td>Interest on sales tax refund</td>
<td>400</td>
</tr>
<tr>
<td>Expenditure on advertisement (revenue)</td>
<td>25,000</td>
<td>Bad debts recovered (earlier not allowed)</td>
<td>5,000</td>
</tr>
<tr>
<td>Public provident fund contribution</td>
<td>7,000</td>
<td>Dividends from foreign company</td>
<td>3,000</td>
</tr>
<tr>
<td>Investment in post-office saving bank account</td>
<td>12,000</td>
<td>Net Loss</td>
<td>45,000</td>
</tr>
<tr>
<td>Purchase of car</td>
<td>2,45,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of computer</td>
<td>35,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of plant</td>
<td>23,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3,86,200</td>
<td></td>
<td>3,86,200</td>
</tr>
</tbody>
</table>

Addition Information:
Car, computer and plant and machinery were purchased on 01.10.2013 and were put to use on the same date.

Compute Tax Liability of Mr. X for Assessment Year 2014-15.

Solution:

Computation of income under the head Business/Profession

Net Loss as per profit and loss account: (45,000)

Add:
- Household expenses: 20,000
- Income tax: 12,000
- Interest on loan for payment of income tax: 1,200
- Contribution to Unrecognised provident fund: 4,000
- Contribution to public provident fund: 7,000
- Contribution to post office saving bank account: 12,000
- Purchase of car: 2,45,000
- Purchase of computer: 35,000
- Purchase of plant: 23,000

Less:
- Income tax refund: 3,000
- Interest on refund: 300
- Bad debts recovered: 5,000
- Dividends: 3,000
- Depreciation @ 15% on car: 36,750 (2,45,000 x 15%)
- Depreciation @ 60% on computer: 21,000 (35,000 x 60%)
- Depreciation @ 15% on plant: 3,450 (23,000 x 15%)

Income under the head Business/Profession: 2,41,700

Computation of income under the head Other Sources

Interest on income tax refund: 300
Dividends from foreign company: 3,000
Income under the head Other Sources: 3,300
Income under the head Business/Profession: 2,41,700
Income Under The Head Business/Profession

Gross Total Income 2,45,000
Less: Deductions u/s 80C 7,000
Total Income 2,38,000

**Computation of Tax Liability**

Tax on `2,38,000 at slab rates 3,800
Less: Rebate u/s 87A 2,000
Tax before Education cess 1,800
Add: Education cess @ 2% 36
Add: SHEC @ 1% 18
Tax Liability 1,854
Rounded off u/s 288B 1,850

{Interest on income tax refund has been taxed under the head other sources, because as per section 56 – income by way of interest on securities, is chargeable under the head other sources, if it is not taxable under the head Business/Profession}

**Illustration 27:** Mr. Rajat submits his profit & loss account for year ending 31st March 2014.

Computed net profit after debiting the following amounts to 87,000

1. Provisions for doubtful debts 16,000
2. Depreciation reserve 21,000
3. Household expenses 20,000
4. Donations to poor persons and Other charitable donations 10,000 20,000
5. Cash payment for purchases 80,000
6. Advertisement expenses `5,000 spent on a neon sign board purchased and put to use on 01.07.2013 and advertisement gifts to 50 customers at a cost of `100 each.
7. Audit fee charged `5,000, including expenses on income-tax assessment `3,000.
8. Patents purchased for `70,000 on 01.10.2013 and put to use on 07.10.2013.
9. Preliminary expenses covered under section 35D: Market survey expenses `5,000; feasibility report expenses `10,000. Project cost `10,00,000.

Incomes credited to profit and loss account were:

(i) Interest on company’s deposit `50,000.
(ii) Opening stock is valued at cost plus 15% basis, whereas closing stock was valued at cost minus 15% basis. Opening stock valued was `1,15,000; closing stock valued was `1,70,000.

Compute his Tax Liability for the Assessment Year 2014-15.

**Solution:**

**Computation of Business Income**
Net Profit as per profit and loss account 87,000.00
Add: inadmissible expenses
- Provision for doubtful debts 16,000.00
- Depreciation Reserve 21,000.00
- Household Expenses 20,000.00
- Donations 30,000.00
- Cash purchases in excess `20,000 80,000.00
- Cost of neon sign board (capital expenditure) 5,000.00
- Patents purchased 70,000.00
- Instalment for preliminary expenses under section 35D 12,000.00
(15,000 – 3,000)

Working Note:
`15,000 but subject to a maximum of
`10,00,000 x 5%
`50,000, instalment allowed `15,000/5 = `3,000
- Opening stock overvalued 1,15,000 x 15/115 15,000.00
- Closing stock undervalued 1,70,000 x 15/85 30,000.00
Less:
- Interest on company deposit 50,000.00
- Depreciation on neon sign @ 10% on `5,000 500.00
- Depreciation on patents @ 12.5% on `70,000 8,750.00
Income under the head Business/Profession 3,26,750.00
Income under the head Other Sources 50,000.00
{Interest on company deposit}
Gross Total Income 3,76,750.00
Less: Deduction u/s 80C to 80U Nil
Total Income 3,76,750.00

Computation of Tax Liability
Tax on `3,76,750 at slab rate 17,675.00
Less: Rebate u/s 87A 2,000.00
Tax before Education cess 15,675.00
Add: Education Cess @ 2% 313.50
Add: SHEC @ 1% 156.75
Tax Liability 16,145.25
Rounded off u/s 288B 16,150.00

Illustration 28: The profit and loss account of Mr. Dharmender for the previous year ending 31st March, 2014 is as follows:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount `</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Goods Sold</td>
<td>105,45,000</td>
</tr>
<tr>
<td>Remuneration to Prop.</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Remuneration to Employees</td>
<td>1,70,000</td>
</tr>
<tr>
<td>Interest to proprietary</td>
<td>40,000</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Sale tax outstanding</td>
<td>10,000</td>
</tr>
<tr>
<td>Net Profit</td>
<td>25,000</td>
</tr>
<tr>
<td></td>
<td><strong>111,90,000</strong></td>
</tr>
</tbody>
</table>

Additional information is given below:
(1) Other expenses include the following:

(i) Entertainment expenses incurred for business purpose `20,000

(ii) V.I.P bags, Costing `1,500 each, given to ten dealers who exceeded the sales target under the sales promotion scheme.

(iii) Employer’s contribution to recognized provident fund amounting to `10,000 was paid on 20.04.2014.

(iv) `30,000 paid in cash to a supplier who refused to accept payment by a cheque.

(2) Outstanding sales tax was paid on 14.11.2014.

(3) Other income of Mr. Dharmender is under the head house property of `90,000.

You are required to compute Tax Liability for the Assessment Year 2014-15.

Solution:

**Computation of total income of Mr. Dharmender**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profits as per profit and loss account</td>
<td>25,000</td>
</tr>
<tr>
<td>Add: Inadmissible Expenses</td>
<td></td>
</tr>
<tr>
<td>• Remuneration given to proprietor, not allowed</td>
<td>3,00,000</td>
</tr>
<tr>
<td>• Interest given to proprietor, not allowed</td>
<td>40,000</td>
</tr>
<tr>
<td>• Cash payment to a supplier</td>
<td>30,000</td>
</tr>
<tr>
<td>• Outstanding amount of sale-tax (as it was paid after due date of return)</td>
<td>10,000</td>
</tr>
<tr>
<td>Total</td>
<td>4,05,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>• Dividend from Indian company</td>
<td>30,000</td>
</tr>
<tr>
<td>• Long Term Capital Gains</td>
<td>1,90,000</td>
</tr>
<tr>
<td>Income under the head Business/Profession</td>
<td>1,85,000</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>90,000</td>
</tr>
<tr>
<td>Income from Capital Gains (Long Term Capital Gains)</td>
<td>1,90,000</td>
</tr>
<tr>
<td>Income from Other Sources</td>
<td>Nil</td>
</tr>
<tr>
<td>{Dividend from Indian company is exempt u/s 10(34)}</td>
<td></td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>4,65,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>4,65,000</td>
</tr>
</tbody>
</table>

**Computation of Tax Liability**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on Long term capital gain `1,90,000 @ 20%</td>
<td>38,000</td>
</tr>
<tr>
<td>Tax on normal income `2,75,000 at slab rate</td>
<td>7,500</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A</td>
<td>2,000</td>
</tr>
<tr>
<td>Tax before education cess</td>
<td>43,500</td>
</tr>
<tr>
<td>Add: Education cess @ 2%</td>
<td>870</td>
</tr>
<tr>
<td>Add: SHEC @ 1%</td>
<td>435</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>44,805</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>44,810</td>
</tr>
</tbody>
</table>

**Illustration 29:** ABC Ltd. has net profits of `7,00,000 after debiting `50,000 being sales tax relating to previous year 2012-13 and it was paid on 30.09.2013 and municipal taxes of `10,000 relating to the previous year 2013-14, which were paid on 20.09.2014. Municipal taxes are related to a building which is owned by
the company, the ground floor and first floor (which is 2/3rd of the complete building) was being used by company. The company has debited market rent of ` 20,000 p.m. to the profit & loss account for using the building and credited rent of `10,000 p.m. to the profit & loss account for the second floor of the building which has been let out to some person during the previous year 2013-14.

Compute Tax Liability of the company for the Assessment Year 2014-15.

Solution:

Computation of Business Income

Net Profit 7,00,000.00
Add: Inadmissible Expenses
• Municipal Taxes (10,000 x 1/3) 3,333.33
• Market Rent 2,40,000.00
• Sales tax 50,000.00
Total 9,93,333.33
Less:
• Rent Received 1,20,000.00
Business Income 8,73,333.33

Computation of Income under the head House Property

Gross Annual Value 1,20,000.00
(10,000 x 12)
Less: Municipal Taxes Nil
(Not paid during the year)
Net Annual Value 1,20,000.00
Less: 30% of NAV u/s 24(a) 36,000.00
Less: Interest on capital borrowed u/s 24(b) Nil
Income under the head House Property 84,000.00

Computation of Total Income

Income under the head Business 8,73,333.33
Income under the head House Property 84,000.00
Gross Total Income 9,57,333.33
Less: Deduction u/s 80C to 80U Nil
Total Income 9,57,333.33
Rounded off u/s 288A 9,57,330.00

Computation of Tax Liability

Tax on `9,57,330 @ 30% 2,87,199.00
Add: Education cess @ 2% 5,743.98
Add: SHEC @ 1% 2,871.99
Tax Liability 2,95,814.97
Rounded off u/s 288B 2,95,810.00

Illustration 30: Dr. Karan furnishes you the following information:

Income and Expenditure account for the year ended 31st March, 2014.

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Amount `</th>
<th>Income</th>
<th>Amount `</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Medicines Consumed</td>
<td>2,52,000</td>
<td>By Fee Receipts</td>
<td>8,49,500</td>
</tr>
</tbody>
</table>
(i) Rent paid includes rent for his residential accommodation of ` 38,000 (paid in cash).

(ii) Hospital equipments (eligible for depreciation @ 15%)

- 01.04.2013 opening written down value `5,50,000
- 07.12.2013 acquired (cost), put to use on the same date `2,50,000

(iii) Medicines consumed include medicines (cost) `12,000 used for Dr. Karan’s family.

(iv) Rent received–relates to a property situated at Mysore. The municipal tax of ` 3,500 paid in December, 2013 has been included in the “administrative expenses.”

(v) He received ` 6,000 per month as salary from ‘Full Cure Hospital’. This has not been included in the “Fee Receipts” credited to income and expenditure account.

Compute Dr. Karan’s Taxable Income for the year ended 31.03.2014 and also his Tax Liability.

Solution:

**Computation of Income of Dr. Karan**

Net profit as per profit and loss account 2,50,000.00

Add: Inadmissible expenses

- Rent for residential accommodation 38,000.00
- Medicines for personal use 12,000.00
- Municipal taxes 3,500.00

Less:

- Depreciation on hospital equipment 1,01,250.00

**Working Note:**

- Depreciation on `5,50,000 @ 15% 82,500
- Depreciation on `2,50,000 @ 7.5% 18,750

Rental income from house property 29,000.00
Dividend from Indian companies 15,000.00
Income under the head Business/Profession 1,58,250.00

**Income from Salary**

Salary 72,000.00
(6,000 x 12)

**Income from House Property**

Gross Annual Value 29,000.00
Less: Municipal Taxes 3,500.00
Net Annual Value 25,500.00
Less: 30% of NAV u/s 24(a) 7,650.00
Less: Interest on capital borrowed u/s 24(b) Nil
Income under the head House Property 17,850.00
Income Under The Head Business/Profession

Income under the head Other Sources
Dividend from Indian company {Exempt u/s 10(34)}: Nil
Gross Total Income: 2,48,100.00
Less: Deduction u/s 80C to 80U: Nil
Total Income: 2,48,100.00

Computation of Tax Liability
Tax on `2,48,100 at slab rate: 4,810.00
Less: Rebate u/s 87A: 2,000.00
Tax before Education cess: 2,810.00
Add: Education cess @ 2%: 56.20
Add: SHEC @ 1%: 28.10
Tax Liability: 2,894.30
Rounded off u/s 288B: 2,890.00

Illustration 31: Versa Ltd. presents the following information to you pertaining to the year ending March 31st, 2014:

1. A Machinery costing `50,000 is purchased for which a single payment is made in cash.

2. Having regard to the vast purchase of a particular chemical by the company, the supplier of the chemical presents a car worth `2,50,000, which is used for business purposes by the company.

3. Expenditure towards acquisition of technical know-how paid to a foreign company in a lump sum `6 lakhs.

4. The company has paid income–tax of `60,000 being the tax in respect to non–monetary perquisites of an employee.

5. The company wanted to start a new plant for manufacturing of a new product. Y Ltd., paid to the company `10 lakh in order not to start the same and not to compete with it.

6. The company has paid `20 lakh to four employees at the time of their voluntary retirement, in accordance with the approved scheme of voluntary retirement.

7. The company has borrowed `15 lakh for acquiring a machinery. Interest paid is `90,000. The machinery is not put to use during the year.

8. Payment of `40,000 is made to a Don for ensuring that the employees will not indulge in strike.

9. The company has incurred expenditure of `34,000 in respect of exempt income. This forms part of administrative expenses.

You are requested to briefly state with reasons as to how the above are to be dealt with in computing the total income of the company for the assessment year 2014-15. The total income need not be computed.

Solution:

1. No disallowance is applicable under section 40A(3) as the provision of this section are not applicable in case of purchase of capital asset.

2. As per the provisions of section 28, the value of any benefit or perquisite, whether convertible into money or not, arising from business (or the exercise of a profession) is chargeable to tax under the
head “profit and gains of business or profession”. `2,50,000 is chargeable to tax as business income in the present situation. “Actual cost” of car for depreciation purposes will be cost of car to the previous owner, i.e., `2,50,000 [Sec. 43(1)].

3. `6 lakh qualifies for depreciation under section 32 @ 25%.

4. As per section 40(a), while calculating income of the employer, the tax paid by the employer on non-monetary perquisites to employees is not deductible.

5. As per section 28, any sum received (or receivable) in cash or in kind under an agreement for not carrying out any activity in relation to any business is chargeable to tax as business income. Thus, `10 lakh is taxable as business income.

6. Section 35DDA provides that where an assessee incurs any expenditure in any previous year by way of payment of any sum to an employee at the time of his voluntary retirement under any scheme of voluntary retirement, one fifth of the amount so paid shall be deducted in computing the profits and gains of the business for that previous year, and the balance shall be deducted in equal instalments for each of the four immediately succeeding previous years. In view of the aforesaid provisions, `4 lakh shall be allowable as deduction in the assessment year 2014-15.

7. `90,000 should be capitalised. Depreciation can be claimed by Versa Ltd. and “actual cost” for this purpose will include `90,000. Since the asset is not put to use, deduction is not available under section 36(1)(iii).

8. As per section 37(1), in order to claim deduction the expenditure should not have been incurred for any purpose, which is an offence or is prohibited by any law. Since the payment of `40,000 to Don is unlawful, it is not allowable as deduction.

9. As per section 14A, no deduction shall be made in respect of expenditure incurred by the assessee in relation to income which does not form part of the total income. `34,000 is, therefore, not allowable as deduction.

PRACTICE PROBLEMS
TOTAL PROBLEMS 42
Problem 1.
Mr. Mohanty started his business on 01.04.2013 and purchased various assets asunder:

1. He purchased land on 01.05.2013 for `20,00,000 and it was put to use on the same date.

2. He purchased one commercial building on 01.06.2013 for `11,00,000 and it was put to use on 01.07.2013.

3. He purchased one plant and machinery P1 on 01.09.2013 for `11,00,000 and was put to use on 10.10.2013 and purchased one more plant P2 on 01.10.2013 for `20,00,000 and it was put to use on 01.11.2013.

4. He purchased one generator on 01.11.2013 for `25,000 and it has not been put to use during the year.

5. He purchased three computers on 01.12.2013 for `1,50,000 and were put to use on 31.03.2014.

6. He purchased one scooter on 10.12.2013 for `20,000 to be used by his staff and it was put to use on 01.01.2014.

7. He purchased one imported motor car on 01.01.2014 for `25,00,000 and it was put to use on the same date.

8. He purchased three mobile phones on 10.01.2014 for `35,000 and were put to use on the same date.

9. He purchased chairs and tables for the office use on 01.03.2014 for `25,000 and were put to use on the same date.

10. He purchased one air conditioner on 31.03.2014 for `35,000 and was put to use on 01.05.2014.

Compute depreciation allowed for the previous year 2013-14.

Answer = `5,80,375

Problem 2.
Mr. Mohit starts a business on May 10th, 2013 and he purchases the following assets during May–June 2013 and were put to use during June–July 2013.

<table>
<thead>
<tr>
<th>Cost (` in lakh)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Building A – Office building</td>
<td>30.10</td>
</tr>
<tr>
<td>Building B – Residential building for employees</td>
<td>20.30</td>
</tr>
<tr>
<td>Building C – Factory building</td>
<td>40.10</td>
</tr>
<tr>
<td>Plant and machinery A – Office computer</td>
<td>1.10</td>
</tr>
<tr>
<td>Plant and machinery B – Fax machine</td>
<td>0.60</td>
</tr>
<tr>
<td>Plant and machinery C – cars</td>
<td>4.10</td>
</tr>
<tr>
<td>Plant and machinery E – PABX telephone system</td>
<td>1.10</td>
</tr>
<tr>
<td>Plant and machinery F – Air conditioners</td>
<td>6.80</td>
</tr>
<tr>
<td>Plant and machinery G – Scooters for business</td>
<td>1.90</td>
</tr>
<tr>
<td>Furniture – Office furniture</td>
<td>2.85</td>
</tr>
<tr>
<td>Furniture – Furniture for welfare centre of employees</td>
<td>4.10</td>
</tr>
<tr>
<td>Intangible assets – Trade marks</td>
<td>3.10</td>
</tr>
</tbody>
</table>

Compute depreciation allowed for the Assessment Year 2014-15.

Answer = `12,34,000
Problem 3.
G Ltd. furnishes you the following information:

Block I: Plant and machinery (consisting of 3 plants), rate of depreciation 15%.
   w.d.v. on April 1st, 2013: `2,70,000.

Block II: Buildings (two buildings), rate of depreciation 10%
   w.d.v. on April 1st, 2013 `6,50,000.

Acquired on June 2nd, 2013, 2 plants for ` 2,10,000 and put to use on the same date.

Sold on November 30th, 2013 all the five plants for ` 5,00,000.

Acquired on December 15th, 2013 two plants for ` 1,60,000 and put to use on the same date.

Admissible rate of depreciation in relation to all acquired plants is 15%.

Compute the amount of depreciation admissible to G Ltd. for the Assessment Year 2014-15.

Answer = `75,500

Problem 4.
X Ltd. is a manufacturing company. On April 1st, 2013, it owns plant A and plant B (depreciation rate: 15 per cent; depreciated value of block being `2,40,000). Plant C (depreciation rate: 15 per cent) is purchased by the company on June 10th, 2013 for `60,000 and it was used in the office premises. It is put to use on the same day.

Find out the tax consequences in the following different situations:

1. Plant B is destroyed by fire on January 25th, 2014. `10,000, being the compensation, is paid by the insurance company on February 10th, 2014;

2. If the insurance compensation in situation (1) is `3,70,000;

3. Plant A, B And C is destroyed by fire on January 25th, 2014. Compensation paid by insurance company on February 10th, 2014 is `20,000;

4. If the insurance compensation in situation (3) is `4 lakhs.

Answer =
Situation 1: Depreciation: `43,500 and Short term capital gain/loss: Nil;

Situation 2: Depreciation: Nil and Short term capital gain: `70,000;

Situation 3: Depreciation: Nil and Short term capital loss: `2,80,000;

Situation 4: Depreciation: Nil and Short term capital gain: `1,00,000

Problem 5.
Compute depreciation from the information given below relating to ABC Ltd.
Block I
Consisting of Plant & Machinery with rate of depreciation 15%
P1, P2 and P3, written down value `75 lakhs as on 01.04.2013

Block II
Consisting of Furniture and Fixtures with rate of depreciation 10%
F1, F2, F3 with written down value `45 lakhs as on 01.04.2013

Block III
Consisting of Building with rate of depreciation 10%
B1, B2, B3 with written down value `10 lakhs as on 01.04.2013

The company has purchased the following assets –

<table>
<thead>
<tr>
<th>Details of Assets</th>
<th>Actual cost</th>
<th>Date of Purchase/Construction</th>
<th>Date of Putting to Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel building B4</td>
<td>32,00,000</td>
<td>30.09.2013</td>
<td>16.12.2013</td>
</tr>
<tr>
<td>Construction of road within premises</td>
<td>1,00,000</td>
<td>12.03.2013</td>
<td>31.03.2014</td>
</tr>
<tr>
<td>Electrical fittings</td>
<td>35,000</td>
<td>31.03.2014</td>
<td>01.04.2014</td>
</tr>
<tr>
<td>(Including electrical wiring, switches, sockets, other fittings)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>2,00,000</td>
<td>30.04.2013</td>
<td>21.07.2013</td>
</tr>
<tr>
<td>Computer</td>
<td>60,000</td>
<td>25.03.2013</td>
<td>09.10.2013</td>
</tr>
<tr>
<td>Motor Car</td>
<td>3,40,000</td>
<td>02.10.2013</td>
<td>03.10.2013</td>
</tr>
<tr>
<td>Building for residence</td>
<td>8,76,000</td>
<td>01.04.2013</td>
<td>10.04.2013</td>
</tr>
</tbody>
</table>

The assessee has sold the following assets

<table>
<thead>
<tr>
<th>Details of Assets</th>
<th>Sale Price</th>
<th>Date of Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture F1</td>
<td>46,00,000</td>
<td>31.03.2014</td>
</tr>
<tr>
<td>Plant P1, P2, P3</td>
<td>20,00,000</td>
<td>07.04.2013</td>
</tr>
<tr>
<td>Building B1</td>
<td>2,00,000</td>
<td>20.04.2013</td>
</tr>
</tbody>
</table>

Compute depreciation allowed.
{Hint –
1. Electrical fittings shall be included in furniture and fixtures
2. Roads are considered to be buildings and rate of depreciation is 10%}

Answer = `3,75,800

Problem 6.
The following is the receipts and payments account of a medical practitioner for the year ending 31.03.2014.

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Amount `</th>
<th>Payments</th>
<th>Amount `</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance b/d</td>
<td>1,30,000</td>
<td>Clinic expenses</td>
<td>1,24,000</td>
</tr>
<tr>
<td>Visiting fees</td>
<td>5,75,000</td>
<td>Medical books purchased and put to use on 01.07.2013</td>
<td>15,000</td>
</tr>
<tr>
<td>Consultation fees</td>
<td>9,15,000</td>
<td>Surgical equipment</td>
<td>90,000</td>
</tr>
<tr>
<td>Sale of medicines</td>
<td>28,000</td>
<td>Motor car expenses</td>
<td>36,000</td>
</tr>
<tr>
<td>Payment received for using Operation Theatre</td>
<td>18,000</td>
<td>Indian Medical Association membership fees</td>
<td>7,000</td>
</tr>
<tr>
<td>Dividend from domestic company</td>
<td>22,000</td>
<td>Payment to C.A. firm for filing return of income</td>
<td>4,000</td>
</tr>
</tbody>
</table>
Income Under The Head Business/Profession

<table>
<thead>
<tr>
<th>Income Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank loan for purchasing a flat</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Life insurance policy (maturity proceeds)</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Rental income from flat</td>
<td>60,500</td>
</tr>
<tr>
<td>Bank interest on loan</td>
<td>30,000</td>
</tr>
<tr>
<td>Medical purchases</td>
<td>33,000</td>
</tr>
<tr>
<td>Purchase of flats</td>
<td>2,80,000</td>
</tr>
<tr>
<td>Entertainment expenses</td>
<td>24,000</td>
</tr>
<tr>
<td>Bank loan for purchasing a flat</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Life insurance policy (maturity proceeds)</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Rental income from flat</td>
<td>60,500</td>
</tr>
<tr>
<td>Bank interest on loan</td>
<td>30,000</td>
</tr>
<tr>
<td>Medical purchases</td>
<td>33,000</td>
</tr>
<tr>
<td>Purchase of flats</td>
<td>2,80,000</td>
</tr>
<tr>
<td>Entertainment expenses</td>
<td>24,000</td>
</tr>
<tr>
<td>Bank interest on loan</td>
<td>30,000</td>
</tr>
<tr>
<td>Balance c/d</td>
<td>14,05,500</td>
</tr>
</tbody>
</table>

20,48,500

**Additional information:**

1. A cash payment of `75,000 was given to him by a patient in appreciation of his medical services but was not recorded in books.

2. Flat was purchased on 01.04.2013 and was self occupied for residence for a month from the date of its purchase. Thereafter it was let out at `5,500 p.m., the municipal value of the flats is `66,000 p.a. and municipal taxes assessed, though not paid, is `4,500.

3. One-third of motor car expenses relate to his personal use. Depreciation on car allowable under Income Tax Act for professional use is `12,000.

4. The rate of depreciation on surgical equipment is 15%. The written down value of equipment on 01.04.2013 is `60,000. He sold some of the equipment for `30,000 during the year. New equipment was purchased on 01.11.2013 for `90,000 and was put to use on the same date.

Compute his Total Income and Tax Liability for the Assessment Year 2014-15.

**Answer** = Total Income: `13,78,950; Tax Liability: `2,51,000

**Problem 7.**

Mr. Avinash is an advocate in Delhi High Court. He keeps his books on cash basis. His receipts and payments account for the financial year 2013-14 is given below:

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance b/d</td>
<td>44,000</td>
</tr>
<tr>
<td>Consultancy fee</td>
<td>2,20,000</td>
</tr>
<tr>
<td>Remuneration from university as evaluator of LLB exams</td>
<td>7,000</td>
</tr>
<tr>
<td>Sale proceeds of residential house (it was purchased on 01.07.2012 for `3,00,000)</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Salary from law faculty for working as part time lecturer</td>
<td>45,000</td>
</tr>
<tr>
<td>Special commission for providing consultancy</td>
<td>15,500</td>
</tr>
<tr>
<td>Dividend from UTI</td>
<td>5,200</td>
</tr>
<tr>
<td>Rent Paid</td>
<td>1,44,000</td>
</tr>
<tr>
<td>Office expenses</td>
<td>28,000</td>
</tr>
<tr>
<td>New car purchased and put to use on 01.05.2013</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Magazines and journals subscribed</td>
<td>18,000</td>
</tr>
<tr>
<td>Computer purchased and put to use on 01.04.2013</td>
<td>50,000</td>
</tr>
<tr>
<td>Legal books purchased</td>
<td>30,000</td>
</tr>
<tr>
<td>Car expenses</td>
<td>42,000</td>
</tr>
<tr>
<td>Advance Income tax paid</td>
<td>22,000</td>
</tr>
<tr>
<td>Electricity and water charges for the entire house</td>
<td>16,000</td>
</tr>
<tr>
<td>Son’s college tuition fee paid</td>
<td>54,000</td>
</tr>
<tr>
<td>Gift to daughter</td>
<td>25,000</td>
</tr>
<tr>
<td>Life insurance premium paid on own life (sum assured `50,000)</td>
<td>12,000</td>
</tr>
</tbody>
</table>
Income Under The Head Business/Profession

<table>
<thead>
<tr>
<th>Balance c/f</th>
<th>95,700</th>
</tr>
</thead>
<tbody>
<tr>
<td>8,36,700</td>
<td>8,36,700</td>
</tr>
</tbody>
</table>

**Additional information:**

1. On 31.03.2014 legal fees outstanding amounted to `22,000

2. Rent is payable @ `12,000 p.m.

3. 70% of the use of the car is for official purpose and 30% for personal purpose.

4. Legal books for `12,000 was purchased on 01.05.2013 and put to use on the same date and for `18,000 on 01.11.2013 and put to use on the same date.

5. Half of the house taken on rent is being used for residential purposes.

Compute the Total Income and Tax Liability and Tax Payable of Mr. Avinash for the Assessment Year 2014-15.

**Answer** = Total Income: `1,99,000; Tax Liability: Nil; Tax Payable: Nil; Refund: `22,000

**Problem 8.**
Mr. Mukesh Kumar is a Chartered Accountant and has prepared the following income and expenditure account as on 31.03.2014.

**Income and Expenditure Account**

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Amount `</th>
<th>Income</th>
<th>Amount `</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office expenses</td>
<td>12,000</td>
<td>Professional fee</td>
<td>15,00,000</td>
</tr>
<tr>
<td>Employee’s salary</td>
<td>20,000</td>
<td>Consultancy Fee</td>
<td>55,000</td>
</tr>
<tr>
<td>Magazines and newspapers</td>
<td>800</td>
<td>Dividend from Indian co.</td>
<td>8,500</td>
</tr>
<tr>
<td>Entertainment Expenses (Personal)</td>
<td>17,500</td>
<td>Profit on sale of debentures (STCG)</td>
<td>8,450</td>
</tr>
<tr>
<td>Donation for a charity show</td>
<td>600</td>
<td>Gift from father in-law</td>
<td>6,050</td>
</tr>
<tr>
<td>Interest on loan for professional purpose</td>
<td>800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Tax (advance tax)</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Car Expenses</td>
<td>2,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of books</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stationery</td>
<td>21,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diwali gift to employees</td>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent for own building</td>
<td>60,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal tax</td>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>White washing and Painting of building</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses incurred on the Opening ceremony (refreshments)</td>
<td>3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit</td>
<td>14,28,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>15,78,000</strong></td>
<td></td>
<td><strong>15,78,000</strong></td>
</tr>
</tbody>
</table>

You are required to compute his Total Income and Tax Liability for the Assessment Year 2014-15 considering the following points –

1. The car is used equally for official and personal purposes.
2. `1,500 for domestic servant’s salary is included in employee’s salary.

3. Books were purchased on 01.09.2013 and were put to use on the same date.

4. Payment of stationery `20,500 was made by a bearer cheque and `500 was paid in cash.

5. Mukesh is owner of a building. Its written down value is `90,000 on 01.04.2013. The building is used for official purposes. No depreciation is claimed.

6. Furniture having written down value of `30,000 as on 01.04.2013 is also used for profession. Office chairs and tables were purchased and put to use on 30.03.2014 for the purpose of a new office which has been inaugurated on 31.03.2014. No depreciation has been debited to the profit and loss account. Actual cost `20,000

7. Employee’s salary includes bonus of `5,000 which was paid to one of the employees on 01.07.2014.

**Answer** = Total Income: `15,08,900; Tax Liability: `2,91,150

**Problem 9.**
The following is the profit and loss account of Mr. Ankur for the Assessment Year 2014-15.

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount `</th>
<th>Particulars (Credits)</th>
<th>Amount `</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening stock</td>
<td>25,000</td>
<td>Sales</td>
<td>101,96,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>100,60,000</td>
<td>Closing Stock</td>
<td>30,000</td>
</tr>
<tr>
<td>Wages</td>
<td>12,000</td>
<td>Gift from brother</td>
<td>10,000</td>
</tr>
<tr>
<td>Rent</td>
<td>7,000</td>
<td>Income tax refund</td>
<td>3,000</td>
</tr>
<tr>
<td>Repairs of car</td>
<td>500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wealth tax paid</td>
<td>4,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical expenses</td>
<td>1,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation of car</td>
<td>3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>1,26,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>102,39,000</strong></td>
<td><strong>Total</strong></td>
<td><strong>102,39,000</strong></td>
</tr>
</tbody>
</table>

Following further information is given:

1. Ankur bought one air conditioner for `25,000 on 01.05.2013 and it was put to use on the same date and no depreciation was claimed by him.

2. Medical expenses were incurred for treatment of Mrs. Ankur and also it includes premium of `300 of medi claim policy taken in the name of one of employees and the payment was made by a cheque.

3. Wages include `2,500 on account of Ankur’s salary.

4. Opening and closing stock are overvalued by 5%.

5. Sales include a sale of `50,000 being goods withdrawn by Mr. Ankur (Cost price `45,000, market price `47,000).

Mr. Ankur was employed in a private firm upto 30.06.2013 and was getting a salary of `6,000 p.m. and his employer has not yet paid salary for the month of June 2013.
He has paid tuition fees of ₹200 p.m. per child for his two children to a public school.

Compute his Total Income and also his Tax Liability for Assessment Year 2014-15.

**Answer** = Total Income: ₹1,24,910; Tax Liability: Nil

**Problem 10.**
Shri. Bishambar Dayal (age 79 years) is running a shop at Chandni Chowk and has submitted the following profit and loss account for the Assessment Year 2014-15.

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount `</th>
<th>Particulars (Credits)</th>
<th>Amount `</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening stock</td>
<td>10,00,000</td>
<td>Sales</td>
<td>110,00,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>95,70,000</td>
<td>Closing stock</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Salaries</td>
<td>1,50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market rent (building is owned by the assessee himself)</td>
<td>1,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal taxes of the building (due)</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss by theft</td>
<td>19,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donation for Ram Lila celebration</td>
<td>1,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for bad debts</td>
<td>11,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gifts to relatives</td>
<td>400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Presents to clients for advertisements</td>
<td>300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public provident fund</td>
<td>12,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on loan for business</td>
<td>13,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on capital</td>
<td>4,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Addition to business premises</td>
<td>2,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repairs of business premises</td>
<td>600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wealth tax</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fine for violation of traffic rules</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>3,11,100</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Additional information:**
1. Purchases includes purchase of ₹1,00,000 from a relative and it is excessive by ₹20,000 and payment was made in cash.

2. Salary includes ₹1,40,000 paid outside India without deducting tax at source and ₹7,000 were paid to one of the relatives which is more than the market rate by ₹1,000.

3. Business is being run in a commercial building which is owned by the assessee and its written down value on 01.04.2013 is ₹10 lakhs and addition was made to the building on 01.01.2014 and brought into immediate use and no depreciation has been debited to profit and loss account.

Compute his Total Income and Tax Liability for the Assessment Year 2014-15.

**Answer** = Total Income: ₹6,40,100; Tax Liability: ₹54,610

**Problem 11.**
Mrs. Himali Khanna submitted the following profit & loss account for the Assessment Year 2014-15.
### Particulars (Debits) | Amount | Particulars (Credits) | Amount
---|---|---|---
Salary (including proprietor’s salary of '15,000) | 46,000 | Gross Profit | 1,22,000
General Expenses | 6,000 | Bad debts recovered (not allowed earlier due to lack of evidence) | 2,000
Advertisements | 39,000 | Interest on company deposit | 5,000
Interest on proprietor’s capital | 2,000 | Long term capital gains | 5,00,000
Provision for bad debts | 2,000 | | |
Depreciation | 4,000 | | |
Reserve for VAT | 10,000 | | |
Advance income tax | 2,000 | | |
Donation to scientific research institution | 1,000 | | |
Motor car expenses | 1,000 | | |
Wealth tax paid | 3,500 | | |
Income Tax | 4,000 | | |
Stationery | 1,900 | | |
Net Profit | 5,06,600 | | | 6,29,000

**Other information:**
1. General expenses include `300 given to a poor student to enable him to pursue his studies.
2. Motor car expenses include `300 for personal purposes.
3. Scientific institution is an approved institution.

Compute her Tax Liability and Tax Payable for the Assessment Year 2014-15.

**Answer =** Tax Liability: `70,647.70 Tax Payable: `64,650

**Problem 12.**
Mr. Santosh Kumar a Chartered Accountant submits his receipt and payment account for assessment year 2014-15.

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Amount</th>
<th>Payments</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance b/d</td>
<td>1,00,000</td>
<td>Stipend to articled clerks</td>
<td>12,000</td>
</tr>
<tr>
<td>Audit Fees</td>
<td>2,40,000</td>
<td>Office Expenses</td>
<td>24,000</td>
</tr>
<tr>
<td>Payment received for appearing before Income Tax Appellate Tribunal</td>
<td>25,000</td>
<td>Office Rent</td>
<td>18,000</td>
</tr>
<tr>
<td>Misc. receipts</td>
<td>20,000</td>
<td>Salaries and Wages</td>
<td>20,500</td>
</tr>
<tr>
<td>Rent received for house property</td>
<td>24,000</td>
<td>Printing and Stationery</td>
<td>4,000</td>
</tr>
<tr>
<td>Present from clients</td>
<td>10,000</td>
<td>Subscription to ICAI</td>
<td>1,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Purchased books for professional purposes on 01.07.2013 and put to use on the same date</td>
<td>15,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Travelling Expenses</td>
<td>5,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Interest on loan for payment of income</td>
<td>12,000</td>
</tr>
</tbody>
</table>
Compute his Tax Liability for the Assessment Year 2014-15.

**Answer** = Tax Liability: Nil

**Problem 13.**
ABC Ltd. submits the profit & loss account for the year ending 31st March 2014.

```
<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount '</th>
<th>Particulars (Credits)</th>
<th>Amount '</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary to staff</td>
<td>3,00,000</td>
<td>Gross Profit</td>
<td>5,27,000</td>
</tr>
<tr>
<td>Capital expenditure for promotion of family planning amongst employee</td>
<td>14,000</td>
<td>Rent of flats given to staff</td>
<td>24,000</td>
</tr>
<tr>
<td>Sales-Tax (paid on 01.11.2014)</td>
<td>24,000</td>
<td>Sundry receipts</td>
<td>7,000</td>
</tr>
<tr>
<td>Gratuity paid to staff</td>
<td>24,000</td>
<td>Capital gains on sale of land which was purchased two years ago</td>
<td>60,000</td>
</tr>
<tr>
<td>Reserve for future losses</td>
<td>30,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve for bad debts</td>
<td>14,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment of advance income-tax</td>
<td>17,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Car expenses</td>
<td>20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>30,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office expenses</td>
<td>12,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repair of flats given to staff</td>
<td>24,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sundry expenses</td>
<td>46,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>63,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6,18,000</td>
<td></td>
<td>6,18,000</td>
</tr>
</tbody>
</table>
```

Determine the Total Income and Tax Liability of company for the Assessment year 2014-15.

**Answer** = Total Income: `1,59,200; Tax Liability `49,190

**Problem 14.**
From the following profit and loss account of Mr. Narang for the year ending March 31st, 2014, compute his Total Income and Tax Liability for the Assessment Year 2014-15.

```
<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount '</th>
<th>Particulars (Credits)</th>
<th>Amount '</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening stock</td>
<td>4,40,000</td>
<td>Sales</td>
<td>101,00,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>90,35,000</td>
<td>Closing stock</td>
<td>4,97,000</td>
</tr>
<tr>
<td>Salaries</td>
<td>8,50,000</td>
<td>Rental income from house property</td>
<td>84,000</td>
</tr>
<tr>
<td>Rent rate &amp; taxes</td>
<td>1,25,000</td>
<td>Dividends from an Indian company</td>
<td>12,000</td>
</tr>
<tr>
<td>Legal charges</td>
<td>45,000</td>
<td>Income from owning and maintaining of race camels</td>
<td>20,000</td>
</tr>
<tr>
<td>Miscellaneous expenses</td>
<td>22,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for bad debts</td>
<td>32,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
```

Caultimates.com
Additional information:
(i) Purchases include `1,10,000 paid in cash to a cultivator for purchase of an agricultural produce.
(ii) Purchases also include `15,000 paid by way of compensation to a supplier as the assesse was unable to take the delivery of goods due to lack of storage space and finance.
(iii) Opening stock was overvalued by 25% and closing stock was undervalued by 25%.
(iv) Salary includes `25,000 paid as customary bonus on the occasion of Diwali over and above the bonus payable under the Payment of Bonus Act 1965.
(v) Rent, rates and taxes include
(a) `3,000 on account of municipal taxes for property let out and payment was made on 31.03.2014.
(b) Penalty imposed by custom department `25,000.
(vi) An amount of `22,000 from a customer was written off from the provision for bad debts.
(vii) An employee was retired on 28.03.2014. Gratuity payable to him was `22,000. A provision was created for the same this year and it was paid on 02.04.2014.
(viii) Mrs. Narang is a law graduate and actively working in the assesse firm and salary paid is reasonable.
(ix) He has invested `1,00,000 in equity shares of infrastructure development companies.
(x) He has loss from owning and maintaining of race horses `20,000.

Answer = Total Income: `2,18,370; Tax Liability -Nil

Problem 15.
Net profit as per the profit and loss account of Mr. X is `7,70,000 for the year ending 31st March, 2014.

The following information is noted from the accounts:

(a) Advertisement expenditure debited to profit and loss account includes the following:

(i) Expenditure incurred outside India: `56,000 (Tax has been deducted at source and paid during the year)

(ii) Articles presented by way of advertisement (60 articles cost of each being `700, and 36 articles cost of each being `1,500);

(iii) `20,000 being the cost of advertisement which appeared in a newspaper owned by a political party;

(iv) `14,400 being capital expenditure on advertisement; (eligible for dep. @ 25%)

(v) `15,000 paid in cash
(vi) `9,000 paid to a concern in which X has substantial interest (amount is excessive to the extent of `1,800)

(b) Out of salary to the employees debited to the profit and loss account:

(i) `60,000 is employee’s contribution to the recognized provident fund, `47,500 of which is credited in the employee’s account in the relevant fund before the due date for provident fund;

(ii) `58,000 is bonus which is paid on 13th November, 2014;

(iii) `44,000 is commission which is paid on 1st December, 2014;

(iv) `25,000 is incentive to workers, which is paid on 10th December, 2014.

(v) `46,000 is paid outside India in respect of which tax is not deducted at source;

(vi) `6,000 being capital expenditure for promoting family planning amongst employees; and

(vii) `55,000 being entertainment allowance given to employees.

(c) Entertainment expenses debited to profit and loss account is `12,000.

Determine the Total Income and Tax Liability of Mr. X for the Assessment Year 2014-15.

Answer = Total Income: `9,69,100; Tax Liability `1,27,530

Problem 16.
The profit and loss account of Jitender for the year ending 31st March, 2014 discloses net profit of `90,000.

Travelling expenses debited to the profit and loss account include the following:

(i) `1,80,000 being expenditure incurred on a foreign tour, out of which `15,000 is incurred in Indian currency and `1,65,000 in foreign currency for a visit of 8 days to Germany; out of 8 days, 2 days are utilized by Jitender for attending personal work.

(ii) `45,000 being expenditure on air-fare in India by a sales manager.

(iii) `6,500 incurred for purchasing a machine for factory. (Put to use for more than 180 days)

(iv) `66,000 being hotel expenses as follows:

   (a) 4 days visit to Madras : `18,000
   (b) 3 days visit to Bombay : `8,000
   (c) 17 days visit to Bangalore : `40,000

Salary to employees include the following:

(1) Own salary of Jitender: `26,000

(2) Commission on purchases to employees (which is actually paid on 1st November, 2014): `42,000

Find out the Total Income and Tax Liability of Jitender for the Assessment Year 2014-15.
**Problem 17.**

From the following profit and loss account of Mr. Rameshwar for the year ended 31st March, 2014, compute his Total Income and Tax Liability for the Assessment Year 2014-15:

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount '</th>
<th>Particulars (Credits)</th>
<th>Amount '</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Stock</td>
<td>9,50,000</td>
<td>Sales</td>
<td>101,06,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>80,50,000</td>
<td>Closing Stock</td>
<td>3,60,000</td>
</tr>
<tr>
<td>Salaries</td>
<td>7,00,000</td>
<td>Long term capital gain on sale of house property</td>
<td>36,000</td>
</tr>
<tr>
<td>Rent, rates and taxes</td>
<td>1,25,000</td>
<td>Dividends from foreign company</td>
<td>12,000</td>
</tr>
<tr>
<td>Deposit in National Saving Certificate</td>
<td>42,000</td>
<td>Winnings of a lottery (gross)</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Miscellaneous Expenses</td>
<td>21,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for bad debts</td>
<td>31,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for gratuity</td>
<td>24,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for VAT</td>
<td>45,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary to Mrs. Rameshwar</td>
<td>48,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchased one computer on 01.11.2013</td>
<td>40,000</td>
<td>and put to use on the same date</td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>9,38,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>110,14,000</td>
<td></td>
<td>110,14,000</td>
</tr>
</tbody>
</table>

**Additional information:**

(i) Purchases include  
   (a) Purchase of `1,00,000 from a relative (market price `80,000) and payment was made in cash.  
   (b) Purchase of `25,000 being the products manufactured without aid of power in a cottage industry and the payment was made to its producer and payment was made in cash.  
   (c) Purchases of `35,000 from a person who is residing in a village having no bank and payment was made in cash.

(ii) Opening and closing stock were overvalued by 10%.

(iii) Salary includes `25,000 being bonus paid to the staff on 01.11.2014 on the occasion of Diwali.

(iv) Rent, rates and taxes include  
   (a) Municipal tax paid on 01.11.2014 `30,000

(v) An employee was retired on 28th March, 2014 and Gratuity payable to him was `24,000 and a provision was created for the same.

(vi) Mrs. Rameshwar is a housewife and payment is excessive by `48,000.

**Answer =** Total Income: `12,98,640; Tax Liability `2,46,920

**Problem 18.**
The profit and loss account of Marc Ltd. for the year ended 31st March, 2014 showed a net profit of `8,00,000 and some of the debits and credits are as given below:

(A) Debit side of profit and loss account included the following:

(i) The depreciation provided in the books `60,000, however the amount computed under the Income Tax Act `1,20,000.

(ii) `30,000 was paid to the company’s lawyer for arguing appeals of the company before the Income Tax Appellate Tribunal against levy of penalty for some earlier cases where appeals have been dismissed by the tribunal.

(iii) `2,000 being fine imposed by the municipality for violating their regulations.

(iv) Reserve for bad debts `35,000.

(B) The credit side of the profit and loss account included the following:

(i) Income from units of UTI `35,000

(ii) Dividend from Indian company `20,000

(C) It is also observed that both the opening stock of `90,000 and closing stock of `1,08,000 are undervalued by 10% on cost.

Compute the Total Income and Tax Liability of the company for the Assessment Year 2014-15.

Answer = Total Income: `7,24,000; Tax Liability: `2,23,720

Problem 19.
Prakash is a leading lawyer of Mumbai. He deposits in the bank all the receipts and always pays all the expenses by cheque. The analysis of his bank account for the year ended 31st March, 2014 is asunder:

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Amount `</th>
<th>Payments</th>
<th>Amount `</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance b/f</td>
<td>15,000</td>
<td>Salaries</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>16,75,000</td>
<td>Rent of chamber</td>
<td>2,55,000</td>
</tr>
<tr>
<td>Dividend from Indian Co.</td>
<td>8,000</td>
<td>Telephone Expenses</td>
<td>26,000</td>
</tr>
<tr>
<td>Rent from house property which is let out</td>
<td>60,000</td>
<td>Magazine Subscription</td>
<td>3,000</td>
</tr>
<tr>
<td>Dividend from UTI</td>
<td>10,000</td>
<td>Motor car expenses</td>
<td>10,000</td>
</tr>
<tr>
<td>Interest from a company (gross)</td>
<td>8,000</td>
<td>Motor car (purchased and put to use on 01.12.2013)</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Gift from his son from outside India</td>
<td>6,000</td>
<td>Misc. office expenses</td>
<td>5,500</td>
</tr>
<tr>
<td>Honorarium for delivering lectures in C.A. institute</td>
<td>5,000</td>
<td>Advance payment of income-tax</td>
<td>38,000</td>
</tr>
<tr>
<td>Honorarium for writing articles in Hindustan Times</td>
<td>1,000</td>
<td>Personal expenses</td>
<td>48,500</td>
</tr>
<tr>
<td>House property expenses: Municipal taxes</td>
<td>6,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Repairs</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Insurance</td>
<td>2,000</td>
<td></td>
</tr>
</tbody>
</table>
Compute his Total Income, Tax Liability and Tax Payable after taking into account the following information:

(i) 10% of the motor car expenses relate to personal use.

(ii) Salaries include employer’s contribution to Recognised Provident Fund of ₹18,000 which was credited on 01.07.2014.

(iii) Prakash stays in his house, the gross annual value of which is ₹16,800.

Following are the expenses which have been included in the above account in respect of this house:

(a) Municipal taxes: ₹2,000.

(b) Repairs: ₹500

(c) Insurance premium: ₹500

(iv) He has loss under the head house property ₹31,200 and the loss can be set off as per section 71B.

**Answer** = Total Income: ₹8,76,750; Tax Liability: ₹1,08,510.50; Tax Payable: ₹70,510

**Problem 20.**

Alpha Ltd., a manufacturing company, which maintains accounts under mercantile system has disclosed a net profit of ₹12.50 lakhs for the year ending 31st March, 2014. You are required to compute the total Income and Tax Liability of the company for the Assessment Year 2014-15, after considering the following information, duly explaining the reasons for each item of adjustment:

(i) Advertisement expenditure includes the sum of ₹60,000 paid in cash to the sister concern of a director, the market value of which is ₹52,000.

(ii) Legal charges include a sum of ₹45,000 in connection with amalgamation duly approved by the High Court.

(iii) Repairs of plant and machinery includes ₹1.80 lakhs towards replacement of worn out parts of machineries.

(iv) A sum of ₹6,000 on account of liability foregone by a creditor has been taken to general reserve. The same was charged to the revenue account in the Assessment Year 2008-09.

(v) Sale proceeds of import entitlements amounting to ₹1 lakh has been credited to profit and loss account, which the company claims as capital receipt not chargeable to income tax.

(vi) The company has donated ₹2,00,000 to National Urban Poverty Eradication Fund. The amount has been debited to the profit and loss account.

(vii) Being also engaged in the biotechnology business, the company incurred the following expenditure on
in-house research and development as approved by the prescribed authority:

(a) Research equipment purchased `1,50,000.

(b) Remuneration paid to scientist ` 50,000.

The total amount of `2,00,000 is debited to the profit and loss account.

**Answer =** Total Income: `11,52,000; Tax Liability: `3,55,970

**Problem 21.**

(i) Gross total income of Mrs. X, aged 60, a resident of Delhi for the financial year 2013-14 is `3,00,000. It includes an income of `20,000 from the business of dealing in shares on which she has paid securities transaction tax of `1,800 and it has not been debited to the profit and loss account. She has also deposited `10,000 in her public provident fund account with the State Bank of India.

Compute her Tax Liability for the Assessment Year 2014-15.

**Answer =** Tax Liability: `1,870

(ii) ABC Ltd. is engaged in the business of sale/purchase of shares and the company has computed its income `11,00,000 after debiting securities transaction tax of `1,85,000.

Compute Tax Payable by the company for the Assessment Year 2014-15.

**Answer =** `3,39,900

(iii) Mr. X is engaged in the business of sale/purchase of shares and he has computed its income `18,00,000 after debiting securities transaction tax of `2,10,000.

Compute Tax Payable by Mr. X.

**Answer =** `3,81,100

**Problem 22.**

Determine the previous year in which the expenditure is allowable in the following cases (TDS is supposed to be deducted with regard to all the payments and all the payments are in India):

(i) ABC Ltd. has made payment of interest on 10th, June 2013 and has deducted tax at source on the same date and has deposited the amount on 08.07.2013.

(ii) The company has paid commission on 10.03.2014 and has deducted tax on the same date but it was paid on 05.04.2014.

(iii) The company has paid fees for professional services on 31.03.2014 and deducted tax at source on the same date but the tax was paid on 07.04.2014.

(iv) The company has paid to a contractor on 31.03.2014 and tax was deducted on the same date but it was paid on 01.06.2014.

(v) The company has paid technical fees on 01.01.2014 and no tax has been deducted at source.

(vi) The company has paid brokerage on 01.04.2014 and has deducted the tax on the same date and has paid...
Problem 23.
Following is the profit & Loss account of Mr. A, a dealer in shares and securities for the year ended on 31\textsuperscript{st} March, 2014:

\begin{tabular}{|c|c|c|}
\hline
\textbf{Particulars (Debits)} & \textbf{Amount} & \textbf{Particulars (Credits)} & \textbf{Amount} \\
\hline
To Trading Expenses & 103,60,000 & By Sales & 113,54,000 \\
To Administrative Expenses & 1,15,000 & By Interest on fixed deposit with bank & 18,500 \\
To Financial Expenses & 50,265 & By Dividend from Indian company & 66,360 \\
To Demat and Delivery charges & 5,350 & By Interest on sales tax refund & 330 \\
To Securities Transaction Tax & 6,500 & & \\
To Net profit before depreciation & 9,02,075 & & \\
\hline
\end{tabular}

\[\text{Total Income: } 114,39,190; \text{ Tax Liability: } \] 

\[\text{Answer = Total Income: `8,35,720; Tax Liability: `1,00,060}\]

Problem 24.
Mr. Dinesh Kumar is engaged in the business of plying goods carriages. On 1\textsuperscript{st} April, 2013, he owns 10 trucks (out of which 6 are heavy goods vehicles). On 2\textsuperscript{nd} May, 2013, he sold two of the heavy goods vehicle and purchased two light goods vehicles on 6\textsuperscript{th} May, 2013. Those new vehicles could however be put to use only on 15\textsuperscript{th} June, 2013.

\[\text{Freight charges collected } 9,90,000\]
\[\text{Less: operational expenses } 7,25,000\]
\[\text{Depreciation as per sec 32 } 1,85,000\]
\[\text{Other office expenses } 15,000\]
\[\text{Net Profit } 9,25,000\]
\[\text{Other business and non-business income } 1,00,000\]

\[\text{Answer = Presumptive Basis: Total Income: `6,75,000; Tax Liability: `66,950}\]
\[\text{Non-presumptive Basis: Total Income: `1,65,000; Tax Liability: Nil}\]

Problem 25.
Profit and loss account of Mr. A for the previous year 2013-14 is asunder:

\begin{tabular}{|c|c|c|}
\hline
\textbf{Particulars (Debits)} & \textbf{Amount} & \textbf{Particulars (Credits)} & \textbf{Amount} \\
\hline
Salaries & Wages & 6,00,000 & Gross Profit & 14,50,000 \\
Advertisement & 1,00,000 & Long term capital gains & 4,00,000 \\
Travelling Expenses & 2,00,000 & Recovery of bad debts (earlier it was allowed) & 50,000 \\
Depreciation on business assets & 50,000 & & \\
Donation to an approved institution for & 70,000 & & \\
\hline
\end{tabular}
**Profit and Loss Account**

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount ' `</th>
<th>Particulars (Credits)</th>
<th>Amount ' `</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Purchases</td>
<td>95,00,000</td>
<td>By Sales</td>
<td>102,71,000</td>
</tr>
<tr>
<td>To Salaries and bonus</td>
<td>2,70,000</td>
<td>By Discount</td>
<td>10,000</td>
</tr>
<tr>
<td>To Sales tax payable</td>
<td>30,000</td>
<td>By Interest (gross) from Indian companies</td>
<td>70,000</td>
</tr>
<tr>
<td>To General expenses</td>
<td>1,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Expenditure on technical know-how</td>
<td>36,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Expenses on sales tax proceedings</td>
<td>15,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Advertisements</td>
<td>50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Interest on capital</td>
<td>20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Rent of buildings owned by Mr. A</td>
<td>30,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Net profit</td>
<td>3,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>103,51,000</strong></td>
<td></td>
<td><strong>103,51,000</strong></td>
</tr>
</tbody>
</table>

**Additional information is given below:**

1. Purchases include a cash purchase of `20,000 from a farmer who lives in a village which is not served by any bank.

2. Advertisements include presentation of 50 VIP bags in Jan 2014 costing `350 each.

3. Salaries and bonus includes the following payments.
Salary paid to Mr. A `52,000
Bonus paid to Mr. A `30,000
Commission paid to Mr. A `23,000

4. The proprietor has carried forward business loss from the assessment year 2010-11 amounting to `1,00,000.

5. The written down value of buildings on 01.04.2013 was `2,50,000.

6. Technical know-how was purchased and put to use on 01.07.2013.

Compute the Total Income and Tax Liability of Mr. A for the Assessment Year 2014-15.

\[ \text{Answer} = \text{Total Income: `3,87,000; Tax Liability: `17,200} \]

**Problem 27.**
The Profit & Loss account of Mr. X for the previous year ending 31.03.2014 is as given below:

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount  `</th>
<th>Particulars (Credits)</th>
<th>Amount  `</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Purchases</td>
<td>90,00,000</td>
<td>By Sales</td>
<td>102,00,000</td>
</tr>
<tr>
<td>To Business expenses</td>
<td>6,00,000</td>
<td>By Stock</td>
<td>1,50,000</td>
</tr>
<tr>
<td>To Depreciation</td>
<td>50,000</td>
<td>By Dividend from foreign company (gross)</td>
<td>30,000</td>
</tr>
<tr>
<td>To Salary to Mr. X</td>
<td>3,60,000</td>
<td>By Sundry receipts</td>
<td>20,000</td>
</tr>
<tr>
<td>To Interest on capital</td>
<td>1,89,000</td>
<td>By Long term capital gain</td>
<td>1,00,000</td>
</tr>
<tr>
<td>To Sundry expenses</td>
<td>1,01,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Net profit</td>
<td>2,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>105,00,000</strong></td>
<td></td>
<td><strong>105,00,000</strong></td>
</tr>
</tbody>
</table>

You are further informed that –

1. Purchases include cash purchases of `1,00,000

2. Bonus of `1,07,000 for the previous year 2012-13 was paid on 31.12.2013 but not included in the profit and loss account.

3. Recovery of bad debts during the year from a discontinued business of `1,00,000 but not included in the profit and loss account. Deduction was allowed in respect of bad debts.

4. Written down value of machinery as on 01.04.2013 was `5,00,000. Rate of depreciation being 15%.
   a. Machinery sold during the year for `1,00,000
   b. Machinery acquired and put to use in December 2013 for `4,00,000

5. Loss and allowances carried forward
   - Business loss – Assessment Year 2010-11 = `3,00,000
   - Depreciation – Assessment Year 2011-12 = `2,00,000

Compute Total Income and Tax Liability for the Assessment Year 2014-15.
Problem 28.
Mr. P is exporting computer software outside India. The profit & loss account for the previous year ending 31.03.2014.

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount `</th>
<th>Particulars (Credits)</th>
<th>Amount `</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Purchases</td>
<td>80,00,000</td>
<td>By Total sales</td>
<td>101,60,000</td>
</tr>
<tr>
<td>To Salaries</td>
<td>4,10,000</td>
<td>By Profit on sale of land held for the last 2 ½ years</td>
<td>6,00,000</td>
</tr>
<tr>
<td>To Interest to Mr. P</td>
<td>1,50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Salary to Mr. P</td>
<td>6,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Depreciation on plant and machinery</td>
<td>2,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Purchase of trade marks</td>
<td>2,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Net profit</td>
<td>12,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>107,60,000</strong></td>
<td></td>
<td><strong>107,60,000</strong></td>
</tr>
</tbody>
</table>

You are further informed that –

1. Trade marks purchased and put to use on 01.07.2013.

2. Written down value of plant and machinery as on 01.04.2013 is `12,00,000. Rate of depreciation being 15%.

3. Employer contribution to recognized provident fund of `4,00,000 for the previous year 2012-13 was paid on 31.12.2013 but not included in the above profit and loss account.

4. The proprietor has brought forward depreciation and long term capital loss amounting `2,36,000 and `2,00,000 from the Assessment Year 2011-12 respectively.

You are required to compute the Total Income and Tax Liability for the Assessment Year 2014-15.

Answer = Total Income: `3,02,000; Tax Liability: `18,750

Problem 29.
Mr. X is engaged in the business of civil construction including repairs of dams and supply of labour for civil construction. The Profit and Loss account of Mr. X for the year ending 31.03.2014 is as follows:

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount `</th>
<th>Particulars (Credits)</th>
<th>Amount `</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening stock of raw material</td>
<td>21,700</td>
<td>Receipt from business of civil construction</td>
<td>63,70,700</td>
</tr>
<tr>
<td>Depreciation</td>
<td>2,39,430</td>
<td>Rental income from Godown</td>
<td>48,000</td>
</tr>
<tr>
<td>Salary to employees</td>
<td>1,30,000</td>
<td>Interest on company deposits (gross)</td>
<td>2,60,000</td>
</tr>
<tr>
<td>Purchase of raw material</td>
<td>44,10,210</td>
<td>Closing Stock of raw material</td>
<td>1,31,600</td>
</tr>
<tr>
<td>Interest on loan taken to make deposit in companies</td>
<td>13,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on loan taken for business purposes</td>
<td>74,400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travelling, entertainment and</td>
<td>57,800</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Income Under The Head Business/Profession

<table>
<thead>
<tr>
<th>Advertisement expenses</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Other expenses</td>
<td>742,000</td>
<td></td>
</tr>
<tr>
<td>Municipal tax (6,000) and insurance (1,200) of Godown</td>
<td>7,200</td>
<td></td>
</tr>
<tr>
<td>Salary to Mr. X</td>
<td>1,80,000</td>
<td></td>
</tr>
<tr>
<td>Interest to Mr. X</td>
<td>69,000</td>
<td></td>
</tr>
<tr>
<td>Net profit</td>
<td>8,64,760</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>68,10,300</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Other information:**

(i) Out of other expenses debited to profit and loss account `20,000 is not deductible under section 37(1).

(ii) Out of travelling, advertisement and entertainment expenses `25,000 is not deductible under section 37(1).

(iii) On 01.04.2013, Mr. X owns the following depreciable assets:

- Plants A, B and C, depreciated value: `3,70,000, rate of depreciation 15%.
- Plants D and E, depreciated value: `1,98,000, rate of depreciation 40%.

On 01.01.2014 Mr. X sells plant D for `9,10,000 and purchases plant F and put to use on the same date (rate of depreciation 15%) for `4,86,000.

(iv) Mr. X wants to set-off the following losses brought forward from earlier years:

<table>
<thead>
<tr>
<th>Assessment Year</th>
<th>2012-13</th>
<th>2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business loss</td>
<td>20,000</td>
<td>xxxxx</td>
</tr>
<tr>
<td>Capital loss (short-term)</td>
<td>2,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

Find out Total Income and Tax Liability of Mr. X for the Assessment Year 2014-15.

**Answer** = Total Income: `19,83,840; Tax Liability: `4,37,910

**Problem 30.**

Rajeev Kapoor furnishes the following information relevant for the Assessment Year 2014-15.

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>General expenses</td>
<td>23,400</td>
</tr>
<tr>
<td>Bad debts</td>
<td>8,000</td>
</tr>
<tr>
<td>Provision for VAT and excise duty</td>
<td>10,000</td>
</tr>
<tr>
<td>Advance tax</td>
<td>11,000</td>
</tr>
<tr>
<td>Legal expenses (paid to a Chartered Accountant for preparation of income tax return)</td>
<td>4,000</td>
</tr>
<tr>
<td>Insurance of stocks</td>
<td>1,600</td>
</tr>
<tr>
<td>Salary to staff</td>
<td>25,000</td>
</tr>
<tr>
<td>Leave encashment to staff (paid during</td>
<td>5,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Particulars (Credits)</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit</td>
<td>3,21,300</td>
</tr>
<tr>
<td>Commission</td>
<td>9,500</td>
</tr>
<tr>
<td>Brokerage</td>
<td>1,200</td>
</tr>
<tr>
<td>Sundry receipts</td>
<td>2,500</td>
</tr>
<tr>
<td>Dividend from Indian companies</td>
<td>12,500</td>
</tr>
<tr>
<td>Income from Unit Trust of India</td>
<td>6,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,500</td>
</tr>
<tr>
<td>12,500</td>
</tr>
<tr>
<td>6,500</td>
</tr>
</tbody>
</table>
Income Under The Head Business/Profession

the year)

<table>
<thead>
<tr>
<th>Income Under The Head Business/Profession</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary to Rajeev Kapoor</td>
<td>24,000</td>
</tr>
<tr>
<td>Interest on overdraft</td>
<td>6,000</td>
</tr>
<tr>
<td>Interest on loan to Mrs. Rajeev Kapoor</td>
<td>32,000</td>
</tr>
<tr>
<td>Interest on capital to Rajeev Kapoor</td>
<td>22,000</td>
</tr>
<tr>
<td>Expenditure on account of Deepawali (being gift given to customers)</td>
<td>8,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>45,000</td>
</tr>
<tr>
<td>Advertisement expenses</td>
<td>7,000</td>
</tr>
<tr>
<td>Contribution to employees recognised provident fund (credited within due date)</td>
<td>12,000</td>
</tr>
<tr>
<td>Net profit</td>
<td>1,09,500</td>
</tr>
<tr>
<td></td>
<td>3,53,500</td>
</tr>
</tbody>
</table>

1. The amount of depreciation allowable is `52,500 as per the Income Tax Act, 1961.

2. Income of `25,000 received on January 20th, 2014 on units of mutual fund specified under section 10(23D) is not recorded in profit and loss account.

3. Loan from Mrs. Rajeev was taken for payment of arrears of income tax.

4. Salary to staff includes payment of `9,000 to a relative, which is unreasonable to the extent of `4,000.

5. General expenses include `5,000 incurred for payment of school fees of Rajeev’s son.

6. Mr. Rajeev Kapoor has paid insurance premium of `70,000 on the life policy (sum assured `3,40,000) of his major son on March 25th, 2014 and he invested `20,000 in Industrial Development Bank of India (IDBI) Infrastructure Bonds notified under section 80C on March 30th, 2014.

Determine the Total Income and Tax Liability of Rajeev Kapoor for the Assessment Year 2014-15.

**Answer** = Total Income: ` 1,32,000; Tax Liability: Nil

**Problem 31.**

Mrs. Sonia is a company secretary in practice. She was born on 01.02.1952 in India. Her income and expenditure account for the year ended 31.03.2014 is as follows:

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Amount</th>
<th>Income</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries paid to staff</td>
<td>17,10,000</td>
<td>Fees earned:</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Secretarial audit</td>
<td>4,30,800</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Taxation services</td>
<td>4,20,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Consultancy Services</td>
<td>17,50,000</td>
</tr>
<tr>
<td>Stipends to apprenticeship trainees</td>
<td>22,500</td>
<td>Dividend on shares of Indian companies</td>
<td>10,500</td>
</tr>
<tr>
<td>Incentives to apprenticeship trainees</td>
<td>10,000</td>
<td>Income from Unit Trust of India</td>
<td>6,500</td>
</tr>
<tr>
<td>Rent for the building in the use of profession</td>
<td>20,000</td>
<td>Profit on sale of equity shares on which STT has been paid (short term)</td>
<td>20,800</td>
</tr>
<tr>
<td>Printing and stationery</td>
<td>9,600</td>
<td>Honorarium received from various institutions for evaluation work</td>
<td>6,600</td>
</tr>
<tr>
<td>Contribution to recognised provident fund</td>
<td>35,000</td>
<td>Rent received from residential flat let out</td>
<td>62,000</td>
</tr>
</tbody>
</table>
### Other information:

(i) A sum of ₹15,000 incurred for entertaining various clients in hotels and clubs is already included in the meeting, seminar and conference expenses.

(ii) Incentives to apprentices represent amount paid to two apprentices for passing the company secretaries intermediate examination at first attempt.

(iii) One fifth of use of car is attributable to personal purposes.

(iv) 50% of loan was used for the purpose of construction of house property and 50% of loan was used for other business purpose.

(v) Mrs. Sonia follows accrual basis of accounting

(a) cost of stationery items for ₹3,000 purchased in accounting year 2012-13 which was not provided for in that year due to oversight, has been included in printing and stationery for the year 2013-14; and

(b) amount of ₹5,000 for the month of March, 2014 of provident fund contribution could not be paid upto 05.11.2014.

(vi) The written down value of various assets as on 01.04.2013 as follows:

(a) Car (Acquired on 01.04.2009) ₹85,840

(b) Typewriter (Acquired on 01.04.2009) ₹15,000

(c) Furniture (Acquired on 01.04.2009) ₹25,000

(d) Computer (Acquired on 15.12.2013 at cost of ₹1,50,000 and put to use on the same date)

(vii) Salaries include ₹30,000 paid to a computer specialist in cash for assisting Mrs. Sonia in one professional assignment.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meeting, seminar and conference expenses</td>
<td>40,000</td>
</tr>
<tr>
<td>Interest on loan</td>
<td>60,000</td>
</tr>
<tr>
<td>Journals, magazines, newspaper, income tax report</td>
<td>15,000</td>
</tr>
<tr>
<td>Courier, telephone and fax</td>
<td>2,90,400</td>
</tr>
<tr>
<td>Repairs, maintenance and petrol for car</td>
<td>16,500</td>
</tr>
<tr>
<td><strong>Depreciation:</strong></td>
<td></td>
</tr>
<tr>
<td>Car</td>
<td>8,500</td>
</tr>
<tr>
<td>Computer</td>
<td>14,000</td>
</tr>
<tr>
<td>Typewriter</td>
<td>5,000</td>
</tr>
<tr>
<td>Furniture</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Travelling Expenses</strong></td>
<td>57,000</td>
</tr>
<tr>
<td>Municipal tax paid in respect of house property</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Net Profit</strong></td>
<td>3,88,700</td>
</tr>
<tr>
<td><strong>27,07,200</strong></td>
<td></td>
</tr>
</tbody>
</table>
(viii) Mrs. Sonia has deposited `60,000 in her public provident account and invested `20,000 in infrastructure bonds of the ICICI Ltd. notified under section 80C.

Compute Total Income and Tax Liability of Mrs. Sonia for the Assessment Year 2014-15.

Answer = Total income: `2,85,450; Tax Liability: `2,660

**Problem 32.**

Mr. X has computed his income under the head business/profession `10,00,000 and he has debited the following amount.

1. Cost of goods sold `7,00,000, out of which `4,00,000 paid to a relative for purchasing stock and its market value is `3,00,000 and Mr. X has paid `2,00,000 by account payee cheque and `2,00,000 in cash.

2. He has debited `45,000 in connection with purchase of a computer which was purchased on 27.10.2013 and was put to use on the same date and payment was made in cash.

3. He has purchased one generator from his relative for `45,000 and payment was made in cash and market value was `40,000 and it was purchased on 01.10.2013 and was put to use on 07.10.2013.

4. He has paid advance tax being income tax `45,000 on 01.10.2013.

5. He has paid `21,000 to a Chartered Accountant for filing a return of income, out of which `19,500 was paid in cash and balance by an account payee cheque.

6. He has donated `20,000 to an approved research association and research work taken up by such association is not related to the business/profession of assessee.

7. He has purchased household furniture for `12,000 for personal use.

8. He has paid `20,000 in cash in connection with his medical treatment.

9. Salary paid to the proprietor is `36,000.

10. Interest on capital `9,000.

11. He has invested `25,000 in National Saving Certificate.

12. He has invested `10,000 in public provident fund in the name of his minor child.

13. He has debited rent of `35,000 in connection with his own building which is being used in his business/profession.

14. Opening stock debited is `4,50,000 which is overvalued by 10%.

15. He has incurred `7,000 on printing and distribution of diaries and calendars.

Compute his Tax Liability for the Assessment Year 2014-15.

Answer = Tax Liability: `2,74,930
### Problem 33.
Mr. X furnishes the following trading, profit and loss account for the previous year ending on 31.03.2014.

<table>
<thead>
<tr>
<th>Particulars (Debits)</th>
<th>Amount (`)</th>
<th>Particulars (Credits)</th>
<th>Amount (`)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Stocks</td>
<td>11,000</td>
<td>By Sales</td>
<td>100,84,500</td>
</tr>
<tr>
<td>To Purchases</td>
<td>94,80,000</td>
<td>By Maturity proceeds of National Saving Certificate</td>
<td>19,500</td>
</tr>
<tr>
<td>To Freight and duty</td>
<td>5,000</td>
<td>By Maturity proceeds of Bank Fixed Deposit</td>
<td>24,000</td>
</tr>
<tr>
<td>To Manufacturing wages</td>
<td>25,000</td>
<td>By Maturity proceeds of Public provident fund</td>
<td>13,000</td>
</tr>
<tr>
<td>To Factory, rent, rates and taxes</td>
<td>30,000</td>
<td>By Rent of staff quarters built in 2007</td>
<td>19,000</td>
</tr>
<tr>
<td>To Office salaries</td>
<td>27,000</td>
<td>By Refund of income tax penalty</td>
<td>1,100</td>
</tr>
<tr>
<td>To Establishment expenses</td>
<td>6,100</td>
<td>By Sale of an old machinery</td>
<td>25,000</td>
</tr>
<tr>
<td>To Cost of computer</td>
<td>24,000</td>
<td>By Recovery of bad debts (Not allowed earlier)</td>
<td>6,000</td>
</tr>
<tr>
<td>To Interest on capital</td>
<td>3,300</td>
<td>By Income tax refund (it includes interest- `400)</td>
<td>2,400</td>
</tr>
<tr>
<td>To Donation to an orphan</td>
<td>1,000</td>
<td>By Gift from friends and relatives</td>
<td>3,600</td>
</tr>
<tr>
<td>To Fire insurance</td>
<td>200</td>
<td>By Sundry receipts</td>
<td>5,000</td>
</tr>
<tr>
<td>To Bad debts</td>
<td>6,000</td>
<td>By Maturity proceeds of LIC policy</td>
<td>24,000</td>
</tr>
<tr>
<td>To Income Tax</td>
<td>6,000</td>
<td>By Refund of deposit from a supplier who could not supply the machine in time (includes interest- `255)</td>
<td>1,00,255</td>
</tr>
<tr>
<td>To National Urban Poverty Eradication Fund</td>
<td>2,000</td>
<td>By Closing stocks</td>
<td>26,400</td>
</tr>
<tr>
<td>To Employer’s contribution to Recognised provident fund</td>
<td>8,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Service charge for air-conditioner</td>
<td>21,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Expenses on sales tax proceedings</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Expenses on income tax proceedings</td>
<td>3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Diwali expenses</td>
<td>4,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Legal Expenses</td>
<td>4,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Medical expenses of proprietor</td>
<td>3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Staff welfare fund</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Repairs of staff quarters</td>
<td>4,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Security deposit for telephone connection</td>
<td>3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Bonus payable to employees</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Provision for VAT and excise duty</td>
<td>25,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Municipal taxes for staff quarters</td>
<td>4,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To General reserve</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Entertainment expenses</td>
<td>6,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Net Profit</td>
<td>6,28,155</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\[\text{103,53,755} \quad \text{103,53,755}\]
You are required to compute Tax Liability after taking the following into consideration:

1. Purchases include a purchase of `20,100. Its payment was made by a bearer cheque and also includes a purchase from a relative of `23,000 and the payment was made in cash and market price of the purchases is `22,000.

2. Factory rent, rates and taxes includes municipal tax of the factory building, which was paid on 31.07.2014.

3. Assessee has always valued the stocks at cost price but since 2013-14 he has valued it at market price, which was in excess of the cost price by 10%.

4. Office salaries paid include `12,400 to the proprietor of the business.

5. Diwali expenses include gifts of `1,000 made to the relatives.

6. The written down value of the block consisting of machinery as on 01.04.2013 is `59,000.

7. The written down value of the block consisting of factory building as on 01.04.2013 is `85,000. An addition was made to building on 01.08.2013 at a cost of `12,000.

8. Service charge for air-conditioner were paid in two instalment of `20,000 and `1,000 on 10.01.2014 and 11.01.2014 in cash.

9. Employer’s contribution was made through an account payee cheque on 10.04.2014 and the cheque realised on 20.04.2014 and the due date for the purpose of provident fund was 15.04.2014.

10. Computer was purchased on 31.03.2013 and it was put to use on 31.03.2014.

**Answer** = Tax Liability: `32,790

**Problem 34.**

Mr. X started manufacturing activity w.e.f 01.04.2013 and purchased one plant and machinery for `5,00,000 plus excise duty @ 10% plus EC @ 2% plus SHEC @ 1% plus DVAT @ 12.5% (payment was made in cash) and he purchased raw material `3,00,000 plus excise duty @ 8% plus EC @ 2% plus SHEC @ 1% plus DVAT @ 4% (half of the amount was paid in cash).

Other processing charges `1,00,000 and all the goods were sold for `10,00,000 as on 30.04.2013.

He has taken registration under Delhi Value Added Tax Act 01.05.2013 and purchased raw material for `50,00,000 plus Excise duty @ 10% plus EC @ 2% plus SHEC @ 1% plus DVAT @ 4% and purchased one plant and machinery on 15.05.2013 for `20,00,000 plus excise duty @ 10% plus EC @ 2% plus SHEC @ 1%.

He sold the goods from 01.05.2013 to 31.12.2013 for `140,00,000 exclusive of DVAT @ 12.5%.

He has taken registration under Central Excise Act on 01.01.2014 and raw material purchased from 01.01.2014 to 31.03.2014 was for `30,00,000 plus excise duty @ 8% plus EC @ 2% plus SHEC @ 1% and he sold the goods from 01.01.2014 to 31.03.2014 for `70,00,000 plus excise duty @ 10% plus EC @ 2% + SHEC @ 1% + DVAT @ 12.5%.

Since plant and machinery was purchased for the purpose of manufacturing, he is allowed additional depreciation on plant and machinery.
Show the working of Cenvat credit and VAT credit under consumption variant and also compute his income Tax Liability for Assessment Year 2014-15.

**Answer** = Tax Liability: ’39,93,950

**Problem 35.**
Mr. X started business of retail trade on 01.04.2013 and purchased goods A of `2,00,000 plus Delhi VAT @ 12.5% on 10.04.2013 and half of the payment was made in cash and balance half by account payee cheque. He purchased goods B of `3,00,000 plus DVAT @ 12.5% on 10.05.2013 and sold all the goods upto 31.05.2013 for `10,00,000.

He has taken registration under DVAT Act on 01.06.2013 and has opted for composition scheme and purchased goods C of `22,00,000 plus DVAT @ 12.5% from 01.06.2013 to 31.12.2013 and the goods were sold for `40,00,000 and he has paid composition tax @ 1%.

He has been shifted to the normal system w.e.f 01.01.2014 because he has crossed the limit of `50 lakhs.

He purchased goods D of `10 lakhs plus DVAT @ 12.5% from 01.01.2014 to 31.03.2014 and sold the goods for `18,00,000 plus DVAT @ 12.5%

He paid advance income tax `2,000 on 15.09.2013 and `3,000 on 15.12.2013 and `4,000 on 15.03.2014 and he has filed his return of income on 15.12.2014 and balance amount of income tax was also paid on 15.12.2014.

He has paid penalty of `1,000 for violation of provision of DVAT Act.

He has rejected presumptive income under section 44AD.

Compute his Income Tax Liability and interest under section 234A, 234B and 234C for the Assessment Year 2014-15 and also show the working for VAT.

**Answer** = Tax Liability: `6,91,920; Interest under section 234C: `25,630; Interest under section 234B: `62,271; Interest under section 234A: `20,757

**Problem 36.**
ABC Ltd an Indian company commenced its business on 01.04.2013 and purchased one plant & machinery on 10.04.2013 for `10,00,000 + excise duty @ 10% + EC/SHEC @ 3% + DVAT @ 4% and purchased Raw material for 3,00,000 + excise duty @ 8% + EC/SHEC @ 3% + DVAT @ 4%. The plant & Machinery was used in manufacturing and additional depreciation is allowed and it was put to use on the same date.

100% of tax credit for plant and machinery is allowed in the first year itself.

All the goods manufactured by the companies were sold up to 30.04.2013 for `10,00,000 and the company has taken registration under DVAT Act on 01.05.2013.

Company purchased raw material from 01.05.2013 to 30.09.2013 for `60,00,000 + excise duty @ 8% + EC/SHEC @ 3% + DVAT @ 4%. And the goods manufactured were sold up to 30.09.2013 for 140,00,000 + DVAT @ 12.5%.

The company purchased raw material from 01.10.2013 to 31.03.2014 for `100,00,000 + excise duty @ 8% + EC/SHEC @ 3% + DVAT @ 4% and the goods sold for `170,00,000 + excise duty @10% + EC/SHEC @ 3% + DVAT @ 12.5%.
The company has incurred following expenses before commencement of business

1. Incorporation Fee `5,00,000
2. Expenditure on capital issue `3,00,000
3. Expenditure on advertisement of the product to be manufactured by the company `8,00,000.

Project cost `200,00,000 and capital employed `220,00,000.

Compute Income Tax Liability for the Assessment Year 2014-2015 also show working of VAT.

Answer = Tax Liability: `47,50,740

Problem 37.
Mr. X is a manufacturer and is registered under Central Excise Act, 1944 and also under Central Sales Tax Act, 1956 and Delhi Value Added Tax Act, 2004 and he has submitted the particulars as given below:

1. Purchased raw material R1 on 01.04.2013 for `5,00,000 and paid Central Excise duty @ 8% plus EC and Delhi VAT @ 4%.

2. Purchased raw material R2 from Punjab on 01.04.2013 for `6,00,000 and its inclusive of Central Excise duty @ 10% plus CST @ 2%.

3. He has purchased raw material R3 from one of the related persons in the state of Delhi for `11 lakhs and paid excise duty @ 8% plus Delhi VAT @ 4% and payment was made by account payee cheque `10 lakhs and balance in cash and the payment is excessive by `1,00,000.

4. Taken a loan of `7,00,000 for meeting the working capital requirement @ 10% p.a. from State Bank. Interest to state bank was paid on 01.04.2014.

5. He has taken a loan of `10,00,000 from Punjab National Bank on 01.05.2013 @ 10% for purchasing one plant and machinery for manufacturing purpose and amount was sent directly to the supplier and supplier has issued a bill of `10 lakhs dated 01.05.2013 which includes excise duty @ 10% and Central Sales Tax @ 2% and the supplier has its office in Maharashtra. The plant and machinery was put to use on 01.11.2013. Interest to Punjab National Bank was paid on 31.03.2014. He has received subsidy of `1,00,000 for plant and machinery purchased by him. Tax credit for plant and machinery shall be allowed in the first year itself.

He had one plant and machinery on 01.04.2013 with WDV `70,00,000.

6. He purchased one commercial building on 01.04.2013 for `12 lakhs and it was put to use on 31.05.2013 and half of the building is being used as office for business and remaining half is let out @ `12,000 p.m. Municipal tax for the building due for financial year 2013-14 is `10,000 and it was paid on 01.04.2014.

7. He has paid advance income tax `1,00,000 on 15.09.2013 and has paid Income Tax of one of his employee `30,000. He has donated `1,00,000 to an approved Scientific Research Association.

8. He has paid technical fee outside India `1,80,000 (gross) on 10.01.2014 (tax was deducted at source @ 10%). It was paid to the government on 31.03.2014.
9. He has received export incentives of `60,000.

10. He has donated `30,000 to Prime Minister National Relief Fund and `15,000 to a temple by cheque notified under section 80G. He has deposited `30,000 in NSC and `40,000 in PPF.

11. He has sold one land on 01.07.2013 and there is long term capital gains of `6,00,000.

12. He has sold all the goods manufactured by him for `110,00,000 during the year and charged excise duty @ 10% plus Delhi VAT @ 12.5% and all the expenditures are yet to be debited.

Compute his Income and Tax Liability and also show the working for VAT. Also compute interest under section 234A, 234B and 234C and also interest under section 201. Return of income was filed on 10.12.2014 and paid difference of the tax on the same date.

Answer = Total Income: `78,46,330; Tax Liability: `21,87,620; Interest under section 234C: `73,937; Interest under section 234B: `1,87,884; Interest under section 234A: `62,628; Interest under section 201: `810

Problem 38.
Presume all the goods were exported by him.
Answer = Total Income: `78,46,330; Tax Liability: `21,87,620; Interest under section 234C: `73,937; Interest under section 234B: `1,87,884; Interest under section 234A: `62,628; Interest under section 201: `810

Problem 39.
Presume the goods manufactured by him were exempt from output excise duty and output VAT.
Answer = Total Income: `77,12,540; Tax Liability: `21,46,270; Interest under section 234C: `72,407; Interest under section 234B: `1,84,158; Interest under section 234A: `61,386; Interest under section 201: `810

Problem 40.
Mr. X is a trader in Delhi and he has started a shop of general merchant w.e.f 01.04.2013 and he has purchased goods of `3,00,000 in April, 2013 and goods of `4,00,000 in May’ 2013 and has paid Delhi VAT @ 12.5% and all the goods were sold by him upto May’ 2013 for `10,00,000.

He has taken registration under Delhi VAT Act on 01.06.2013 and goods purchased by him from June’ 2013 to March’ 2014 were `25,00,000 and paid Delhi VAT @ 12.5% and all the goods were sold by him for `38,00,000 and charged Delhi VAT @ 12.5%

He has taken a shop on rent w.e.f 01.04.2013 @ `20,000 p.m. and the owner of the shop has charged service tax also on the amount of rent. He has incurred `1,00,000 on maintenance of VAT accounts.

He has rejected presumptive income under section 44AD.

Compute his Income and Tax Liability and also show the working for VAT. He has not deducted tax at source discuss consequences under the section 40(a) and also under section 201.

Answer = Total Income: `11,42,840; Tax Liability: `1,78,040

Problem 41.
Presume he has opted for composition scheme and tax was paid by him @ 1% on the sales effected by him and he has saved `1,00,000 which was incurred on maintaining VAT accounts.
**Problem 42.**
ABC Ltd. an Indian company has started manufacturing w.e.f 01.04.2013 and it was registered under DVAT Act and purchased raw material as given below:

- April’ 2013 `20,00,000
- May’ 2013 `30,00,000
- June’ 2013 `20,00,000
- July’ 2013 `40,00,000
- Aug’ 2013 `20,00,000
- Sept’ 2013 `30,00,000
- Oct’ 2013 `40,00,000
- Nov’ 2013 `10,00,000
- Dec’ 2013 `30,00,000
- Jan’ 2014 `20,00,000
- Feb’ 2014 `10,00,000
- March’ 2014 `20,00,000

Total Purchases = 290,00,000

ABC Ltd. has paid excise duty @ 10% plus EC plus DVAT @ 4%.

The company has effected sales as given below:

- April’ 2013 `50,00,000
- May’ 2013 `70,00,000
- June’ 2013 `30,00,000
- July’ 2013 `20,00,000
- Aug’ 2013 `30,00,000
- Sept’ 2013 `20,00,000
- Oct’ 2013 `10,00,000
- Nov’ 2013 `20,00,000
- Dec’ 2013 `30,00,000
- Jan’ 2014 `20,00,000
- Feb’ 2014 `30,00,000
- March’ 2014 `20,00,000

Total Sales = 350,00,000

The company was not registered under Central Excise Act till 30.06.2013 and turnover upto `150 lakh is exempt from excise duty and no excise duty was charged but DVAT was charged @ 12.5%. upto 30.06.2013 and thereafter excise duty was charged @ 10% plus EC and also DVAT @ 12.5%.

The company has project cost of `500 lakhs and capital employed `550 lakhs and expenses incurred as per section 35D before commencement of business are `40 lakhs.

Compute Total Income and Tax Liability and also show the working of VAT.

**Answer =** Total Income: `47,29,000; Tax Liability: `14,61,260
SOLUTIONS 
TO 
PRACTICE PROBLEMS 

Solution 1:

Block I
Commercial building, depreciation @ 10%
Purchased on 01.06.2013, put to use on 01.07.2013 11,00,000
Written down value as on 31.03.2014 11,00,000
Depreciation @10% on `11,00,000 1,10,000

Block II
Plant and machinery, depreciation @ 15%
Purchased P1 on 01.09.2013, put to use on 10.10.2013 11,00,000
Purchased P2 on 01.10.2013, put to use on 01.11.2013 20,00,000
Purchased Scooter on 10.12.2013, put to use on 01.01.2014 20,000
Purchased 3 Mobile Phones on 10.01.2014, put to use on same date 35,000
Written down value as on 31.03.2014 31,55,000
Depreciation @ 7.5% on `31,55,000 2,36,625

Block III
Motor car, depreciation @ 15%
Purchased on 01.01.2014, put to use on same date 25,00,000
Depreciation @ 7.5% on `25,00,000 1,87,500

Block IV
Computer, depreciation @ 60%
Purchase on 01.12.2013, put to use on 31.03.2014 1,50,000
Depreciation @ 30% on `1,50,000 45,000

Block V
Furniture and fixtures, depreciation @ 10%
Purchased on 01.03.2014, put to use on same date 25,000
Depreciation @ 5% on `25,000 1,250
Total depreciation for previous year 2013-14 5,80,375

Solution 2:

Block I
Commercial building, depreciation @ 10%
Purchase of building A 30,10,000
Purchase of building C 40,10,000
Written down value as on 31.03.2014 70,20,000
Depreciation @ 10% on `70,20,000 7,02,000
Block II
Residential building, depreciation @ 5%
Purchase of building B 20,30,000
Depreciation @ 5% 1,01,500

Block III
Plant and machinery, depreciation @ 15%
Purchased plant B – Fax Machine 60,000
Purchased plant E – PABX Telephone system 1,10,000
Purchased plant F – Air Conditioners 6,80,000
Purchased plant G – Scooters 1,90,000
Written down value as on 31.03.2014 10,40,000
Depreciation @ 15% on `10,40,000 1,56,000

Block IV
Computer, depreciation @ 60%
Purchased plant A – Computer 1,10,000
Depreciation @ 60% on `1,10,000 66,000

Block V
Motor car, depreciation @ 15%
Purchased Cars 4,10,000
Depreciation @ 15% on `4,10,000 61,500

Block VI
Furniture and Fixtures, depreciation @ 10%
Purchased Office Furniture 2,85,000
Purchased Furniture for welfare centre of employees 4,10,000
Written down value on 31.03.2014 6,95,000
Depreciation @ 10% on `6,95,000 69,500

Block VII
Trade Marks depreciation @ 25%
Purchased trade marks 3,10,000
Depreciation @ 25% on `3,10,000 77,500
Total depreciation for Assessment Year 2014-15 12,34,000

Solution 3:

Block I
Plant and machinery, depreciation @ 15%
Written down value as on 1st, April 2013 2,70,000
Add: Purchases of 2 Plants on June 2nd, 2013 and put to use on the same date 2,10,000
Less: Sale of Plants on 30.11.2013 (5,00,000)
Add: Purchase of 2 Plants on Dec 15th, 2013 1,60,000
Written down value as on 31.03.2014 1,40,000
Dep. @ 7.5% on `1,40,000 10,500

Block II
Building, depreciation @ 10%
Written down value as on 1st, April 2013 6,50,000
Dep. @ 10% on `6,50,000 65,000
Total depreciation for Assessment Year 2014-15 75,500
Solution 4:

Situation 1
Written down value of Plant A and Plant B as on 01.04.2013 2,40,000
Add: Plant C purchased on 10.06.2013 and put to use on the same date 60,000
Less: Insurance claim of plant B (10,000)
Written down value as on 31.03.2014 2,90,000
Depreciation @ 15% on `2,90,000 43,500

Situation 2
Written down value of Plant A and Plant B as on 01.04.2013 2,40,000
Add: Plant C purchased on 10.06.2013 and put to use on the same date 60,000
Less: Insurance claim of Plant B (3,70,000)
Short term capital gain as per section 50 70,000
No depreciation is allowed

Situation 3
Written down value of plant A and Plant B as on 01.04.2013 2,40,000
Add: Plant C purchased on 10.06.2013 and put to use on the same date 60,000
Less: Insurance claim of Plant A, B and C (20,000)
Short term loss as per section 50 2,80,000
No depreciation is allowed

Situation 4
Written down value of plant A and Plant B as on 01.04.2013 2,40,000
Add: Plant C purchased on 10.06.2013 and put to use on the same date 60,000
Less: Insurance claim of plant A, B and C (4,00,000)
Short term capital gain as per section 50 1,00,000
No depreciation is allowed

Solution 5:

Block I
Plant and Machinery, depreciation @ 15%
P1, P2 & P3 75,00,000
Sale of P1, P2 & P3 on 07.04.2013 (20,00,000)
Short term capital loss 55,00,000

Block II
Furniture and fixture @ 10%
F1, F2 & F3 45,00,000
Sale of F1 on 31.03.2014 (46,00,000)
Short term capital gain 1,00,000

Block III
Buildings @ 10%
B1, B2, B3 10,00,000
Purchased Hotel building B4 on 30.09.2013 and put to use on 16.12.2013 32,00,000
Construction of road on 12.03.2014 and put to use on 31.03.2014 1,00,000
Sale of B1 on 20.04.2013 (2,00,000)
41,00,000
Dep. @ 5% on `33,00,000 1,65,000
Income Under The Head Business/Profession

Dep. @ 10% on `8,00,000

**Block IV**

*Computer @ 60%*

Purchased on 25.03.2013 and put to use on 09.10.2013
Dep. @ 60%

**Block V**

*Motor car @ 15%*

Purchased on 02.10.2013 and put to use on 03.10.2013
Dep. @ 15%

**Block VI**

*Residential building @ 5%*

Purchased on 01.04.2013 and put to use on 10.04.2013
Dep. @ 5%

Total depreciation for Assessment Year 2014-15

**Solution 6:**

**Computation of Total Income**

- Visiting fees: 5,75,000.00
- Consultation fees: 9,15,000.00
- Sale of medicines: 28,000.00
- Operation theatre rent: 18,000.00
- Cash payment not recorded in books: 75,000.00

Less:

- Clinic expenses: 1,24,000.00
- Depreciation on medical books @ 60%: 9,000.00
- Depreciation on surgical equipment: 11,250.00

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>w.d.v as on 01.04.2013</td>
<td>60,000</td>
</tr>
<tr>
<td>Sale of surgical instruments</td>
<td>(30,000)</td>
</tr>
<tr>
<td>Purchase on 01.11.2013</td>
<td>90,000</td>
</tr>
<tr>
<td>Balance</td>
<td>1,20,000</td>
</tr>
<tr>
<td>Depreciation @ 7.5% on 90,000</td>
<td>6,750</td>
</tr>
<tr>
<td>Depreciation @ 15% on 30,000</td>
<td>4,500</td>
</tr>
<tr>
<td>Motor car expenses (2/3rd of `36,000)</td>
<td>24,000.00</td>
</tr>
<tr>
<td>Depreciation on car</td>
<td>12,000.00</td>
</tr>
<tr>
<td>Indian Medical Association membership fees</td>
<td>7,000.00</td>
</tr>
<tr>
<td>Payment to C.A. for filing return of income</td>
<td>4,000.00</td>
</tr>
<tr>
<td>Entertainment expenses</td>
<td>24,000.00</td>
</tr>
<tr>
<td>Medical purchases</td>
<td>33,000.00</td>
</tr>
<tr>
<td>Income under the head Business/Profession</td>
<td>13,62,750.00</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td></td>
</tr>
<tr>
<td>Gross Annual Value</td>
<td>66,000.00</td>
</tr>
</tbody>
</table>

**Working Note:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Municipal valuation</td>
<td>66,000</td>
</tr>
<tr>
<td>(b) Rent received/receivable = 5,500 x 11 =</td>
<td>60,500</td>
</tr>
<tr>
<td>GAV = Higher of (a) or (b)</td>
<td>66,000</td>
</tr>
</tbody>
</table>

Less: municipal tax
Net Annual Value

Caultimates.com
Less: 30% of NAV u/s 24(a) 19,800.00
Less: Interest on capital borrowed u/s 24(b) 30,000.00
Income under the head House Property 16,200.00
Income under the head Business/Profession 13,62,750.00
Income under the head Other Sources Nil
{Dividend exempt u/s 10(34)}
Gross Total Income 13,78,950.00
Less: Deduction u/s 80C to 80U Nil
Total Income 13,78,950.00

Computation of Tax Liability
Tax on `13,78,950 at slab rate 2,43,685.00
Add: Education cess @ 2% 4,873.70
Add: SHEC @ 1% 2,436.85
Tax Liability 2,50,995.55
Rounded off u/s 288B 2,51,000.00

Note:
1. Maturity proceeds of life policy is exempt from tax under section 10(10D).
2. Membership fees given to the professional bodies is allowed.

Solution 7:
Computation of income under the head Business/Profession
Consultancy fee 2,20,000
Special commission 15,500
Less:
Rent (50%) 72,000
Office expenses 28,000
Depreciation on car 31,500
{3,00,000 x 15% = 45,000}
{ 45,000 x 70 % = 31,500}
Magazines and journals 18,000
Depreciation on computer @ 60% 30,000
Depreciation on legal books 12,600
{(12,000 x 60%) + (18,000 x 30%)}
Car expenses {70% x 42,000} 29,400
Electricity and water charges (50%) 8,000
Income under the head Business/Profession 6,000

Computation of income under the head Other Sources
Dividend from UTI [exempt u/s 10(35)] Nil
Payment from university as an evaluator 7,000
Income under the head other sources 7,000

Computation of income under the head salary
Gross Salary 45,000
Income under the head salary 45,000

Computation of Total Income
Income under the head Salary 45,000
Income under the head Business/Profession 6,000
Income under the head Capital Gains (STCG) 2,00,000
Income Under The Head Business/Profession

Income under the head Other Sources
Gross Total Income
Less: Deduction u/s 80C (54,000 + 5,000)
Total Income

Computation of Tax Liability
Tax Liability
Less: Tax Paid in Advance
Refund

Note: It is assumed that life insurance policy has been taken on or after 01.04.2012.

Solution 8:
Computation of professional income as per income & expenditure account

Net profit as per profit and loss account
Add: inadmissible expenses
  Domestic servant salary
  Entertainment expenses
  Donation for charity show
  Income tax
  Car expenses
  Books purchased
  Stationery
  Rent of own building
Less:
  Dividend {Exempt u/s 10(34)}
  Profit on sale of debentures
  Gift from father in law
  Depreciation on building (90,000 @ 10%)
  Depreciation on books (2,000 @ 60%)
  Depreciation on furniture (30,000 @ 10%)
  (20,000 @ 5%)
Income under the head Business/profession
Income under the head Capital Gains (STCG)
Gross Total Income
Less: Deduction u/s 80C to 80U
Total Income

Computation of Tax Liability
Tax on `15,08,900 at slab rate
Add: Education cess @ 2%
Add: SHEC @ 1%
Tax Liability
Rounded off u/s 288B

Note:
Expenses on opening ceremony are allowed under section 37(1).
Solution 9:

**Computation of income under the head business/profession**

Net Profit as per profit & loss account ........................................ 1,26,000.00
Add: inadmissible expenses

- Wealth tax paid ........................................................................... 4,000.00
- Medical expenses ......................................................................... 1,200.00
  (Payment of medi claim insurance is allowed u/s 36(1)(ib))
- Opening stock adjustment (25,000 x 5/105) .......................... 1,190.48
- Ankur’s salary ........................................................................... 2,500.00
Total ............................................................................................ 1,34,890.48
Less:

- Gift from brother ........................................................................ 10,000.00
- Income tax refund ....................................................................... 3,000.00
- Depreciation on Air conditioner @ 15% .................................... 3,750.00
- Adjustment for sales (50,000 – 45,000) ......................... 5,000.00
- Closing stock adjustment (30,000 x 5/105) .................... 1,428.57
Business income ........................................................................ 1,11,711.91

**Computation of income under the head Salary**

Basic Salary .................................................................................. 18,000.00
(6,000 x 3)
Gross Salary .................................................................................. 18,000.00
Income under the head Salary .................................................... 18,000.00
Gross Total Income .................................................................... 1,29,711.91
Less: Deduction u/s 80C ................................................................ 4,800.00
Total Income (Rounded off u/s 288A) ......................................... 1,24,910.00
Tax Liability ................................................................................... Nil

Solution 10:

**Computation of Total Income**

Income from business
Net Profit as per profit and loss account ................................ 3,11,100.00
Add: inadmissible expenses

- Excessive payment to relatives {Sec. 40A(2)} ..................... 20,000.00
- Payment disallowed {Sec. 40A(3)} .................................. 80,000.00
- Salary paid outside India without TDS {Sec. 40(a)} ....... 14,000.00
- Salary paid to relatives {Sec. 40A(2)} .............................. 1,000.00
- Market rent (rent for own building is not allowed) Sec. 30 .... 1,00,000.00
- Municipal taxes of building (due) ..................................... 5,000.00
- Donation for Ram Lila ............................................................. 1,500.00
- Provision for bad debts ......................................................... 11,000.00
- Gift to relatives ........................................................................ 400.00
- Public provident fund ............................................................ 12,000.00
- Interest on capital ................................................................... 4,000.00
- Addition to business premises ............................................ 2,00,000.00
- Wealth tax ................................................................................ 2,000.00
- Fine for violation of traffic rules ........................................... 100.00
Less:

- Depreciation for building @ 10% ....................................... 1,10,000.00
  10,00,000 x 10% = 1,00,000
  2,00,000 x 5% = 10,000
Income from business 6,52,100.00
Gross Total Income 6,52,100.00
Less: Deduction u/s 80C {Public Provident Fund} 12,000.00
Total Income 6,40,100.00

Computation of Tax Liability
Tax on '6,40,100 at slab rate 53,020.00
Add: Education cess @ 2% 1,060.40
Add: SHEC @ 1% 530.20
Tax Liability 54,610.60
Rounded off u/s 288B 54,610.00

Solution 11:

Computation of Total Income

Income under the head Business/Profession
Profit as per profit and loss account 5,06,600.00
Add: Inadmissible expenses
Proprietor’s salary 15,000.00
Charity to poor student 300.00
Interest on proprietor capital 2,000.00
Provision for bad debts 2,000.00
Reserve for sales-tax 10,000.00
Advance income-tax 2,000.00
Out of motor car expenses 300.00
Wealth tax paid 3,500.00
Income tax 4,000.00
Total 5,45,700.00
Less:
Bad debts recovered 2,000.00
Interest on company’s deposit 5,000.00
Donation to scientific institution 750.00
Long term capital gains 5,00,000.00
Income from business 37,950.00
Income under the head Other Sources 5,000.00
Income under the head Capital Gains (LTCG) 5,00,000.00
Gross Total Income 5,42,950.00
Less: Deduction u/s 80C to 80U Nil
Total Income 5,42,950.00

Computation of Tax Payable
Tax on LTCG `3,42,950 (‘5,00,000 – 1,57,050) @ 20% u/s 112 68,590.00
Tax on ` 42,950 at slab rate Nil
Add: Education cess @ 2% 1,371.80
Add: SHEC @ 1% 685.90
Tax Liability 70,647.70
Less: Income tax paid 6,000.00
Tax Payable 64,647.70
Rounded off u/s 288B 64,650.00
Solution 12:

Computation of income from profession

Gross receipts:
- Audit fee: 2,40,000.00
- Appellate tribunal appearance: 25,000.00
- Misc. Receipt: 20,000.00
- Presents from client: 10,000.00
- Total: 2,95,000.00

Payments:
- Stipend: 12,000.00
- Office expenses: 24,000.00
- Office rent: 18,000.00
- Salary and wages: 20,500.00
- Printing and stationery: 4,000.00
- Subscription to C.A. institute: 1,500.00
- Depreciation on books @ 60%: 9,000.00
- Travelling expenses: 5,000.00
- Income from profession: 2,01,000.00

Computation of income from house property

Gross Annual Value: 24,000.00
Less: Municipal Tax: Nil
Net Annual Value: 24,000.00
Less: 30% of NAV u/s 24(a): 7,200.00
Less: Interest on capital borrowed u/s 24(b): Nil
Income from house property: 16,800.00

Computation of Total Income

Income from profession: 2,01,000.00
Income from house property: 16,800.00
Gross total income: 2,17,800.00
Less: Deduction u/s 80C to 80U: Nil
Total Income: 2,17,800.00

Computation of Tax Liability

Tax on `2,17,800 at slab rate: 1,780.00
Less: Rebate u/s 87A (1,780 or 2,000 whichever is less): 1,780.00
Tax Liability: Nil

Solution 13:

Computation of Total Income

Income under the head Business/Profession

Net profit as per profit and loss account: 63,000.00
Add: inadmissible expenses
  Out of capital expenditure on promotion of family planning
    amounting to `14,000 one fifth is allowed: 11,200.00
  Sales-tax: 24,000.00
  Reserve for future losses: 30,000.00
  Reserve for bad debts: 14,000.00
  Payment of advance Income tax: 17,000.00
  Total: 1,59,200.00
Less:
  Capital gain 60,000.00
  Income under the head Business/Profession 99,200.00
  Income under the head Capital Gains (STCG) 60,000.00
  Gross Total Income 1,59,200.00
  Less: Deduction u/s 80C to 80U Nil
  Total Income 1,59,200.00

Computation of Tax Liability
  Tax on `1,59,200 @ 30% 47,760.00
  Add: Education cess @ 2% 955.20
  Add: SHEC @ 1% 477.60
  Tax Liability 49,192.80
  Rounded off u/s 288B 49,190.00

Solution 14:

Computation of Total Income
Income from Business
  Net profit as per profit & loss account 23,000.00
  Add: Inadmissible expenses
    Provision for bad debts (` 32,000–` 22,000) 10,000.00
    Provision for income tax 43,000.00
    Under valuation of closing stock [25/75 of `4,97,000] 1,65,666.67
    Overvaluation of opening stock [25/125 of `4,40,000] 88,000.00
    Municipal tax 3,000.00
    Penalty 25,000.00
  Total 3,57,666.67
  Less:
    Rental income from house property 84,000.00
    Dividends received from companies 12,000.00
  Income from Business 2,61,666.67

Income from house property
  Gross Annual Value 84,000.00
  Less: municipal taxes 3,000.00
  Net Annual Value 81,000.00
  Less: 30% of NAV u/s 24(a) 24,300.00
  Less: Interest on capital borrowed u/s 24(b) Nil
  Income from house property 56,700.00
  Gross Total Income 3,18,366.67
  Less: Deduction u/s 80C 1,00,000.00
  Total Income (rounded off u/s 288A) 2,18,370.00

Computation of Tax Liability
  Tax on `2,18,370 at slab rate 1,837.00
  Less: Rebate u/s 87A (`1,837 or 2,000 whichever is less) 1,837.00
  Tax Liability Nil
**Solution 15:**

**Computation of Total Income**

Net profit as per profit and loss account  
7,70,000.00

Add: inadmissible items

- Advertisement in a newspaper owned by a political party (Sec 37(2B))  
  20,000.00
- Capital expenditure on advertisement  
  14,400.00
- Excess amount paid to a concern in which ‘X’ has substantial interest  
  1,800.00
- Employee contribution to recognised provident fund (to the extent not deposited before the due date)  
  12,500.00
- Bonus being paid to employee after the due date of filing the return  
  58,000.00
- Commission to employee after the due date of filing the return  
  44,000.00
- Salary paid outside India in respect of which tax is not deducted at source  
  46,000.00
- Capital expenditure for promoting family planning amongst employees (allowed only to a company assessee)  
  6,000.00

Total  
9,72,700.00

Less:

- Depreciation on capital expenditure on advertisement @ 25% of `14,400 (assuming used for 180 days or more)  
  3,600.00
- Income under the head Business/Profession  
  9,69,100.00
- Gross Total Income  
  9,69,100.00
- Less: Deduction u/s 80C to 80U  
  Nil
- Total Income (rounded off u/s 288A)  
  9,69,100.00

**Computation of Tax Liability**

Tax on `9,69,100 at slab rate  
1,23,820.00

Add: Education cess @ 2%  
2,476.40

Add: SHEC @ 1%  
1,238.20

Tax Liability  
1,27,534.60

Rounded off u/s 288B  
1,27,530.00

**Solution 16:**

**Computation of Total Income**

Net profit as per profit & loss account  
90,000.00

Add: inadmissible items

- Travelling expenses incurred on foreign tour to the extent not admissible  
  [1,80,000 – (6/8 of `1,80,000)]  
  45,000.00
- Travelling expenses incurred for purchasing a machine for factory  
  6,500.00
- Own salary of Jitender  
  26,000.00
- Commission to employee’s paid after the due date of furnishing return of income under section 139(1) of the Act; hence not allowed u/s 43B  
  42,000.00

Less:

- Depreciation on machinery @ 15%  
  975.00
- Income under the head Business/Profession  
  2,08,525.00
- Gross Total Income  
  2,08,525.00
- Less: Deduction u/s 80C to 80U  
  Nil
- Total Income (rounded off u/s 288A)  
  2,08,530.00

**Computation of Tax Liability**

Tax on `2,08,530 at slab rate  
853.00

Less: Rebate u/s 87A (’853 or ’2,000 whichever is less)  
853.00

Tax Liability  
Nil
**Note:** It is assumed that machinery is not used for manufacturing purpose, so additional depreciation is not allowed.

**Solution 17:**

Net profit as per profit & loss account 9,38,000.00

Add: expenses debited to profit & loss account but not allowable

- Deposit in NSC (not an expenditure) 42,000.00
- Provision for bad debts 31,000.00
- Provision for VAT 45,000.00
- Salary to Mrs. Rameshwar (Sec 40A(2)) 48,000.00
- Purchase of computer (capital expenditure) 40,000.00
- Purchase from relative (Sec 40A(2)) 20,000.00
- Payment in cash (Sec 40A(3)) 80,000.00
- Adjustment for opening stock (9,50,000 x 10 / 110) 86,363.64
- Bonus paid after due date (Sec 43B) 30,000.00

Total 13,85,363.64

Less:

- Depreciation on computer (40,000 x 60% x ½) 12,000.00
- Closing stock overvalued (3,60,000 x 10/110) 32,727.27
- Long term capital gain 36,000.00
- Dividend from foreign company 12,000.00
- Winnings of lottery 5,00,000.00

Business income 7,92,636.37

**Income from Other Sources**

- Dividend from foreign company 12,000.00
- Winnings from lottery 5,00,000.00
- Income from Other Sources 5,12,000.00
- Income under the head Capital Gains (LTCG) 36,000.00

Gross Total Income 13,40,636.37

Less: Deduction u/s 80C 42,000.00

Total Income (rounded off u/s 288A) 12,98,640.00

**Computation of Tax Liability**

- Tax on Long term capital gain `36,000 @ 20% u/s 112 7,200.00
- Tax on `5,00,000 @ 30% u/s 115BB 1,50,000.00
- Tax on `7,62,640 at slab rate 82,528.00
- Tax before education cess 2,39,728.00
- Add: Education cess @ 2% 4,794.56
- Add: SHEC @ 1% 2,397.28
- Tax Liability 2,46,919.84
- Rounded off u/s 288B 2,46,920.00
Solution 18:
Computation of Total Income of Marc Ltd. for the Assessment Year 2014-15

Income under the head Business/Profession

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit as per profit and loss account</td>
<td>8,00,000</td>
</tr>
<tr>
<td>Add: inadmissible expenses</td>
<td></td>
</tr>
<tr>
<td>• Fine imposed by the municipality for violation of regulation</td>
<td>2,000</td>
</tr>
<tr>
<td>• Reserve for bad debts</td>
<td>35,000</td>
</tr>
<tr>
<td>• Under valuation of closing stock (1,08,000 x 1/9)</td>
<td>12,000</td>
</tr>
<tr>
<td>• Total</td>
<td>8,49,000</td>
</tr>
</tbody>
</table>

Less:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Income from units of UTI</td>
<td>35,000</td>
</tr>
<tr>
<td>• Dividend from Indian company</td>
<td>20,000</td>
</tr>
<tr>
<td>• Under valuation of opening stock</td>
<td>10,000</td>
</tr>
<tr>
<td>• Depreciation (1,20,000 – 60,000)</td>
<td>60,000</td>
</tr>
<tr>
<td>Business income</td>
<td>7,24,000</td>
</tr>
</tbody>
</table>

Income under the head Other Sources

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend from Indian company {exempt u/s 10(34)}</td>
<td>Nil</td>
</tr>
<tr>
<td>Income from UTI {exempt u/s 10(35)}</td>
<td>Nil</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>Nil</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>7,24,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>7,24,000</td>
</tr>
</tbody>
</table>

Computation of Tax Liability

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on `7,24,000 @ 30%</td>
<td>2,17,200</td>
</tr>
<tr>
<td>Add: Education cess @ 2%</td>
<td>4,344</td>
</tr>
<tr>
<td>Add: SHEC @ 1%</td>
<td>2,172</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>2,23,716</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>2,23,720</td>
</tr>
</tbody>
</table>

Note:
1. Amount paid to the lawyer of `30,000 for arguing appeals before the Tribunal is an allowable expense.

Solution 19:
Computation of income from profession of Mr. Prakash for the Assessment Year 2014-15

Professional incomes

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional fees</td>
<td>16,75,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Rent of chamber</td>
<td>2,55,000</td>
</tr>
<tr>
<td>Telephone expenses</td>
<td>26,000</td>
</tr>
<tr>
<td>Magazines subscription</td>
<td>3,000</td>
</tr>
<tr>
<td>9/10 of motor car expenses</td>
<td>9,000</td>
</tr>
<tr>
<td>Dep. on motor car (3,00,000 x 7.5% x 90%)</td>
<td>20,250</td>
</tr>
<tr>
<td>Misc. office expenses</td>
<td>5,500</td>
</tr>
<tr>
<td>Subscription to Bar Association</td>
<td>1,500</td>
</tr>
<tr>
<td>Income from profession</td>
<td>8,54,750</td>
</tr>
</tbody>
</table>
### Computation of income from house property

#### Let out house
- **Gross Annual Value**: 60,000.00
- **Less: municipal taxes (6,000 – 2,000)**: 4,000.00
- **Net annual value**: 56,000.00
- **Less: 30% of NAV u/s 24(a)**: 16,800.00
- **Less: Interest on capital borrowed u/s 24(b)**: Nil
- **Income from house property**: 39,200.00

#### Self occupied house
- **Annual value**: Nil
- **Income from house property**: 39,200.00
- **Loss under the head House Property**: 31,200.00
- **Income under the head House Property**: 8,000.00

### Computation of income under the head Other Sources
- **Honorarium for delivering lectures in C.A. Institute**: 5,000.00
- **Honorarium for writing articles in Hindustan Times**: 1,000.00
- **Dividend from Indian company {exempt u/s 10(34)}**: Nil
- **Dividend from UTI {exempt u/s 10(35)}**: Nil
- **Interest from a company**: 8,000.00
- **Income under the head Other Sources**: 14,000.00

### Computation of Total Income of Mr. Prakash

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income under the head House Property</td>
<td>8,000.00</td>
</tr>
<tr>
<td>Income under the head Business/Profession</td>
<td>8,54,750.00</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>14,000.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>8,76,750.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>8,76,750.00</td>
</tr>
</tbody>
</table>

### Computation of Tax Payable

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on `8,76,750 at slab rate</td>
<td>1,05,350.00</td>
</tr>
<tr>
<td>Add: Education cess @ 2%</td>
<td>2,107.00</td>
</tr>
<tr>
<td>Add: SHEC @ 1%</td>
<td>1,053.50</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>1,08,510.50</td>
</tr>
<tr>
<td>Less: Advance Income Tax Paid</td>
<td>38,000.00</td>
</tr>
<tr>
<td>Tax Payable</td>
<td>70,510.50</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>70,510.00</td>
</tr>
</tbody>
</table>

### Note:
1. Annual value of self occupied house is taken as nil and no deduction except interest on loan is permissible

### Solution 20:

#### Computation of Total Income of Alpha Ltd.

Net profit as per profit and loss account   12,50,000

Add:
- (i) Payment of advertisement expenditure of `60,000
  - (a) `8,000, being the excess payment to a related disallowed under section 40A(2)
  - (b) As the payment is made in cash and since the remaining amount of `52,000 exceeds `20,000, shall be disallowed under section 40A(3)
    60,000
(ii) Legal charges for framing amalgamation scheme (deductible under section 35DD in five years). 1/5th of Rs.45,000 i.e. Rs.9,000 to be allowed in the current year.

Balance Rs.36,000 (Rs.45,000–Rs.9,000) is to be added back

(iii) Under Section 31, expenditure relatable to repairs of plant, machinery or furniture is allowed. 

(iv) Liability foregone by creditor [Taxable under section 41(1)]

(v) Sale proceeds of import entitlement licence. The sale of the rights gives rise to profits or gains taxable under section 28. As the amount has already been credited to profit and loss a/c, no further adjustment is necessary.

(vi) Donation to National Urban Poverty Eradication Fund is allowed u/s 35CCA

Less:

(vii) Expenditure on in house research and development is entitled to a weighted deduction of two times of the expenditure (both capital and revenue) under section 35 = Rs.2,00,000 x 2 = Rs.4,00,000

Expenditure Rs.2,00,000 already debited to profit and loss account, additional deduction of 2 lakh is further allowed

Income under the head business/profession

Gross Total Income

Less: Deduction u/s 80C to 80U

Total Income

Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on `11,52,000 @ 30%</td>
<td>3,45,600</td>
</tr>
<tr>
<td>Add: Education cess @ 2%</td>
<td>6,912</td>
</tr>
<tr>
<td>Add: SHEC @ 1%</td>
<td>3,456</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>3,55,968</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>3,55,970</td>
</tr>
</tbody>
</table>

Solution 21:

(i)

Income under the head Business/Profession

Less: Securities transaction tax

Income under the head Business/Profession

Gross Total Income

Less: Deduction u/s 80C

Total Income

Tax on `2,88,200 at slab rate

Less: Rebate u/s 87A (Rs.3,820 or Rs.2,000 whichever is less)

Tax before Education cess

Add: Education cess @ 2%

Add: SHEC @ 1%

Tax Liability

Rounded off u/s 288B

(ii)

Income under the head Business/Profession

Gross Total Income

Less: Deduction u/s 80C to 80U

Total Income

Tax on `11,00,000 @ 30%

Add: Education cess @ 2%

Add: SHEC @ 1%
Tax Liability

(iii)

Income under the head Business/Profession
Total Income
Tax on ₹18,00,000 at slab rate
Add: Education cess @ 2%
Add: SHEC @ 1%
Tax Liability

Solution 22:
(i) Previous year 2013-14;
(ii) Previous year 2013-14;
(iii) Previous year 2013-14;
(iv) Previous year 2013-14;
(v) Not allowed;
(vi) Previous year 2014-15

Solution 23:

Income under the head business/profession
Net Profit as per profit and loss account
Less:
• Interest on Fixed deposit with bank
• Dividend from Indian company
Income under the head business/profession

Income under the head other sources
Interest on Fixed deposit
Dividend from Indian company {exempt u/s 10(34)}
Income under the head Other Sources
Gross Total Income
Less: Deduction u/s 80C to 80U
Total Income (rounded off u/s 288A)

Computation of Tax Liability
Tax on ₹8,35,720 at slab rate
Add: Education cess @ 2%
Add: SHEC @ 1%
Tax Liability
Rounded off u/s 288B

Solution 24:

Computation of Total Income
As per section 44AE
Heavy goods vehicle
Light goods vehicle
Other business and non business income
Income Under The Head Business/Profession

Income under the head Business/Profession 6,75,000.00
Gross Total Income 6,75,000.00
Less: Deduction u/s 80C to 80U Nil
Total Income 6,75,000.00

Computation of Tax Liability
Tax on `6,75,000 at slab rate 65,000.00
Add: Education cess @ 2% 1,300.00
Add: SHEC @ 1% 650.00
Tax Liability 66,950.00

The assessee has the option to reject the presumptive taxation and can compute the income in the normal manner but the assessee has to maintain books of accounts and also he should get his accounts audited as per section 44AB. In such case tax liability of the assessee shall be as given below:

Gross Receipt 9,90,000
Less: Operational expenses 7,25,000
Less: Depreciation as per section 32 1,85,000
Less: Other office expenses 15,000
65,000
Add: Other business and non-business income 1,00,000
Total Income 1,65,000
Tax Liability Nil

Solution 25:

Computation of Income under the head Business/profession

Net Profit as per profit and loss account 3,00,000
Add:
- Salary to the proprietor 1,60,000
- Interest to Mr. A 30,000
- Interest for income tax liability 20,000
- Depreciation 10,000

Less:
- Long term capital gains 4,00,000
Income under the head Business/Profession 1,20,000
Income under the head Capital Gains (LTCG) 4,00,000
Gross Total Income 5,20,000
Less: Deduction u/s 80C 1,00,000
National Saving Certificate 40,000
Public provident fund 60,000
Total Income 4,20,000

Computation of Tax Liability
Tax on `2,20,000 (`4,00,000 – `1,80,000) @ 20% u/s 112 44,000
Tax on `20,000 at slab rate Nil
Less: Rebate u/s 87A (`44,000 or `2,000 whichever is less) 2,000
Tax before Education cess 42,000
Add: Education cess @ 2% 840
Add: SHEC @ 1% 420
Tax Liability 43,260
Solution 26:
Computation of Income under the head Business/profession

Net Profit as per profit and loss account 3,00,000
Add:
- Salaries and bonus 1,05,000
- Sales tax payable 30,000
- Expenditure on technical know-how 36,000
- Interest on capital 20,000
- Rent of own building 30,000

Less:
- Depreciation on technical know-how \( \text{\textit{u/s 32}} \) 9,000
  \( \text{\textit{(36,000 x 25\%)}} \)
- Depreciation on building 25,000
  \( \text{\textit{(2,50,000 x 10\%)}} \)
- Interest from Indian companies 70,000

Income under the head Business/Profession 4,17,000

Less: Brought forward business loss of assessment year 2009-10 1,00,000

Income under the head Business/Profession 3,17,000

Income under the head Other Sources 70,000

Gross Total Income 3,87,000

Less: Deductions u/s 80C to 80U Nil

Total Income 3,87,000

Computation of Tax Liability

Tax on \`3,87,000 at slab rate 18,700
Less: Rebate u/s 87A 2,000
Tax before Education cess 16,700
Add: Education cess @ 2% 334
Add: SHEC @ 1% 167
Tax Liability 17,201
Rounded off u/s 288B 17,200

Solution 27:
Computation of Income under the head Business/profession

Net Profit as per profit and loss account 2,00,000
Add:
- Cash purchases \( \text{\textit{u/s 40A(3)}} \) 1,00,000
- Recovery of bad debts \( \text{\textit{as per sec 41(4)}} \) 1,00,000
- Salary of Mr. X 3,60,000
- Interest on capital 1,89,000

Less:
- Bonus paid 1,07,000

Depreciation on machinery 40,000

Working Note:

\[
\text{Written down value} = 5,00,000 \\
\text{Less: Sale} = 1,00,000 \\
\text{Add: Purchase} = 4,00,000 \\
\text{Depreciation} = 30,000 \\
7.5\% \text{ on `4,00,000} = 30,000
\]
Dividend from foreign company 30,000
Long term capital gains 1,00,000
Income under the head Business/Profession 6,72,000
Less: b/f Business Loss 3,00,000
Less: Unabsorbed depreciation 2,00,000
Income under the head Business/Profession 1,72,000
Income under the head Capital Gains (LTCG) 1,00,000
Income under the head Other Sources 30,000
{Dividend from foreign company}
Gross Total Income 3,02,000
Less: Deduction u/s 80C to 80U Nil
Total Income 3,02,000

Computation of Tax Liability
Tax on LTCG `1,00,000 @ 20% u/s 112 20,000
Tax on `2,02,000 at slab rate 200
Less: Rebate u/s 87A (`20,200 or `2,000 whichever is less) 2,000
Tax before education cess 18,200
Add: Education cess @ 2% 364
Add: SHEC @ 1% 182
Tax Liability 18,746
Rounded off u/s 288B 18,750

Solution 28:
Computation of Income under the head Business/profession

Net Profit as per profit and loss account 12,00,000.00
Add:
  Interest to Proprietor 1,50,000.00
  Salary to Proprietor 6,00,000.00
  Purchase of trademark 2,00,000.00
  Depreciation on plant and machinery 20,000.00
Less:
  Short term capital gains 6,00,000.00
  Depreciation on trade mark 50,000.00
  Employer contribution to recognized provident fund 4,00,000.00
Income under the head Business/Profession 11,20,000.00
Less: Brought forward depreciation 2,36,000.00
Income under the head Business/Profession 8,84,000.00
Income under the head Capital Gains (STCG) 6,00,000.00
Gross Total Income 14,84,000.00
Less: Deduction u/s 80C to 80U Nil
Total Income 14,84,000.00

Computation of Tax Liability
Tax on `14,84,000 at slab rate 2,75,200.00
Add: Education cess @ 2% 5,504.00
Add: SHEC @ 1% 2,752.00
Tax Liability 2,83,456.00
Solution 29:

Net profit as per profit and loss account 8,64,760.00
Add:
Other expenses 20,000.00
Travelling, advertisement and entertainment expenses 25,000.00
Depreciation 1,47,480.00

Working Note:
Written down value as on 01.04.2013 3,70,000
Add: Purchased of plant F on 01.01.2014 4,86,000
8,56,000
Depreciation @ 15% on 3,70,000 55,500
Depreciation @ 7.5% on 4,86,000 36,450
Total 91,950
Excessive depreciation (2,39,430 – 91,950)

Interest on loan taken to make deposit in companies 13,800.00
Municipal tax and insurance of godown 7,200.00
Salary to Proprietor 1,80,000.00
Interest to Proprietor 69,000.00
Less:
Rental income from Godown 48,000.00
Interest on company deposits 2,60,000.00
Income under the head Business/Profession 10,19,240.00
Less: Brought forward business loss 20,000.00
Income under the head Business/Profession 9,99,240.00

Computation of income under the head house property
Gross Annual Value 48,000.00
Less: Municipal Taxes 6,000.00
Net Annual Value 42,000.00
Less: 30% of NAV u/s 24(a) 12,600.00
Less: Interest on capital borrowed u/s 24(b) Nil
Income under the head House Property 29,400.00

Income under the head Other Sources (2,60,000 – 13,800) 2,46,200.00

Computation of income under the head Capital Gains
Income under the head Capital Gains (STCG) 7,12,000.00
(9,10,000 – 1,98,000)
Less: Brought forward short term capital loss for the assessment year 2012-13 2,000.00
Less: Brought forward short term capital loss for the assessment year 2013-14 1,000.00
Income under the head Capital Gains (STCG) 7,09,000.00

Computation of Total Income
Gross Total Income 19,83,840.00
Less: Deduction u/s 80C to 80U Nil
Total Income 19,83,840.00

Computation of Tax Liability
Tax on `19,83,840 at slab rate 4,25,152.00
Add: Education cess @ 2% 8,503.04
Add: SHEC @ 1% 4,251.52
Solution 30:

Computation of Total Income of Rajeev Kapoor

Net profit as per profit and loss account: £1,09,500
Add: inadmissible expenses:
- Provision for VAT and excise duty: £10,000
- Advance tax: £11,000
- Salary to Rajeev: £24,000
- Interest to Rajeev: £22,000
- Interest to Mrs. Rajeev: £32,000
- Salary to relative (Sec 40A(2)): £4,000
- School fees for Rajeev’s son: £5,000
Total: £2,17,500
Less:
- Dividend from Indian companies: £12,500
- Income from UTI: £6,500
- Depreciation: £7,500
Income under the head Business/Profession: £1,91,000

Solution 31:

Computation of Total Income of Mrs. Sonia

Net profit as per profit and loss account: £3,88,700.00
Add: inadmissible items:
- One fifth of car maintenance: £3,300.00
- Interest on loan (50%): £30,000.00
- Municipal tax: £2,000.00
- Depreciation as per books: £30,500.00
- (8,500 + 14,000 + 5,000 + 3,000): £30,500.00
- Printing bill for 2012-13: £3,000.00
- Provident fund (Section 43B): £5,000.00
- Payment made in cash in excess of `20,000 (Sec 40A(3)): £30,000.00
Less:
- Honorarium received from various institutions: £6,600.00
- Dividend on shares: £10,500.00
- Income from Unit Trust of India: £6,500.00
• Profit on sale of equity shares 20,800.00
• Rent received 62,000.00
• Depreciation as per Income Tax Act
  • Car (85,840 x 15% x 4/5) 10,300.80
  • Computer (1,50,000 x 60% x 1/2) 45,000.00
  • Typewriter (15,000 x 15%) 2,250.00
  • Furniture (25,000 x 10%) 2,500.00 60,050.80
Income under the head business/profession 3,26,049.20

Income under the head House Property
Gross annual value 62,000.00
Less: Municipal Taxes 2,000.00
Net annual value 60,000.00
Less: 30% of NAV u/s 24(a) 18,000.00
Less: Interest on capital borrowed u/s 24(b) 30,000.00
Income from house property 12,000.00
Income from capital gain (STCG) 20,800.00

Income under the head Other Sources
Honorarium received from various institutions 6,600.00
Dividend from Indian company {exempt u/s 10(34)} Nil
Income from UTI {exempt u/s 10(35)} Nil
Income under the head Other Sources 6,600.00
Gross Total Income 3,65,449.20
Less: Deduction u/s 80C 80,000.00
Public provident fund contribution 60,000
Infrastructure bonds of ICICI 20,000
Total Income (rounded off u/s 288A) 2,85,450.00

Computation of Tax Liability
Tax on STCG `20,800 @ 15% u/s 111A 3,120.00
Tax on `2,64,650 at slab rate 1,465.00
Less: Rebate u/s 87A (4,585 or 2,000 whichever is less) 2,000.00
Tax before education cess 2,585.00
Add: Education cess @ 2% 51.70
Add: SHEC @ 1% 25.85
Tax Liability 2,662.55
Rounded off u/s 288B 2,660.00

Solution 32:
Computation of Total Income
Net profit as per profit & loss account 10,00,000.00
Add: inadmissible expenses
  Excess payment to relative u/s 40A(1) & (2) 1,00,000.00
  Excess payment in cash u/s 40A(3) 1,00,000.00
  Capital expenditure debited in the profit and loss account (computer) 45,000.00
  Capital expenditure debited in the profit and loss account (generator) 45,000.00
  Income tax u/s 40(a) 45,000.00
  Household furniture 12,000.00
  Medical treatment 20,000.00
  Salary paid to proprietor 36,000.00
  Interest on capital 9,000.00
Income Under The Head Business/Profession

Amount invested in National Saving Certificate 25,000.00
Amount invested in public provident fund 10,000.00
Rent paid 35,000.00
Opening balance (4,50,000 x 10/110) 40,909.09
Total 15,22,909.09

Less:
Dep. on computer @ 30% on `45,000 u/s 32 13,500.00
Dep. on generator @ 7.5% on `40,000 3,000.00
[`45,000–5,000 (u/s 40A(1) & (2)] 15,000.00
Donation given for scientific research u/s 35 (20,000 x 0.75) 15,000.00
Business Income 14,91,409.09
Gross Total Income 14,91,409.09
Less: Deduction u/s 80C 35,000.00
Total Income (rounded off u/s 288A) 14,56,410.00

Computation of Tax Liability
Tax on `14,56,410 at slab rate 2,66,923.00
Add: Education cess @ 2% 5,338.46
Add: SHEC @ 1% 2,669.23
Tax Liability 2,74,930.69
Rounded off u/s 288B 2,74,930.00

Solution 33:
Computation of income under the head Business/Profession

Net profit as per profit & loss account 6,28,155.00
Add: inadmissible expenses
Payment of purchases in excess of `20,000 {Sec 40A(3)} 20,100.00
Payment of purchases in excess of `20,000 {Sec 40A(3)} 22,000.00
Payment of purchases {Sec 40A(2)} 1,000.00
Salary to proprietor 12,400.00
Cost of computer 24,000.00
Interest on capital 3,300.00
Donation to orphan 1,000.00
Income tax 6,000.00
Gift to relative 1,000.00
Medical expenses of proprietor 3,000.00
Staff welfare fund 2,000.00
Bonus payable {Sec 43B} 5,000.00
Provision for VAT and excise duty 25,000.00
General reserve 5,000.00
Less:
Maturity proceeds of National Saving Certificate 19,500.00
Maturity proceeds of bank Fixed Deposit 24,000.00
Maturity proceeds of public provident fund 13,000.00
Income tax penalty refund 1,100.00
Sale of machinery 25,000.00
Recovery of bad debts 6,000.00
Income tax refund 2,400.00
Gift from relatives 3,600.00
Maturity proceeds of LIC 24,000.00
Closing Stock {`26,400 x 10 / 110} 2,400.00
Income Under The Head Business/Profession

Refund of deposit from supplier  1,00,000.00
Depreciation:
  Computer = 60% on 24,000  14,400.00
  Machinery - w.d.v = 59,000
  Less: sale = 25,000
  Written down value = 34,000
  Dep. @ 15%  5,100.00
Factory building – w.d.v = 85,000
  Add: purchase = 12,000
  Dep. @ 10% on 97,000  9,700.00
Income under the head business/profession  5,08,755.00

Computation of income under the head Other Sources
Interest on income tax refund  400.00
Income under the head other sources  400.00
Income under the head business/profession  5,08,755.00
Gross Total Income  5,09,155.00
Deductions u/s 80C to 80U  Nil
Total Income {Rounded off u/s 288A}  5,09,160.00

Computation of Tax Liability
Tax on 5,09,160 at slab rates  31,832.00
Add: Education cess @ 2%  636.64
Add: SHEC @ 1%  318.32
Tax liability  32,786.96
Rounded off u/s 288B  32,790.00

Solution 34:
Sales  220,00,000.00
(10,00,000 + 140,00,000 + 70,00,000)
Less: Material Purchased  86,83,854.40
(i) Raw material  1,68,854.40 (Ref WN-1)
(ii) Raw material  55,15,000.00 (Ref WN-2)
(iii) Raw material  30,00,000.00 (Ref WN-3)
Less: Processing charges  1,00,000.00
Less: Depreciation on plant and machinery (Ref WN-4)
(5,68,937.50 x 15%)
Less: Additional Depreciation (Section 32(1)(iiia))
(5,68,937.50 x 20%)
Less: Depreciation on plant and machinery purchased on 15.05.2012 (Ref WN-5)
(20,00,000 x 15%)
Less: Additional Depreciation (Section 32(1)(iiia))
(20,00,000 x 20%)
Income under the head Business/Profession  123,17,017.48
Gross Total Income  123,17,017.48
Less: Deduction u/s 80C to 80U  Nil
Total Income  123,17,017.48
Rounded off u/s 288A  123,17,020.00

Computation of Tax Liability
Tax on 123,17,020 at slab rate  35,25,106.00
Add: Surcharge @ 10%  3,52,510.60
Tax before education cess  38,77,616.60
Add: Education cess @ 2%  77,552.33
Add: SHEC @ 1%  38,776.17
Tax Liability  39,93,945.00
Rounded off u/s 288B  39,93,950.00

**Working for VAT/CENVAT**

<table>
<thead>
<tr>
<th></th>
<th>Excise Duty / Service Tax</th>
<th>EC</th>
<th>SHEC</th>
<th>DVAT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Output</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales from 01.05.2013 to 31.12.2013  (140,00,000 x 12.5%)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>17,50,000</td>
</tr>
<tr>
<td>Sales from 01.01.2014 to 31.03.2014 (Ref WN-6)</td>
<td>7,00,000</td>
<td>14,000</td>
<td>7,000</td>
<td>9,65,125</td>
</tr>
<tr>
<td><strong>Total Output Tax</strong></td>
<td>7,00,000</td>
<td>14,000</td>
<td>7,000</td>
<td>27,15,125</td>
</tr>
<tr>
<td><strong>Input Tax Credit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw material (Ref WN-1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw material (Ref WN-2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw material (Ref WN-3)</td>
<td>2,40,000</td>
<td>4,800</td>
<td>2,400</td>
<td>-</td>
</tr>
<tr>
<td>Plant and machinery (Ref WN-4)</td>
<td>50,000</td>
<td>1,000</td>
<td>500</td>
<td>-</td>
</tr>
<tr>
<td>Plant and machinery (Ref WN-5)</td>
<td>2,00,000</td>
<td>4,000</td>
<td>2,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Tax Credit</strong></td>
<td>4,90,000</td>
<td>9,800</td>
<td>4,900</td>
<td>22,06,000</td>
</tr>
<tr>
<td>Net Tax payable</td>
<td>2,10,000</td>
<td>4,200</td>
<td>2,100</td>
<td>24,94,525</td>
</tr>
</tbody>
</table>

**Working Note-1**

Raw material  3,00,000.00
Add: Excise duty @ 8%  24,000.00
Add: EC @ 2%  480.00
Add: SHEC @ 1%  240.00
Add: DVAT @ 4%  12,988.80
Add: DVAT @ 4%  3,37,708.80
Half amount is disallowed under section 40A(3)  1,68,854.40

**Working Note-2**

Raw material  50,00,000.00
Add: Excise duty @ 10%  5,00,000.00
Add: EC @ 2%  10,000.00
Add: SHEC @ 1%  5,000.00
Add: DVAT @ 4%  2,20,600.00
Add: DVAT @ 4%  57,35,600.00
Cost of raw material  55,15,000.00

**Working Note-3**

Raw material  30,00,000.00
Add: Excise duty @ 8%  2,40,000.00
Add: EC @ 2%  4,800.00
Add: SHEC @ 1%  2,400.00
Add: DVAT @ 4%  32,47,200.00
Cost of raw material  30,00,000.00

**Working Note-4**

Purchase price of Plant and machinery  5,00,000.00
Add: Excise duty @ 10%  
Add: EC @ 2%  
Add: SHEC @ 1%  
50,000.00  
1,000.00  
500.00  
5,51,500.00  
Add: DVAT @ 12.5%  
68,937.50  
6,20,437.50  
Cost of plant and machinery on which depreciation to be charged (5,00,000 + 68,937.50)  
5,68,937.50  

Working Note-5  
Purchase price of Plant and machinery  
20,00,000.00  
Add: Excise duty @ 10%  
2,00,000.00  
Add: EC @ 2%  
4,000.00  
Add: SHEC @ 1%  
2,000.00  
22,06,000.00  
Cost of plant and machinery on which depreciation to be charged  
20,00,000.00  

Working Note-6  
Sale Price  
70,00,000.00  
Add: Excise duty @ 10%  
7,00,000.00  
Add: EC @ 2%  
14,000.00  
Add: SHEC @ 1%  
7,000.00  
77,21,000.00  
Add: DVAT @ 12.5%  
9,65,125.00  

Note:  
1. Section 40A(3) shall not be applicable in case of capital expenditure.  
2. CENVAT credit for Excise duty paid on capital goods shall be allowed even if the unit is availing SSI exemption but CENVAT credit for raw material etc is not allowed so long as the unit is availing SSI exemption.  
3. VAT credit for DVAT paid on capital goods is not allowed if the unit is not charging output VAT.  
4. Turnover upto 150 lakhs is exempt from excise duty as per Notification No. 8/2003 of Central Excise.  

Solution 35:  
\[
\text{Goods A Purchased} \\
\text{Add: DVAT @ 12.5%} \\
2,00,000 + 25,000 = 2,25,000
\]
\[
\text{Goods B Purchased} \\
\text{Add: DVAT @ 12.5%} \\
3,00,000 + 37,500 = 3,37,500
\]
\[
\text{Sold = 10 lakhs}
\]
\[
\text{Goods C Purchased} \\
\text{Add: DVAT @ 12.5%} \\
22,00,000 + 2,75,000 = 24,75,000
\]
\[
\text{Goods sold = 40 lakhs}
\]
\[
\text{Composition Tax = 40,00,000 x 1% = 40,000}
\]
\[
\text{Goods D Purchased} \\
\text{Add: DVAT @ 12.5%} \\
10,00,000 + 1,25,000 = 1,25,000
\]
### Income Under The Head Business/Profession

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good sold</td>
<td>11,25,000</td>
</tr>
<tr>
<td>Add: DVAT @ 12.5%</td>
<td>2,25,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>20,25,000</td>
</tr>
</tbody>
</table>

**Goods sold = [10 lakhs + 40 lakhs + 18 lakhs]**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases</td>
<td></td>
</tr>
<tr>
<td>Goods A</td>
<td>1,12,500</td>
</tr>
<tr>
<td>Goods B</td>
<td>3,37,500</td>
</tr>
<tr>
<td>Goods C</td>
<td>24,75,000</td>
</tr>
<tr>
<td>Goods D</td>
<td>10,00,000</td>
</tr>
<tr>
<td>Composition scheme</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>28,35,000</td>
</tr>
</tbody>
</table>

**Less: Deduction u/s 80C to 80U**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Income</strong></td>
<td>28,35,000</td>
</tr>
</tbody>
</table>

#### Computation of Tax Payable

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on ‘28,35,000 at slab rate</td>
<td>6,80,500</td>
</tr>
<tr>
<td>Add: Education Cess @ 2%</td>
<td>13,610</td>
</tr>
<tr>
<td>Add: SHEC @ 1%</td>
<td>6,805</td>
</tr>
<tr>
<td><strong>Tax Liability</strong></td>
<td>7,00,915</td>
</tr>
<tr>
<td>Less: Advance tax</td>
<td>9,000</td>
</tr>
<tr>
<td><strong>Tax payable</strong></td>
<td>6,91,915</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>6,91,920</td>
</tr>
</tbody>
</table>

**Interest u/s 234A**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6,91,900 x 1% x 3</td>
<td>20,757</td>
</tr>
</tbody>
</table>

**Interest u/s 234B**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6,91,900 x 1% x 9</td>
<td>62,271</td>
</tr>
</tbody>
</table>

**Interest u/s 234C**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(7,00,915 x 30% - 2,000) = 2,08,274.50</td>
<td>6,246</td>
</tr>
<tr>
<td>Rounded off 2,08,200</td>
<td></td>
</tr>
<tr>
<td>Interest = 2,08,200 x 1% x 3</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(7,00,915 x 60% - 5,000) = 4,15,549</td>
<td>12,465</td>
</tr>
<tr>
<td>Rounded off 4,15,500</td>
<td></td>
</tr>
<tr>
<td>Interest = 4,15,500 x 1% x 3</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(7,00,915 x 100% - 9,000) = 6,91,915</td>
<td>6,919</td>
</tr>
<tr>
<td>Rounded off 6,91,900</td>
<td></td>
</tr>
<tr>
<td>Interest = 6,91,900 x 1% x 1</td>
<td></td>
</tr>
</tbody>
</table>

**Total interest**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,08,658</td>
<td></td>
</tr>
</tbody>
</table>

**Computation of VAT Payable**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output tax</td>
<td>2,25,000</td>
</tr>
<tr>
<td>Less: Input tax credit</td>
<td>1,25,000</td>
</tr>
<tr>
<td><strong>Net VAT Payable</strong></td>
<td>1,00,000</td>
</tr>
</tbody>
</table>
### Solution 36:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Sales (10,00,000 + 140,00,000 +170,00,000)</td>
<td>320,00,000.00</td>
</tr>
<tr>
<td>Less: Expenditure</td>
<td></td>
</tr>
<tr>
<td>Raw material 1 (Working note 1)</td>
<td>3,37,709.00</td>
</tr>
<tr>
<td>Raw material 2 (Working note 2)</td>
<td>64,94,400.00</td>
</tr>
<tr>
<td>Raw material 3 (Working note 3)</td>
<td>100,00,000.00</td>
</tr>
<tr>
<td>Depreciation (1,56,618 + 2,08,824) (Working note 4)</td>
<td>3,65,442.00</td>
</tr>
<tr>
<td>Expenditure u/s 35D (Working note 5)</td>
<td>1,60,000.00</td>
</tr>
<tr>
<td>Income under the head business/profession</td>
<td>146,42,449.00</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>146,42,449.00</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td>Total Income</td>
<td>146,42,449.00</td>
</tr>
<tr>
<td>Rounded off u/s 288A</td>
<td>146,42,450.00</td>
</tr>
<tr>
<td>Tax on 146,42,450 @ 30%</td>
<td>43,92,735.00</td>
</tr>
<tr>
<td>Add: Surcharge @ 5%</td>
<td>2,19,636.75</td>
</tr>
<tr>
<td>Add: Education cess @ 2%</td>
<td>92,247.44</td>
</tr>
<tr>
<td>Add: SHEC @ 1%</td>
<td>46,123.72</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>47,50,742.91</td>
</tr>
<tr>
<td>Rounded off 288B</td>
<td>47,50,740.00</td>
</tr>
</tbody>
</table>

#### Working note 1

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw material</td>
<td>3,00,000.00</td>
</tr>
<tr>
<td>Excise duty @ 8%</td>
<td>24,000.00</td>
</tr>
<tr>
<td>EC/SHEC @ 3%</td>
<td>720.00</td>
</tr>
<tr>
<td>DVAT @ 4%</td>
<td>12,989.00</td>
</tr>
<tr>
<td></td>
<td>3,37,709.00</td>
</tr>
</tbody>
</table>

#### Working note 2

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw material</td>
<td>60,00,000.00</td>
</tr>
<tr>
<td>Excise duty @ 8%</td>
<td>4,80,000.00</td>
</tr>
<tr>
<td>EC/SHEC @ 3%</td>
<td>14,400.00</td>
</tr>
<tr>
<td>DVAT @ 4%</td>
<td>2,59,776.00</td>
</tr>
</tbody>
</table>

#### Working note 3

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw material</td>
<td>100,00,000.00</td>
</tr>
<tr>
<td>Excise duty @ 8%</td>
<td>8,00,000.00</td>
</tr>
<tr>
<td>EC/SHEC @ 3%</td>
<td>24,000.00</td>
</tr>
<tr>
<td>DVAT@ 4%</td>
<td>4,32,960.00</td>
</tr>
<tr>
<td>Goods sold 1</td>
<td>10,00,000.00</td>
</tr>
<tr>
<td>Goods sold 2</td>
<td>140,00,000.00</td>
</tr>
<tr>
<td>DVAT @ 12.5%</td>
<td>17,50,000.00</td>
</tr>
<tr>
<td>Goods sold 3</td>
<td>170,00,000.00</td>
</tr>
<tr>
<td>Excise duty @ 10%</td>
<td>17,00,000.00</td>
</tr>
<tr>
<td>EC/SHEC @ 3%</td>
<td>51,000.00</td>
</tr>
<tr>
<td>DVAT@ 12.5%</td>
<td>23,43,875.00</td>
</tr>
</tbody>
</table>
Working note 4

<table>
<thead>
<tr>
<th>Plant and Machinery</th>
<th>10,00,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excise duty @10%</td>
<td>1,00,000.00</td>
</tr>
<tr>
<td>EC/SHEC @ 3%</td>
<td>3,000.00</td>
</tr>
<tr>
<td>DVAT @ 4%</td>
<td>44,120.00</td>
</tr>
<tr>
<td>Cost of plant &amp; machinery</td>
<td>10,44,120.00</td>
</tr>
<tr>
<td>Depreciation @15%</td>
<td>1,56,618.00</td>
</tr>
<tr>
<td>Additional Depreciation @ 20%</td>
<td>2,08,824.00</td>
</tr>
</tbody>
</table>

Working note 5

| Expenses incurred | 8,00,000.00 |
| Capital Employed (220,00,000 x 5%) | 11,00,000.00 |
| Installment (8,00,000/5) | 1,60,000.00 |

CENVAT/VAT ACCOUNT

<table>
<thead>
<tr>
<th></th>
<th>EXCISE DUTY</th>
<th>EC/SHEC</th>
<th>DVAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output Tax</td>
<td>17,00,000</td>
<td>51,000</td>
<td>17,50,000 + 23,43,875 = 40,93,875</td>
</tr>
<tr>
<td>Less: Input Tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant &amp; Machinery</td>
<td>1,00,000</td>
<td>3,000</td>
<td>-</td>
</tr>
<tr>
<td>Raw Material</td>
<td>8,00,000</td>
<td>24,000</td>
<td>2,59,776 + 4,32,960 = 6,92,736</td>
</tr>
<tr>
<td>Net Tax</td>
<td>8,00,000</td>
<td>24,000</td>
<td>34,01,139</td>
</tr>
</tbody>
</table>

Solution 37:

**Computation of income under the head Business/Profession**

Sales 110,00,000.00
Less:
- Raw material R1 5,00,000.00
- Raw material R2 (5,33,305 + 11,765) 5,45,070.00
- Raw material R3 10,00,000.00
- Interest on loan taken from Punjab National Bank for plant and machinery (10,00,000 x 10% x 5/12) 41,667.00
- Interest on loan taken from State Bank for working capital (7,00,000 x 10%) 70,000.00
- Depreciation on Plant and machinery 11,14,384.00
- (8,38,841 + 19,608 = 8,58,449 x 15% x ½ + 70,00,000 x 15%) = (64,384 + 10,50,000) 85,845.00
- Additional depreciation on plant and machinery (8,58,449 x 20% x ½) 85,845.00
- Municipal taxes 5,00,000.00
- Depreciation on Building (12,00,000 x ½ x 10%) 60,000.00
- Donation to approved scientific research (1,00,000 x 1.75) 1,75,000.00
- Employee income tax paid 30,000.00
- Technical fee paid outside India 1,80,000.00
- 71,93,034.00

Add:
- Export incentives 60,000.00
- Income under the head Business/Profession 72,53,034.00

**Computation of income under the head House Property**

Gross Annual Value (12,000 x 12) 1,44,00,000.00
Less: Municipal Taxes Nil
Net Annual Value: 1,44,000.00
Less: 30% of NAV u/s 24(a): 43,200.00
Less: Interest on capital borrowed u/s 24(b): Nil
Income under the head House Property: 1,00,800.00

**Computation of income under the head Capital Gains**
Long term capital gains: 6,00,000.00
Income under the head Capital Gains: 6,00,000.00
Gross Total Income: 79,53,834.00
Less: Deduction u/s 80C
   - NSC: 30,000.00
   - PPF: 40,000.00
Less: Deduction u/s 80G
   - Prime Minister National Relief Fund: 30,000.00
   - Notified temple: 7,500.00

**Working Note:**
AGTI = GTI – LTCG – STCG u/s 111A – 80C to 80U (Except 80G)
= 79,53,834 – 6,00,000 – 70,000 = 72,83,834
Qualifying amount = 10% of AGTI or donation whichever is less
= 7,28,383 or 15,000
= 15,000
50% of the qualifying amount = 7,500

Total Income: 78,46,334.00
Rounded off u/s 288A: 78,46,330.00

**Computation of Tax Liability**
Tax on LTCG @ 20% u/s 112: 1,20,000.00
Tax on `72,46,330 at slab rate: 20,03,899.00
Tax before education cess: 21,23,899.00
Add: Education cess @ 2%: 42,477.98
Add: SHEC @ 1%: 21,238.99
Tax Liability: 21,87,615.97
Rounded off u/s 288B: 21,87,620.00

**Raw Material R1**
Cost: 5,00,000
Excise duty @ 8%: 40,000
EC @ 2%: 800
SHEC @ 1%: 400
VAT @ 4%: 5,41,200

**Raw Material R2**
Cost + excise duty + CST: 6,00,000
Amount of CST (6,00,000 / 102% x 2%): 11,765
Amount of central excise duty (6,00,000 – 11,765 = 5,88,235 / 110.3% x 10%): 53,330
EC @ 2% (5,88,235 / 110.3% x 0.2%): 1,067
SHEC @ 1% (5,88,235 / 110.3% x 0.1%): 533
Cost excluding excise duty and CST: 5,33,305

**Raw material R3 from related person**
Cost: 11,00,000
Excise duty @ 8%: 88,000
EC @ 2%  \( \text{1,760} \)
SHEC @ 1%  \( \text{880} \)
\( \text{VAT @ 4%} \)
\( \text{47,626} \)

**Plant and machinery**

Cost + excise duty + CST  \( \text{10,00,000} \)
Amount of CST \( (10,00,000 \div 102\% \times 2\%) \)
\( \text{19,608} \)
Amount of central excise duty \( (10,00,000 - 19,608 = 9,80,392 \div 110.3\% \times 10\%) \)
EC @ 2% \( (9,80,392 \div 110.3\% \times 0.2\%) \)
\( \text{1,778} \)
SHEC @ 1% \( (9,80,392 \div 110.3\% \times 0.1\%) \)
\( \text{889} \)
Cost  \( \text{8,88,841} \)
Less: amount of subsidy  \( \text{1,00,000} \)
\( \text{7,88,841} \)

Add: Interest for the period 01.05.2013 to 31.10.2013
\( (10,00,000 \times 10\% \times 6/12) \)
\( \text{50,000} \)
\( \text{8,38,841} \)

**Finished Product**

Sale  \( \text{110,00,000} \)
Excise duty @ 10%  \( \text{11,00,000} \)
EC @ 2%  \( \text{22,000} \)
SHEC @ 1%  \( \text{11,000} \)
\( \text{VAT @ 12.5\%} \)
\( \text{121,33,000} \)

**Tax Credit**

Excise Duty = 40,000 (R1) + 53,330 (R2) + 88,000 (R3) + 88,884 (Plant & Machinery) = 2,70,214
EC @ 2% = 800 (R1) + 1,067 (R2) + 1,760 (R3) + 1,778 (Plant & Machinery) = 5,405
SHEC @ 1% = 400 (R1) + 533 (R2) + 880 (R3) + 889 (Plant & Machinery) = 2,702
DVAT = 21,648 (R1) + 47,626 (R3) = 69,274

\[ \begin{array}{|c|c|c|c|}
\hline
\text{Excise Duty} & \text{EC @ 2\%} & \text{SHEC @ 1\%} & \text{DVAT} \\
\hline
\text{Output Tax} & \text{11,00,000} & \text{22,000} & \text{11,000} & \text{15,16,625} \\
\text{Less: Tax Credit} & \text{2,70,214} & \text{5,405} & \text{2,702} & \text{69,274} \\
\text{Tax Payable} & \text{8,29,786} & \text{16,595} & \text{8,298} & \text{14,47,351} \\
\hline
\end{array} \]

**Computation of interest under section 234C**

15.09.2013 \( 30\% \text{ of } `21,87,620 - `1,00,000 = `5,56,286 \text{ Rounded off } `5,56,200 \times 1\% \times 3 = `16,686 \)
15.12.2013 \( 60\% \text{ of } `21,87,620 - `1,00,000 = `12,12,572 \text{ Rounded off } `12,12,500 \times 1\% \times 3 = `36,375 \)
15.03.2014 \( 100\% \text{ of } `21,87,620 - `1,00,000 = `20,87,620 \text{ Rounded off } `20,87,600 \times 1\% \times 1 = `20,876 \)
Interest liability under section 234C = `73,937

**Computation of interest under section 234B**

20,87,600 \times 1\% \times 9 = `1,87,884

**Computation of interest under section 234A**

20,87,600 \times 1\% \times 3 = `62,628

Total interest = 73,937 + 1,87,884 + 62,628 = `3,24,449 Rounded off `3,24,450

**Interest under section 201**

Interest paid for late payment of TDS
\( = 18,000 \times 3 \times 1.5\% = 810 \)
**Solution 38:**

Gross Total Income \( 79,53,834.00 \)

Less: Deduction u/s 80C

- NSC \( 30,000.00 \)
- PPF \( 40,000.00 \)

Less: Deduction u/s 80G

- Prime Ministry National Relief Fund \( 30,000.00 \)
- Notified temple \( 7,500.00 \)

**Working Note:**

AGTI = GTI – LTCG – STCG u/s 111A – 80C to 80U (Except 80G)

\[ \text{AGTI} = 79,53,834 - 6,00,000 - 70,000 = 72,83,834 \]

Qualifying amount = 10% of AGTI or donation whichever is less

\[ \text{Qualifying amount} = \min(7,28,383, 15,000) = 15,000 \]

50% of the qualifying amount = 7,500

Total Income \( 78,46,334.00 \)

Rounded off u/s 288A \( 78,46,330.00 \)

**Computation of Tax Liability**

- Tax on LTCG \( 6,00,000 \) @ 20% u/s 112 \( 1,20,000.00 \)
- Tax on \( 72,46,330 \) at slab rate \( 20,03,899.00 \)
- Tax before education cess \( 21,23,899.00 \)
- Add: Education cess @ 2% \( 42,477.98 \)
- Add: SHEC @ 1% \( 21,238.99 \)
- Tax Liability \( 21,87,615.97 \)

Rounded off u/s 288B \( 21,87,620.00 \)

**Raw Material R1**

- Cost \( 5,00,000 \)
- Excise duty @ 8% \( 40,000 \)
- EC @ 2% \( 800 \)
- SHEC @ 1% \( 400 \)

VAT @ 4% \( 5,41,200 \)

**Raw Material R2**

- Cost + excise duty + CST \( 6,00,000 \)
- Amount of CST (6,00,000 / 102\% x 2\%) \( 11,765 \)
- Amount of central excise duty (6,00,000 – 11,765 = 5,88,235 / 110.3\% x 10\%) \( 53,330 \)
- EC @ 2\% (5,88,235 / 110.3\% x 0.2\%) \( 1,067 \)
- SHEC @ 1\% (5,88,235 / 110.3\% x 0.1\%) \( 533 \)

Cost excluding excise duty and CST \( 5,33,305 \)

**Raw material R3 from related person**

- Cost \( 11,00,000 \)
- Excise duty @ 8\% \( 88,000 \)
- EC @ 2\% \( 1,760 \)
- SHEC @ 1\% \( 880 \)

VAT @ 4\% \( 11,90,640 \)

**Plant and machinery**

- Cost + excise duty + CST \( 10,00,000 \)
Income Under The Head Business/Profession

Amount of CST (10,00,000 / 102% x 2%) 19,608
Amount of central excise duty (10,00,000 – 19,608 = 9,80,392 / 110.3% x 10%) 88,884
EC @ 2% (9,80,392 / 110.3% x 0.2%) 1,778
SHEC @ 1% (9,80,392 / 110.3% x 0.1%) 889
Cost 8,88,841
Less: amount of subsidy 1,00,000
7,88,841
Add: Interest for the period 01.05.2013 to 31.10.2013
(10,00,000 x 10% x 6/12) 50,000
8,38,841
Sale 110,00,000

Tax Credit
Excise Duty = 40,000 (R1) + 53,330 (R2) + 88,000 (R3) + 88,884 (Plant & Machinery) = 2,70,214
EC @ 2% = 800 (R1) + 1,067 (R2) + 1,760 (R3) + 1,778 (Plant & Machinery) = 5,405
SHEC @ 1% = 400 (R1) + 533 (R2) + 880 (R3) + 889 (Plant & Machinery) = 2,702
DVAT = 21,648 (R1) + 47,626 (R3) = 69,274

Output Tax

<table>
<thead>
<tr>
<th>Excise Duty</th>
<th>EC @ 2%</th>
<th>SHEC @ 1%</th>
<th>DVAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Credit Balance 2,70,214</td>
<td>5,405</td>
<td>2,702</td>
<td>69,274</td>
</tr>
</tbody>
</table>

Computation of interest under section 234C
15.09.2013 30% of `21,87,620 – `1,00,000 = `5,56,286 Rounded off `5,56,200 x 1% x 3 = `16,686
15.12.2013 60% of `21,87,620 – `1,00,000 = `12,12,572 Rounded off `12,12,500 x 1% x 3 = `36,375
15.03.2014 100% of `21,87,620 – `1,00,000 = `20,87,620 Rounded off `20,87,600 x 1% x 1 = `20,876
Interest liability under section 234C = `73,937

Computation of interest under section 234B
20,87,600 x 1% x 9 = `1,87,884

Computation of interest under section 234A
20,87,600 x 1% x 3 = `62,628

Total interest = 73,937 + 1,87,884 + 62,628 = `3,24,449 Rounded off `3,24,450

Interest under section 201
Interest paid for late payment of TDS
= 18,000 x 3 x 1.5% = 810

Solution 39:
Computation of income under the head Business/Profession
Sales 110,00,000.00
Less:
Raw material R1 5,62,848.00
Raw material R2 6,00,000.00
Raw material R3 10,00,000.00
Interest on loan taken from Punjab National Bank for plant and machinery 41,667.00
(10,00,000 x 10% x 5/12)
Interest on loan taken from State Bank for working capital (7,00,000 x 10%) 70,000.00
Depreciation on Plant and machinery (9,50,000 x 15% x ½ + 70,00,000 x 15%) 11,21,250.00
(71,250 + 10,50,000)
Additional depreciation on plant and machinery (9,50,000 x 20% x ½) 95,000.00
Municipal taxes 5,000.00
Depreciation on Building (12,00,000 x 10% x ½) 60,000.00
Donation to approved scientific research (1,00,000 x 1.75) 1,75,000.00
Employee income tax paid 30,000.00
Technical fee paid outside India 1,80,000.00
70,59,235.00
Add:
Export incentives 60,000.00
Income under the head Business/Profession 71,19,235.00

**Computation of income under the head House Property**
Gross Annual Value (12,000 x 12) 1,44,000.00
Less: Municipal Taxes Nil
Net Annual Value 1,44,000.00
Less: 30% of NAV u/s 24(a) 43,200.00
Less: Interest on capital borrowed u/s 24(b) Nil
Income under the head House Property 1,00,800.00

**Computation of income under the head Capital Gains**
Long term capital gains 6,00,000.00
Income under the head Capital Gains 6,00,000.00
Gross Total Income 78,20,035.00
Less: Deduction u/s 80C
   NSC 30,000.00
   PPF 40,000.00
Less: Deduction u/s 80G
   Prime Ministry National Relief Fund 30,000.00
   Notified temple 7,500.00
Total Income 77,12,535.00
Rounded off u/s 288A 77,12,540.00

**Computation of Tax Liability**
Tax on LTCG `6,00,000 @ 20% u/s 112 1,20,000.00
Tax on `71,12,540 at slab rate 19,63,762.00
Tax before education cess 20,83,762.00
Add: Education cess @ 2% 41,675.24
Add: SHEC @ 1% 20,837.62
Tax Liability 21,46,274.86
Rounded off u/s 288B 21,46,270.00

**Raw Material R1**
Cost 5,00,000
Excise duty @ 8% 40,000
EC @ 2% 800
SHEC @ 1% 400
Income Under The Head Business/Profession

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT @ 4%</td>
<td>21,648</td>
</tr>
<tr>
<td><strong>Raw Material R2</strong></td>
<td></td>
</tr>
<tr>
<td>Cost + excise duty + CST</td>
<td>6,00,000</td>
</tr>
<tr>
<td><strong>Raw material R3 from related person</strong></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>11,00,000</td>
</tr>
<tr>
<td>Excise duty @ 8%</td>
<td>88,000</td>
</tr>
<tr>
<td>EC @ 2%</td>
<td>1,760</td>
</tr>
<tr>
<td>SHEC @ 1%</td>
<td>880</td>
</tr>
<tr>
<td>VAT @ 4%</td>
<td>47,626</td>
</tr>
<tr>
<td><strong>Plant and machinery</strong></td>
<td></td>
</tr>
<tr>
<td>Cost + excise duty + CST</td>
<td>10,00,000</td>
</tr>
<tr>
<td>Less: amount of subsidy</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Add: Interest for the period 01.05.2013 to 31.10.2013</td>
<td></td>
</tr>
<tr>
<td>(10,00,000 x 10% x 6/12)</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>Finished Product</strong></td>
<td></td>
</tr>
<tr>
<td>Sale</td>
<td>110,00,000</td>
</tr>
</tbody>
</table>

**Computation of interest under section 234C**
- 15.09.2013  30% of ₹21,46,270 – ₹1,00,000 = ₹5,43,881 Rounded off ₹5,43,800 x 1% x 3 = ₹16,314
- 15.12.2013  60% of ₹21,46,270 – ₹1,00,000 = ₹11,87,762 Rounded off ₹11,87,700 x 1% x 3 = ₹35,631
- 15.03.2014  100% of ₹21,46,270 – ₹1,00,000 = ₹20,46,270 Rounded off ₹20,46,200 x 1% x 1 = ₹20,462
Interest liability under section 234C = ₹72,407

**Computation of interest under section 234B**
- 20,46,200 x 1% x 9 = ₹1,84,158

**Computation of interest under section 234A**
- 20,46,200 x 1% x 3 = ₹61,386

Total interest = ₹72,407 + ₹1,84,158 + ₹61,386 = ₹3, 17,951 Rounded off ₹3, 17,950

**Interest under section 201**
Interest paid for late payment of TDS
= 18,000 x 3 x 1.5% = 810

Note: Since the finished product is exempt from excise duty and DVAT, no tax credit is allowed.

**Solution 40:**
Computation of Total Income and Tax Liability

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased goods in April’ 2013</td>
<td>3,37,500</td>
</tr>
<tr>
<td>Purchased goods in May’ 2013</td>
<td>4,50,000</td>
</tr>
<tr>
<td>Purchased goods in June’ 2013</td>
<td>25,00,000</td>
</tr>
<tr>
<td>Rent of a shop [(20,000 x 12) + (20,000 x 12 x 12.36%)]</td>
<td>2,69,664</td>
</tr>
<tr>
<td>Expenses of maintaining VAT accounts</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Sale (10,00,000 + 38,00,000)</td>
<td>48,00,000</td>
</tr>
</tbody>
</table>
Income Under The Head Business/Profession

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit</td>
<td>11,42,836</td>
</tr>
<tr>
<td></td>
<td>48,00,000</td>
</tr>
</tbody>
</table>

Computation of Tax Liability

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on `11,42,840 at slab rate</td>
<td>1,72,852.00</td>
</tr>
<tr>
<td>Add: Education cess @ 2%</td>
<td>3,457.04</td>
</tr>
<tr>
<td>Add: SHEC @ 1%</td>
<td>1,728.52</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>1,78,037.56</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>1,78,040.00</td>
</tr>
</tbody>
</table>

VAT Credit

Goods purchased in June’ 2013 = 25,00,000 x 12.5% = 3,12,500

Output Tax

Sales of goods = 38,00,000 x 12.5% = 4,75,000
Net VAT Payable = 4,75,000 – 3,12,500 = 1,62,500

Note: TDS provisions is not applicable to Mr. X as he is not liable to tax audit under section 44AB in preceding financial year.

Solution 41:
Computation of Total Income and Tax Liability

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased goods in April’ 2013</td>
<td>3,37,500</td>
<td>Sale (10,00,000 + 38,00,000)</td>
<td>48,00,000</td>
</tr>
<tr>
<td>Purchased goods in May’ 2013</td>
<td>4,50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchased goods in June’ 2013</td>
<td>28,12,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent of a shop [(20,000 x 12) + (20,000 x 12 x 12.36%)]</td>
<td>2,69,664</td>
<td>Tax paid under composition scheme @ 1% of `38,00,000</td>
<td>38,000</td>
</tr>
<tr>
<td>Net Profit</td>
<td>8,92,336</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>48,00,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Computation of tax liability

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on `8,92,340 at slab rate</td>
<td>1,08,468.00</td>
</tr>
<tr>
<td>Add: Education cess @ 2%</td>
<td>2,169.36</td>
</tr>
<tr>
<td>Add: SHEC @ 1%</td>
<td>1,084.68</td>
</tr>
<tr>
<td>Tax Liability</td>
<td>1,11,722.04</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>1,11,720.00</td>
</tr>
</tbody>
</table>

Note: TDS provisions are not applicable to Mr. X as he is not liable to tax audit under section 44AB in preceding financial year.

Solution 42:
Tax credit
April to June’ 2013

<table>
<thead>
<tr>
<th></th>
<th>DVAT @ 4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>88,240</td>
</tr>
<tr>
<td>May</td>
<td>1,32,360</td>
</tr>
<tr>
<td>June</td>
<td>88,240</td>
</tr>
</tbody>
</table>

3,08,840

Since assessee is exempt from charging excise duty upto 150 lakhs hence CENVAT credit for excise duty is not allowed.
## Income Under The Head Business/Profession

### July to Sept’ 2013

<table>
<thead>
<tr>
<th></th>
<th>Excise Duty</th>
<th>EC @ 2%</th>
<th>SHEC @ 1%</th>
<th>DVAT @ 4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>4,00,000</td>
<td>8,000</td>
<td>4,000</td>
<td>1,76,480</td>
</tr>
<tr>
<td>Aug</td>
<td>2,00,000</td>
<td>4,000</td>
<td>2,000</td>
<td>88,240</td>
</tr>
<tr>
<td>September</td>
<td>3,00,000</td>
<td>6,000</td>
<td>3,000</td>
<td>1,32,360</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,00,000</strong></td>
<td><strong>18,000</strong></td>
<td><strong>9,000</strong></td>
<td><strong>3,97,080</strong></td>
</tr>
</tbody>
</table>

### Oct to Dec’ 2013

<table>
<thead>
<tr>
<th></th>
<th>Excise Duty</th>
<th>EC @ 2%</th>
<th>SHEC @ 1%</th>
<th>DVAT @ 4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct</td>
<td>4,00,000</td>
<td>8,000</td>
<td>4,000</td>
<td>1,76,480</td>
</tr>
<tr>
<td>Nov</td>
<td>1,00,000</td>
<td>2,000</td>
<td>1,000</td>
<td>44,120</td>
</tr>
<tr>
<td>Dec</td>
<td>3,00,000</td>
<td>6,000</td>
<td>3,000</td>
<td>1,32,360</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,00,000</strong></td>
<td><strong>16,000</strong></td>
<td><strong>8,000</strong></td>
<td><strong>3,52,960</strong></td>
</tr>
</tbody>
</table>

### Jan to March’ 2014

<table>
<thead>
<tr>
<th></th>
<th>Excise Duty</th>
<th>EC @ 2%</th>
<th>SHEC @ 1%</th>
<th>DVAT @ 12.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>2,00,000</td>
<td>4,000</td>
<td>2,000</td>
<td>88,240</td>
</tr>
<tr>
<td>Feb</td>
<td>1,00,000</td>
<td>2,000</td>
<td>1,000</td>
<td>44,120</td>
</tr>
<tr>
<td>March</td>
<td>2,00,000</td>
<td>4,000</td>
<td>2,000</td>
<td>88,240</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,00,000</strong></td>
<td><strong>10,000</strong></td>
<td><strong>5,000</strong></td>
<td><strong>2,20,600</strong></td>
</tr>
</tbody>
</table>

### Output Tax

#### April to June’ 2013

<table>
<thead>
<tr>
<th></th>
<th>DVAT @ 12.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>6,25,000</td>
</tr>
<tr>
<td>May</td>
<td>8,75,000</td>
</tr>
<tr>
<td>June</td>
<td>3,75,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18,75,000</strong></td>
</tr>
</tbody>
</table>

Upto turnover of `150 lakhs, excise duty is exempt.

### July to Sept’ 2013

<table>
<thead>
<tr>
<th></th>
<th>Excise Duty</th>
<th>EC @ 10%</th>
<th>EC @ 2%</th>
<th>SHEC @ 1%</th>
<th>DVAT @ 12.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>2,00,000</td>
<td>4,000</td>
<td>2,000</td>
<td>2,000</td>
<td>2,75,750</td>
</tr>
<tr>
<td>Aug</td>
<td>3,00,000</td>
<td>6,000</td>
<td>3,000</td>
<td>3,000</td>
<td>4,13,625</td>
</tr>
<tr>
<td>September</td>
<td>2,00,000</td>
<td>4,000</td>
<td>2,000</td>
<td>2,000</td>
<td>2,75,750</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7,00,000</strong></td>
<td><strong>14,000</strong></td>
<td><strong>7,000</strong></td>
<td><strong>9,65,125</strong></td>
<td></td>
</tr>
</tbody>
</table>

### Oct to Dec’ 2013

<table>
<thead>
<tr>
<th></th>
<th>Excise Duty</th>
<th>EC @ 10%</th>
<th>EC @ 2%</th>
<th>SHEC @ 1%</th>
<th>DVAT @ 12.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct</td>
<td>1,00,000</td>
<td>2,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,37,875</td>
</tr>
<tr>
<td>Nov</td>
<td>2,00,000</td>
<td>4,000</td>
<td>2,000</td>
<td>2,000</td>
<td>2,75,750</td>
</tr>
<tr>
<td>Dec</td>
<td>3,00,000</td>
<td>6,000</td>
<td>3,000</td>
<td>3,000</td>
<td>4,13,625</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,00,000</strong></td>
<td><strong>12,000</strong></td>
<td><strong>6,000</strong></td>
<td><strong>8,27,250</strong></td>
<td></td>
</tr>
</tbody>
</table>

### Jan to March’ 2014

<table>
<thead>
<tr>
<th></th>
<th>Excise Duty</th>
<th>EC @ 10%</th>
<th>EC @ 2%</th>
<th>SHEC @ 1%</th>
<th>DVAT @ 12.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>2,00,000</td>
<td>4,000</td>
<td>2,000</td>
<td>2,000</td>
<td>2,75,750</td>
</tr>
<tr>
<td>Feb</td>
<td>3,00,000</td>
<td>6,000</td>
<td>3,000</td>
<td>3,000</td>
<td>4,13,625</td>
</tr>
<tr>
<td>March</td>
<td>2,00,000</td>
<td>4,000</td>
<td>2,000</td>
<td>2,000</td>
<td>2,75,750</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7,00,000</strong></td>
<td><strong>14,000</strong></td>
<td><strong>7,000</strong></td>
<td><strong>9,65,125</strong></td>
<td></td>
</tr>
</tbody>
</table>

### Net Tax Payable

#### April to June ‘2013

<table>
<thead>
<tr>
<th></th>
<th>DVAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output tax</td>
<td>18,75,000</td>
</tr>
<tr>
<td>Input tax</td>
<td>3,08,840</td>
</tr>
<tr>
<td><strong>Net tax Payable</strong></td>
<td><strong>15,66,160</strong></td>
</tr>
</tbody>
</table>
### July to Sept’ 2013

<table>
<thead>
<tr>
<th></th>
<th>Excise Duty @ 10%</th>
<th>EC @ 2%</th>
<th>SHEC @ 1%</th>
<th>DVAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output tax</td>
<td>7,00,000</td>
<td>14,000</td>
<td>7,000</td>
<td>9,65,125</td>
</tr>
<tr>
<td>Less: Input tax credit</td>
<td>9,00,000</td>
<td>18,000</td>
<td>9,000</td>
<td>3,97,080</td>
</tr>
<tr>
<td>Net tax Payable</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,68,045</td>
</tr>
<tr>
<td>Tax Credit Balance</td>
<td>2,00,000</td>
<td>4,000</td>
<td>2,000</td>
<td></td>
</tr>
</tbody>
</table>

**Output tax**
- July to Sept’ 2013: 7,00,000
- Oct to Dec’ 2013: 6,00,000
- Jan to March’ 2014: 7,00,000

**Less: Input tax credit**
- July to Sept’ 2013: 9,00,000
- Oct to Dec’ 2013: 8,00,000
- Jan to March’ 2014: 5,00,000

**Net tax Payable**
- July to Sept’ 2013: -
- Oct to Dec’ 2013: -
- Jan to March’ 2014: -

**Tax Credit Balance**
- July to Sept’ 2013: 2,00,000
- Oct to Dec’ 2013: 2,00,000
- Jan to March’ 2014: 2,00,000

**B/F Tax Credit**
- July to Sept’ 2013: 2,00,000
- Oct to Dec’ 2013: 4,000
- Jan to March’ 2014: 4,000

### Oct to Dec’ 2013

<table>
<thead>
<tr>
<th></th>
<th>Excise Duty @ 10%</th>
<th>EC @ 2%</th>
<th>SHEC @ 1%</th>
<th>DVAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output tax</td>
<td>6,00,000</td>
<td>12,000</td>
<td>6,000</td>
<td>8,27,250</td>
</tr>
<tr>
<td>Less: Input tax credit</td>
<td>8,00,000</td>
<td>16,000</td>
<td>8,000</td>
<td>3,52,960</td>
</tr>
<tr>
<td>Net tax Payable</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,74,290</td>
</tr>
<tr>
<td>Tax Credit Balance</td>
<td>2,00,000</td>
<td>4,000</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>B/F Tax Credit</td>
<td>2,00,000</td>
<td>4,000</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>Total Tax Credit</td>
<td>4,00,000</td>
<td>8,000</td>
<td>4,000</td>
<td></td>
</tr>
</tbody>
</table>

### Jan to March’ 2014

<table>
<thead>
<tr>
<th></th>
<th>Excise Duty @ 10%</th>
<th>EC @ 2%</th>
<th>SHEC @ 1%</th>
<th>DVAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output tax</td>
<td>7,00,000</td>
<td>14,000</td>
<td>7,000</td>
<td>9,65,125</td>
</tr>
<tr>
<td>Less: Input tax credit</td>
<td>5,00,000</td>
<td>10,000</td>
<td>5,000</td>
<td>2,20,600</td>
</tr>
<tr>
<td>Less: B/F Tax credit bal.</td>
<td>4,00,000</td>
<td>8,000</td>
<td>4,000</td>
<td></td>
</tr>
<tr>
<td>Balance Tax credit</td>
<td>2,00,000</td>
<td>4,000</td>
<td>2,000</td>
<td></td>
</tr>
</tbody>
</table>

### Computation of total income and tax liability

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase goods in April’ 2013 (20,00,000 + 2,00,000 + 4,000 + 2,000)</td>
<td>22,06,000</td>
<td>Sale of goods in April’ 2013</td>
<td>50,00,000</td>
</tr>
<tr>
<td>Purchase goods in May’ 2013 (30,00,000 + 3,00,000 + 6,000 + 3,000)</td>
<td>33,09,000</td>
<td>Sale of goods in May’ 2013</td>
<td>70,00,000</td>
</tr>
<tr>
<td>Purchase goods in June’ 2013 (20,00,000 + 2,00,000 + 4,000 + 2,000)</td>
<td>22,06,000</td>
<td>Sale of goods in June’ 2013</td>
<td>30,00,000</td>
</tr>
<tr>
<td>Purchase goods in July’ 2013</td>
<td>40,00,000</td>
<td>Sale of goods in July’ 2013</td>
<td>20,00,000</td>
</tr>
<tr>
<td>Purchase goods in Aug’ 2013</td>
<td>20,00,000</td>
<td>Sale of goods in Aug’ 2013</td>
<td>30,00,000</td>
</tr>
<tr>
<td>Purchase goods in Sept’ 2013</td>
<td>30,00,000</td>
<td>Sale of goods in Sept’ 2013</td>
<td>20,00,000</td>
</tr>
<tr>
<td>Purchase goods in Oct’ 2013</td>
<td>40,00,000</td>
<td>Sale of goods in Oct’ 2013</td>
<td>10,00,000</td>
</tr>
<tr>
<td>Purchase goods in Nov’ 2013</td>
<td>10,00,000</td>
<td>Sale of goods in Nov’ 2013</td>
<td>20,00,000</td>
</tr>
<tr>
<td>Purchase goods in Dec’ 2013</td>
<td>30,00,000</td>
<td>Sale of goods in Dec’ 2013</td>
<td>30,00,000</td>
</tr>
<tr>
<td>Purchase goods in Jan’ 2014</td>
<td>20,00,000</td>
<td>Sale of goods in Jan’ 2014</td>
<td>20,00,000</td>
</tr>
<tr>
<td>Purchase goods in Feb’ 2014</td>
<td>10,00,000</td>
<td>Sale of goods in Feb’ 2014</td>
<td>30,00,000</td>
</tr>
<tr>
<td>Purchase goods in March’ 2014</td>
<td>20,00,000</td>
<td>Sale of goods in March’ 2014</td>
<td>20,00,000</td>
</tr>
<tr>
<td>Expenses allowed u/s 35D</td>
<td>5,50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>47,29,000</td>
<td></td>
<td>350,00,000</td>
</tr>
</tbody>
</table>

### Working of section 35D

**Expenses before commencement = 40,00,000**

Expenses allowed under section 35D cannot exceed 5% of the capital employed

\[ \text{550,00,000} \times 5\% = 27,50,000 \]

Instalment allowed = 27,50,000 / 5 = 5,50,000

**Tax on ’47,29,000 @ 30%**

\[ 14,18,700 \]

Add: EC @ 2%

\[ 28,374 \]

Add: SHEC @ 1%

\[ 14,187 \]

**Tax Liability**

\[ 14,61,261 \]

Rounded off u/s 288B

\[ 14,61,260 \]
EXERCISES

1. An assessee uses plant and machinery for the purpose of carrying on his business. Under section 31, he shall be eligible for deduction on account of –

   a) both capital and revenue expenditure on repairs
   b) current repairs
   c) current repairs plus 1/5th of capital expenditure on repairs.

2. An electricity company charging depreciation on straight line method on each asset separately, sells one of its machinery in April, 2013 at `1,20,000. The WDV of the machinery at the beginning of the year i.e. on 1st April, 2013 is `1,35,000. No new machinery was purchased during the year. The shortfall of `15,000 is treated as –

   a) Terminal depreciation
   b) Short-term capital loss
   c) Normal depreciation.

3. X Ltd. acquires an asset which was previously used for scientific research for `2,75,000. The asset was brought into use for the business of X Ltd., after the research was completed. The actual cost of the asset to be included in the block of assets is –

   a) Nil
   b) Market value of the asset on the date of transfer to business
   c) `2,75,000 less notional depreciation under section 32 upto the date of transfer.

4. A Ltd. has unabsorbed depreciation of `4,50,000 for the P.Y.2013-14. This can be carried forward –

   a) for a maximum period of 8 years and set-off against business income.
   b) Indefinitely and set-off against business income.
   c) Indefinitely and set-off against any head of income.

5. Deduction under section 33AB is allowed to an assessee provided the assessee deposits the profits with NABARD –

   a) before the end of the previous year
   b) within 6 months from the end of the previous year
   c) within 6 months from the end of the previous year or before the due date for filing the return of income, whichever is earlier.

6. XYZ Ltd. incurred capital expenditure of `1,50,000 on 01.04.2013 for acquisition of patents and copyrights. Such expenditure is –

   a) Eligible for deduction in 14 years from A.Y.2014-15
   b) Eligible for deduction in 5 years from A.Y.2014-15
   c) Subject to depreciation under section 32

7. Under section 44AE, presumptive taxation is applicable at a particular rate provided the assessee is the owner of a maximum of certain number of goods carriages. The rate per month or part of the month relevant for A.Y.2014-15 and the maximum number specified under the section are –

   a) `5,000 for a heavy goods carriage and `4,500 for other goods carriages for an assessee owning not more than 10 goods carriages at any time during the year
b) `3,500 per carriage for an assessee owning not more than 10 goods carriages at the end of the previous year

c) `5,000 for a heavy goods carriage and `4,500 for other goods carriages for an assessee owning not more than 12 goods carriages at the end of the previous year

8. In the case of a non-resident engaged in the business of operation of aircraft, the income is determined under section 44BBA at –

a) 7.5% of turnover
b) 10% of turnover
c) 5% of turnover

9. The W.D.V. of a block (Plant and Machinery, rate of depreciation 15%) as on 01.04.2013 is `3,20,000. A machinery costing `50,000 was acquired on 01.09.2013 but put to use on 01.11.2013. During Jan’2014, part of this block was sold for `2,00,000. The depreciation for A.Y.2014-15 would be –

a) `21,750
b) `25,500
c) `21,125

10. Employer’s contribution to provident fund/superannuation fund/gratuity fund is allowed as deduction in computing income under the head “Profits and gains of business or profession”, provided it has been paid –

a) before the end of the previous year
b) on or before the due date by which the employer is required to credit an employee’s contribution to the employee’s account in the relevant fund.
c) on or before the due date for filing the return of income under section 139(1).

11. Is it compulsory for an assessee to claim depreciation under section 32 of the Income-tax Act, 1961?

12. Write short notes on –

(i) Enhanced depreciation
(ii) Set-off and carry forward of unabsorbed depreciation.

13. Discuss the provisions dealing with the computation of business income on a presumptive basis in case of resident assessees.

14. Discuss the concept of “block of assets” under the Income-tax Act, 1961.

15. Which are the deductions allowable only on actual payment under section 43B?

16. Write short notes on the following –

(a) Compulsory maintenance of books of accounts
(b) Compulsory tax audit.
(c) Shipping business in case of non-resident.
(d) The circumstances where the provisions of section 40A(3), regarding cash payments in excess of `20,000, does not apply.
(e) Amortisation of expenditure under voluntary retirement scheme.
(f) Deduction to be allowed on actual payment basis.
(g) Special provisions under section 44DA for computing income by way of royalty, fee for technical services, etc. in case of non-residents.
17. What is the tax treatment regarding cash payments in excess of limits prescribed in section 40A(3)?

18. The written down value of plant and machinery in the books of Alpha Ltd. is ` 75,00,000 as on 1st April, 2013, on which date, the installed capacity of the company was 12,000 tons. Alpha Ltd. borrowed `10,00,000 @10% p.a. from ICICI Bank on 01.08.2013 for purchase of new plant and machinery for extension of its existing business, which would increase its installed capacity to 13,000 tons. The new plant and machinery was purchased on the same date but was put to use only w.e.f. 01.11.2013. Compute the depreciation admissible under section 32 for the A.Y.2014-15, assuming the applicable rate of depreciation on plant and machinery to be 15%.

19. (i) Deductibility of contributions for Rural Development Programmes under section 35CCA.
(ii) State the provisions relating to expenditure by way of payment to institutions carrying rural development programmes.


21. Who are the persons and what are the circumstances which require maintaining books of accounts compulsorily? State the period for which such books are required to be kept and maintained.
EXAMINATION QUESTIONS

IPCC MAY – 2013

Question 1(a). (10 Marks)

Mrs. Rani a resident aged 50 years is running an acupuncture clinic. Her Income and Expenditure Account and other relevant information for the year ending 31st March, 2014 are given below:

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Amount '</th>
<th>Income</th>
<th>Amount '</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Staff Salary</td>
<td>2,40,000</td>
<td>By Fees receipts</td>
<td>10,00,000</td>
</tr>
<tr>
<td>To Clinic rent</td>
<td>1,20,000</td>
<td>By Dividend from Indian Companies</td>
<td>10,500</td>
</tr>
<tr>
<td>To Medicines and needles</td>
<td>1,05,000</td>
<td>By Winning from Lotteries net of TDS (TDS `3,000)</td>
<td>7,000</td>
</tr>
<tr>
<td>To Depreciation</td>
<td>81,000</td>
<td>By Income-tax Refund</td>
<td>1,750</td>
</tr>
<tr>
<td>To Administrative expenses</td>
<td>1,52,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Donation to Prime Minister’s National Relief Fund</td>
<td>20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Excess of Income over Expenditure</td>
<td>3,01,250</td>
<td></td>
<td>10,19,250</td>
</tr>
<tr>
<td></td>
<td>10,19,250</td>
<td></td>
<td>10,19,250</td>
</tr>
</tbody>
</table>

(i) Depreciation in respect of all assets has been ascertained at `60,000 as per Income-tax rules.
(ii) Medicines & needles of `22,000 have been used for her family.
(iii) Fees Receipts include `24,000 being honorarium for valuing acupuncture examination answer books.
(iv) She has also received `57,860 on maturity of one LIC Policy, not included in the above Income and Expenditure Account.
(v) She has paid an LIC premium of `12,000 for self (Sum Assured `50,000).
(vi) She has paid `2,500 for purchase of lottery tickets.

From the above compute the total Income and tax payable thereon of Mrs. Rani for the Assessment year 2014-15. (Modified)

Solution:
(a) Computation of total income and tax liability of Mrs. Rani for the A.Y. 2014-15

<table>
<thead>
<tr>
<th>Particulars</th>
<th>'</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from business (Working Note – 1)</td>
<td>3,21,000</td>
</tr>
<tr>
<td>Income from other sources (Working Note – 2)</td>
<td>34,000</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td><strong>3,55,000</strong></td>
</tr>
<tr>
<td>Less: Deduction under Chapter VI-A (Working Note – 3)</td>
<td>25,000</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>3,30,000</strong></td>
</tr>
<tr>
<td>Tax on total income (Working Note - 4)</td>
<td>15,000</td>
</tr>
<tr>
<td>Add: Education cess @ 2% and SHEC @1%</td>
<td>450</td>
</tr>
<tr>
<td>Total tax liability</td>
<td>15,450</td>
</tr>
<tr>
<td>Less: Tax deducted at source (TDS)</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Tax payable</strong></td>
<td><strong>12,450</strong></td>
</tr>
</tbody>
</table>

Working Notes:
1. Computation of income under the head “Profits and gains of business or profession”

<table>
<thead>
<tr>
<th>Particulars</th>
<th>'</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income as per Income and Expenditure Account</td>
<td>3,01,250</td>
</tr>
<tr>
<td>Add: Expenses disallowed:</td>
<td></td>
</tr>
<tr>
<td>Depreciation (81,000 - 60,000)</td>
<td>21,000</td>
</tr>
<tr>
<td>Cost of medicines etc. for personal use</td>
<td>22,000</td>
</tr>
</tbody>
</table>
Income Under The Head Business/Profession

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donation to Prime Minister’s Relief Fund</td>
<td>20,000</td>
<td>63,000</td>
</tr>
<tr>
<td>Less: Income not taxable/exempt under the Income-tax Act, 1961/ Income not taxable under this head</td>
<td></td>
<td>3,64,250</td>
</tr>
<tr>
<td>Dividend from Indian companies</td>
<td>10,500</td>
<td></td>
</tr>
<tr>
<td>Income-tax refund</td>
<td>1,750</td>
<td></td>
</tr>
<tr>
<td>Winning from Lotteries</td>
<td>7,000</td>
<td></td>
</tr>
<tr>
<td>Honorarium for valuing answer books</td>
<td>24,000</td>
<td>43,250</td>
</tr>
<tr>
<td><strong>Income under the head “Profits and gains of business or profession”</strong></td>
<td><strong>3,21,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

2. Computation of income under the head “Income from other sources”

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend from Indian Companies [Exempt u/s 10(34)]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Honorarium for valuing answer books</td>
<td>7,000</td>
<td>24,000</td>
</tr>
<tr>
<td>Winning from Lotteries (Net)</td>
<td>3,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Add: TDS</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Income from other sources</strong></td>
<td><strong>34,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

Note - As per section 58(4), no deduction in respect of any expenditure or allowance is allowable in respect of winnings from lotteries. Hence, ‘2,500 paid for purchase of lottery tickets is not allowable as deduction.

3. Computation of deduction under Chapter VI-A

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>U/s 80C Life Insurance Premium (maximum 10% of sum assured)</td>
<td></td>
<td>5,000</td>
</tr>
<tr>
<td>U/s 80G Donation to Prime Minister’s Relief Fund [100% deduction without qualifying limit]</td>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Total deduction under Chapter VI-A</strong></td>
<td><strong>25,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

4. Computation of tax on total income

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on winnings from lotteries [ `10,000 @ 30%]</td>
<td></td>
<td>3,000</td>
</tr>
<tr>
<td>Tax on balance income of <code>3,20,000 [10% of (</code>3,20,000 – `2,00,000, representing the basic exemption limit)]</td>
<td></td>
<td>12,000</td>
</tr>
<tr>
<td><strong>Tax on total income</strong></td>
<td><strong>15,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

5. Maturity proceeds of life insurance policy

Any sum received under a life insurance policy is wholly exempt from tax under section 10(10D).

Note: The above solution has been worked out on the basis of the following assumptions:
(1) The life insurance policy, in respect of which premium of `12,000 is paid, is issued on or after 1st April, 2012. Hence, deduction under section 80C has been restricted to 10% of actual capital sum assured.
(2) The maturity proceeds of LIC have been taken as exempt under section 10(10D) presuming that the premium paid during any of the years of the policy does not exceed the specified percentage of the actual capital sum assured.

Question 7(a) (4 Marks)
(i) Explain the provision regarding the taxability of limited liability partnership under the Income-Tax Act, 1961.

Answer:
Taxability of limited liability partnerships (LLPs) under the Income-tax Act, 1961.
(i) The taxation scheme of LLPs in the Income-tax Act, 1961 is on the same lines as applicable for general partnerships, i.e. tax liability would be attracted in the hands of the LLP and tax exemption would be available to the partners. Therefore, the same tax treatment would be applicable for both general partnerships and LLPs.

(ii) The rate of income-tax applicable to LLPs is the same as the rate applicable for firms i.e. 30% of total income.

(iii) The provisions of section 40(b) requiring payment of remuneration only to working partner in accordance with the terms of the partnership deed for a period commencing on or after the date of the partnership deed, would apply to LLPs as well. Further, disallowance of interest in excess of 12% per annum and salary exceeding the prescribed limits would also be applicable in the case of LLPs.

(iv) However, whereas a partnership firm can opt for presumptive taxation scheme under section 44AD, an LLP cannot opt for such scheme.

**Question 7(a)**

(ii) State the head of income in the following cases under which the receipt is to be assessed and comment.

(A) A uses his property for his own business. Can he claim depreciation?

(B) B Lets out his property to X. X sublets it. How is sub-letting to be assessed in the hands of X?

(C) C has built a house on a leasehold land. He has let out the property and claims the rent as income from house property and deducted expenses on repairs, security charges, insurance and collection charges totaling to 40% of receipts.

**Answer:**

(A) Yes, Mr. A can claim depreciation, since the property is an asset used for business purposes. Section 22, which is the charging section for “Income from house property” specifically excludes from its scope, property which an assessee, as an owner, occupies for the purpose of any business or profession carried on by him.

(B) In the hands of Mr. B, income from letting out of property to Mr. X is chargeable under the head “Income from house property”, since Mr. B is the owner of the property.

However, since Mr. X is not the owner of the house property, the income from sub-letting will not be chargeable under the head “Income from house property”. It will be assessed as “Income from other sources” in the hands of Mr. X.

In the alternative, it would be assessed as “Profits and gains of business or profession”, if X is engaged in the business of sub-letting.

(C) Income from letting out of a house built on leasehold land is taxable under the head “Income from house property” in the hands of Mr. C. Ownership of land is not a pre-requisite for charge of income under the head “Income from house property”.

The annual letting value (higher of municipal value and fair rent, but restricted to standard rent) or actual rent, whichever is higher, would be the gross annual value of the house property. The municipal taxes paid by Mr. C during the year is to be deducted from gross annual value to arrive at the net annual value.

Deduction of 30% of net annual value is allowable under section 24 to arrive at the income chargeable under the head “Income from house property”. No other deduction is allowable in respect of repairs, insurance, security and collection charges.

**Note** – Interest on loan borrowed for construction of house is deductible under section 24(b) from Net Annual Value to arrive at the Income from house property, in addition to the statutory deduction of 30%.

**IPCC NOV – 2012**

**Question No. 1 (a)**

(10 Marks)

Mr. Hari provides the following information for the year ending 31.03.2014:
(i) Rent from vacant site let on lease 1,12,000
(ii) Rent from house property at Delhi 20,000 per month
(iii) Turnover from retail trade in grains (No books of account maintained) 24,37,500
(iv) Arrears of salary received from ex-employer 40,000
(v) Purchase of 10,000 shares of X Co. Ltd., on 01.01.2010 1,00,000

He received a 1:1 bonus on 01.01.2011. Sale of 5,000 bonus shares in September, 2013 2,20,000

(vi) Received ` 1,50,000 on 12.02.2014 being amount due from Mr. A relating to goods supplied by Hari’s father, which was written off as bad debt by his father in Assessment Year 2012-13 and allowed as deduction. Hari’s father died in July 2012.

(vii) Brought forward business loss relating to discontinued textile business of Hari relating to the Assessment Year 2012-13. 1,97,500

(viii) Brought forward depreciation relating to discontinued textile business of Hari. 1,50,000

(ix) Hari contributed ` 30,000 to Prime Minister’s National Relief Fund and ` 40,000 to Charitable Trust enjoying exemption u/s 80G by cheque.

Compute the Total Income and the Tax thereon of Mr. Hari for the Assessment Year 2014-15. (Modified)

**Answer:**

**Computation of total income and tax liability of Mr. Hari for the A.Y. 2014-15**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>(\text{\textdollar})</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income from Salaries</strong></td>
<td></td>
</tr>
<tr>
<td>Arrears of salary received from ex-employer</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Income from house property (See Note 1)</strong></td>
<td>1,68,000</td>
</tr>
<tr>
<td><strong>Profit and gains of business or profession</strong></td>
<td></td>
</tr>
<tr>
<td>Income from business of retail trade in grains (See Note 2)</td>
<td>1,95,000</td>
</tr>
<tr>
<td>Less: Set-off of brought forward business loss relating to A.Y.2012-13 of discontinued textile business (See Note 5)</td>
<td>1,95,000 Nil</td>
</tr>
<tr>
<td><strong>Capital gains (See Note 3)</strong></td>
<td></td>
</tr>
<tr>
<td>Sale consideration on sale of bonus shares</td>
<td>2,20,000</td>
</tr>
<tr>
<td>Less: Indexed cost of acquisition</td>
<td>Nil</td>
</tr>
<tr>
<td>Long term capital gains</td>
<td>2,20,000</td>
</tr>
<tr>
<td><strong>Income from other sources</strong></td>
<td></td>
</tr>
<tr>
<td>Rent from vacant site let on lease</td>
<td>1,12,000 5,40,000</td>
</tr>
<tr>
<td>Less: Set-off of unabsorbed depreciation relating to textile business (See Note 6)</td>
<td>1,50,000</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>3,90,000</td>
</tr>
<tr>
<td>Less: Deductions under Chapter VI-A (See Note 7)</td>
<td>38,500</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>3,51,500</td>
</tr>
<tr>
<td><strong>Tax on Total Income (See Note 8)</strong></td>
<td></td>
</tr>
<tr>
<td>Tax on normal income of <code>1,31,500 (i.e. </code>3,51,500 – `2,20,000, being long term capital gains taxable @ 20%)</td>
<td>Nil</td>
</tr>
<tr>
<td>Tax on long-term capital gains @ 20% of <code>1,51,500 (</code>2,20,000 – `68,500)</td>
<td>30,300 30,300</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A (30,300 or 2,000 whichever is less)</td>
<td>2,000</td>
</tr>
</tbody>
</table>
Tax before education cess                                                                 28,300
Add: Education cess @ 2%                                                              566
Secondary and higher education cess @ 1%                                               283
**Total tax liability**                                                                 29,149
**Rounded off u/s 288B**                                                                29,150

**Notes:**

1. **Income from House Property at Delhi**
   - **Particulars**
     - Gross Annual Value (GAV)                       2,40,000
     - Less: Municipal taxes paid                  Nil
     - Net Annual Value (NAV)                     2,40,000
     - Less: Deduction under section 24 @ 30% of NAV 72,000
   - **Income from house property**                1,68,000

   **Note:** Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

2. Since Mr. Hari has not maintained books of accounts in respect of the business of retail trade in grains and the turnover from such business is less than `100 lacs, the income from such business would be computed on a presumptive basis under section 44AD @ 8% of turnover. The income under section 44AD is, therefore, `1,95,000, being 8% * `24,37,500.

3. Cost of acquisition of bonus shares is Nil as per section 55. Since the bonus shares were allotted on 01.01.2010, the period of holding of bonus shares exceeds 1 year, therefore, it is a long-term capital asset and the gain arising from sale of such shares shall be long-term capital gains.
   **Note:** The problem has been solved by assuming that the shares are not listed and securities transaction tax is not paid on sale of such shares, and hence such long-term capital gains is taxable.

4. `1,50,000 represents the amount due from Mr. A relating to goods supplied by Mr. Hari’s father, which was written off as a bad debt by his father in the A.Y.2012-13 and allowed as deduction to him. The said sum recovered by Mr. Hari, in the A.Y.2014-15, would not be treated as his income since there is no such provision under section 41(4) to treat the sum recovered by the successor in business as his income.

5. Business loss of a discontinued business can be carried forward and set-off against the profits of an existing business in the subsequent years. Brought forward business loss of `1,97,500 from discontinued textile business can be set-off against the current year income of `1,95,000 from the business of retail trade. The balance loss of `2,500 can be carried forward to the next year to be set-off against the business income of that year. It can be carried forward upto a maximum of 6 more assessment years to be set-off against the business income of those years.

6. Unabsorbed depreciation under section 32 can be carried forward indefinitely and set-off against income under any head. on presumptive basis, any deduction allowable under sections 30 to 38 shall be deemed to have been given full effect to and no further deduction under those sections shall be allowed. However, in the given problem, the unabsorbed depreciation relates to discontinued textile business and not to the retail trade business (eligible business) in respect of which income is computed on a presumptive basis under section 44AD.

   Therefore, it is possible to take a view that such unabsorbed depreciation not relating to the eligible business under section 44AD, can be set-off against income of the current year.

7. **Deduction under Chapter VI-A:**
   - **Particulars**
     - Deduction under section 80G
Contribution to Prime Minister National Relief Fund (Eligible for 100% deduction) 30,000

Contribution to Charitable trust recognized for section 80G purposes 40,000

Deduction restricted to 50% of 10% of Adjusted Total Income

Income i.e. 50% × (10% × `1,70,000) 8,500

Total deduction under Chapter VI-A 38,500

Adjusted total income (for the purpose of computation of deduction under section 80G):

Gross Total Income 3,90,000
Less: Long term capital gains 2,20,000
Adjusted total income 1,70,000

(8) The basic exemption limit of `2,00,000 is first adjusted against the normal income of `1,31,500 of Mr. Hari, a resident assessee. As per section 112, the unexhausted basic exemption limit of `68,500 (i.e., `2,00,000 – `1,31,500) can be exhausted against the long-term capital gains of `2,20,000 and the balance long term capital gains of `1,51,500 shall be taxable @ 20%.

(9) It is assumed that Mr. Hari is a resident below the age of 60 years.

Note – In the above solution, the deduction under Chapter VI-A and computation of tax liability has been worked out by setting-off the unabsorbed depreciation against income, other than long-term capital gains. The unabsorbed depreciation may also be set-off against long-term capital gains, which would be most beneficial for Mr. Hari, since the long-term capital gain is taxable @ 20%, whereas the normal income of Mr. Hari (i.e., `2,74,000) after such set-off would be taxable at 10%, which is the rate applicable to the income slab which Mr. Hari falls in. In such a case, the deduction under Chapter VI-A and the total tax liability would be as follows –

Deduction under Chapter VI-A :

Deduction under section 80G

Contribution to Prime Minister National Relief Fund (Eligible for 100% deduction) 30,000
Contribution to Charitable trust recognized for section 80G purposes 40,000
Deduction restricted to 50% of 10% of Adjusted Total Income
i.e. 50% × (10% × `3,20,000) 16,000

Total deduction under Chapter VI-A 46,000

Adjusted total income (for the purpose of computation of deduction under section 80G):

Gross Total Income 3,90,000
Less: Long term capital gains (`2,20,000 – `1,50,000) 70,000
Adjusted total income 3,20,000

Tax on total income:

Particulars
Tax on normal income of `2,74,000 (i.e. `3,44,000 – `70,000, being long term capital gains taxable @ 20%) 7,400
Tax on long-term capital gains @ 20% of `70,000 (`2,20,000 – `1,50,000) 14,000 21,400
Less: Rebate u/s 87A (21,400 or 2,000 whichever is less) 2,000
Tax before education cess 19,400
Add: Education cess @ 2% 388
Secondary and higher education cess @ 1% 19

Total tax liability 19,982
Rounded off u/s 288B 19,980

**Question No. 4(a)**
(8 Marks)

Following is the profit and loss account of Mr. Q for the year ended 31.03.2014:

<table>
<thead>
<tr>
<th>Particulars</th>
<th><code> </code></th>
<th>Particulars</th>
<th><code> </code></th>
</tr>
</thead>
<tbody>
<tr>
<td>To Repair on Building</td>
<td>1,81,000</td>
<td>By Gross Profit</td>
<td>6,01,000</td>
</tr>
<tr>
<td>To Amount paid to IIT Mumbai for an approved Scientific research programme</td>
<td>1,00,000</td>
<td>By Income Tax Refund</td>
<td>8,100</td>
</tr>
<tr>
<td>To Interest</td>
<td>1,10,000</td>
<td>By Interest on Company Deposits</td>
<td>6,400</td>
</tr>
<tr>
<td>To Travelling</td>
<td>1,30,550</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Net Profit</td>
<td>93,950</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6,15,500</td>
<td></td>
<td>6,15,500</td>
</tr>
</tbody>
</table>

Following additional informations are furnished:

1. Repairs on building includes `1,00,000 being cost of laying a toilet roof.
2. Interest payment include `50,000 on which TDS has not been deducted and penalty for contravention of Central Sales Tax Act of `24,000.

Compute the income chargeable under the head “Profits and gains of Business or Profession” of Mr. Q for the year ended 31.03.2014 ignoring depreciation. (Modified)

**Answer:**

**Computation of Income under the head Business/Profession for the A.Y. 2014-15**

Net profit as per P & L A/c 93,950

Add: Expenses Disallowed

(i) Repair of building (capital expenditure) 1,00,000
(ii) Interest paid without TDS 50,000
(iii) Sales tax Penalty 24,000 1,74,000

Less: Incomes not taxable

(i) IT Refund (not an income) 8,100
(ii) Interest on deposit (taxable u/h other sources) 6,400 14,500

Less: Deduction u/s 35 (amount paid to IIT) 1,00,000

**Income under the head Business/Profession** 1,53,450

---

**IPCC MAY – 2012**

**Question 1.**
(10 Marks)

Mrs. Purvi is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her income and Expenditure account for the year ended March 31, 2014 reads as follows:

<table>
<thead>
<tr>
<th>Expenditure</th>
<th><code> </code></th>
<th>Income</th>
<th><code> </code></th>
<th><code> </code></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary to Staff</td>
<td>5,50,000</td>
<td>Fees earned:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stipend to articled</td>
<td>37,000</td>
<td>Audit</td>
<td>7,88,000</td>
<td></td>
</tr>
</tbody>
</table>
### Income Under The Head Business/Profession

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incentive to Articled Assistants</td>
<td>3,000</td>
</tr>
<tr>
<td>Office rent</td>
<td>24,000</td>
</tr>
<tr>
<td>Printing and Stationery</td>
<td>22,000</td>
</tr>
<tr>
<td>Meeting, Seminar and Conference</td>
<td>31,600</td>
</tr>
<tr>
<td>Purchase of car</td>
<td>80,000</td>
</tr>
<tr>
<td>Repair, Maintenance And petrol of car</td>
<td>4,000</td>
</tr>
<tr>
<td>Travelling expenses</td>
<td>35,000</td>
</tr>
<tr>
<td>Municipal Tax paid in respect of house Property</td>
<td>3,000</td>
</tr>
<tr>
<td>Net profit</td>
<td>9,28,224</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation Services</td>
<td>5,40,300</td>
</tr>
<tr>
<td>Consultancy</td>
<td>2,70,000</td>
</tr>
<tr>
<td>Dividend on shares of Indian Companies(Gross)</td>
<td>10,524</td>
</tr>
<tr>
<td>Income from unit Trust of India</td>
<td>7,600</td>
</tr>
<tr>
<td>Honorarium received from Various Institutions for valuation of answer papers</td>
<td>15,800</td>
</tr>
<tr>
<td>Rent Received from Residential flat let out</td>
<td>85,600</td>
</tr>
</tbody>
</table>

---

**Other information:**

(i) Allowable rate of depreciation on motor car is 15%

(ii) Value of benefits received from clients during the course of profession is `10,500.

(iii) Incentives to articled assistants represent amount paid to two articled assistants for the passing IPCC Examination at first attempt.

(iv) Repairs and maintenances of car include `2,000 for the period from 01.10.2013 to 30.09.2014.

(v) Salary include `30,000 to a computer specialist in cash for assisting Mrs. Purvi in one professional assignment.

(vi) The total travelling expenses incurred on foreign tour was `32,000 which was within the RBI norms.

(vii) Medical Insurance premium on the health of dependent brother and major son dependent on her amounts to `5,000 and `10,000 respectively paid in cash.

(viii) She invested an amount of `10,000 in National Saving Certificate.

---

**Compute the Total Income and Tax Payable of Mrs. Purvi for the Assessment Year 2014-2015. (Modified)**

**Answer:**

**Computation of Total Income of Mrs. Purvi**

**Income under the head business/profession**

Net profit as per profit and loss account 9,28,224.00

Add: Value of benefit received 10,500.00

Add: inadmissible items

- Purchase of car 80,000.00
- Municipal tax 3,000.00
- Payment made in cash in excess of `20,000 {Sec 40A(3)} 30,000.00

Less:
- Dividend on shares: 10,524.00
- Income from Unit Trust of India: 7,600.00
- Honorarium received: 15,800.00
- Rent received: 85,600.00
- Depreciation on Car (80,000 x 15%): 12,000.00

**Income under the head Business/Profession**: 920,200.00

**Income under the head House Property**
- Gross annual value: 85,600.00
- Less: Municipal Taxes: 3,000.00
- Net annual value: 82,600.00
- Less: 30% of NAV u/s 24(a): 24,780.00
- Less: Interest on capital borrowed u/s 24(b): Nil
- Income from house property: 57,820.00

**Income under the head Other Sources**
- Dividend from Indian company {exempt u/s 10(34)}: Nil
- Income from UTI {exempt u/s 10(35)}: Nil
- Honorarium received: 15,800.00

**Gross Total Income**: 9,93,820.00
- Less: Deduction u/s 80C NSC: 10,000.00
- **Total Income**: 9,83,820.00

**Computation of Tax Payable**
- Tax on `9,83,820 at slab rate: 1,26,764.00
- Add: Education cess @ 2%: 2,535.28
- Add: SHEC @ 1%: 1,267.64
- Tax Liability: 1,30,566.92
- Less: TDS: Nil
- Tax Payable: 1,30,566.92
- Rounded off u/s 288B: 1,30,570.00

**Question 4** (8 Marks)
Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31.03.2014 revealed the following information:

1. The net profit was `11,20,000.
2. The following incomes were credited in the profit and loss account:
   - (a) Dividend from UTI `22,000.
   - (b) Interest on debentures `17,500
   - (c) Winnings from races `15,000.
3. It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:
   - Opening stock `8,000.
   - Closing stock `12,000.
(4) \`1,00,000 was debited in the profit and loss account being contribution to a University approved and notified under section 35(1)(ii).

(5) Salary includes \`20,000 paid to his brother which is unreasonable to the extent of \`2,500.

(6) Advertisement expenses include 15 gift packets of dry fruits costing \`1,000 per packet presented to important customers.

(7) Total expenses on car was \`78,000. The car was used both for business and personal purposes. 3/4\(^{th}\) is for business purposes.

(8) Miscellaneous expenses included \`30,000 paid to A & Co., a good transport operator in cash on 31.01.2014 for distribution of the company’s product to the warehouses.

(9) Depreciation debited in the books was \`55,000. Depreciation allowed as per IT rules was \`50,000.

(10) Drawing \`10,000

(11) Investment in NSC \`15,000.

Compute the Total Income of Mr. Y for the Assessment Year 2014-15. (Modified)

**Answer:**

**Computation of Total Income of Mr. Y for the Assessment Year 2014-15**

**Income under the head Business/Profession**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit as per profit and loss account</td>
<td>11,20,000</td>
</tr>
<tr>
<td>Add: inadmissible expenses</td>
<td></td>
</tr>
<tr>
<td>- Car used for personal purpose (78,000 x 1/4)</td>
<td>19,500</td>
</tr>
<tr>
<td>- Under valuation of closing stock</td>
<td>12,000</td>
</tr>
<tr>
<td>- Salary disallowed u/s 40A(2)</td>
<td>2,500</td>
</tr>
<tr>
<td>- Depreciation (55,000 – 50,000)</td>
<td>5,000</td>
</tr>
<tr>
<td>- Drawing</td>
<td>10,000</td>
</tr>
<tr>
<td>- Investment in NSC</td>
<td>15,000</td>
</tr>
<tr>
<td>- Total</td>
<td>11,84,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>- Dividend from units of UTI</td>
<td>22,000</td>
</tr>
<tr>
<td>- Interest on debentures</td>
<td>17,500</td>
</tr>
<tr>
<td>- Winning From Races</td>
<td>15,000</td>
</tr>
<tr>
<td>- Under valuation of opening stock</td>
<td>8,000</td>
</tr>
<tr>
<td>- Contribution to approved university section 35(1)(ii)</td>
<td>75,000</td>
</tr>
<tr>
<td>Business income</td>
<td>10,46,500</td>
</tr>
</tbody>
</table>

**Income under the head Other Sources**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend from units of UTI exempt u/s 10(35)</td>
<td>Nil</td>
</tr>
<tr>
<td>Interest on debentures</td>
<td>17,500</td>
</tr>
<tr>
<td>Winning From Races</td>
<td>15,000</td>
</tr>
<tr>
<td>Income under the head Other Sources</td>
<td>32500</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>10,79,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C</td>
<td>15,000</td>
</tr>
</tbody>
</table>
Question 6  
MNP Ltd. Commenced operations of the business of a new four-star hotel in Chennai on 01.04.2013. The company incurred capital expenditure of `40 lakh during the period January, 2013 to March, 2013 exclusively for the above business, and capitalized the same in its books of account as on 1st April, 2013. Further, during the Previous Year 2013-14, it incurred capital expenditure of ` 2.5 crore (out of which ` 1 crore was for acquisition of land) exclusively for the above business. Compute the income under the heading “profit and gains of business or profession” for the assessment year 2014-15, assuming that MNP Ltd. has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading “C-Deductions in respect of certain incomes”. The profits from the business of running this hotel (before claiming deduction under section 35AD) for the assessment year 2014-15 is ` 80 lakhs. Assume that the company also has another existing business of running a four-star hotel in Kanpur, which commenced operations 5 years back, the profits from which was ` 130 lakhs for Assessment Year 2014-15. (Modified) 
Answer: 

Deduction allowable under section 35AD

<table>
<thead>
<tr>
<th>Capital Expenditure before commencement</th>
<th>40,00,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Expenditure during the year</td>
<td>150,00,000</td>
</tr>
<tr>
<td>Total</td>
<td>190,00,000</td>
</tr>
</tbody>
</table>

Profit of specified business

| Loss to be carried forward indefinitely | 110,00,000 |

The loss of 110,00,000 can be set-off only against the profits of specified business in current year and next years. Such loss can be carried forward indefinitely. Therefore Profit from other business cannot be used for set-off the loss of specified business.

The hotel at Kanpur was commenced before 01.04.2010, so the business at Kanpur cannot be specified business.

Capital Expenditure on Land shall not be allowed u/s 35AD

Income under the head business or profession

Income from four star hotel at Kanpur 1,30,00,000

---

Question 5

Dr. Gurumoorthy, a resident individual at Madurai, aged 50 years is running a clinic. His Income and Expenditure Account for the year ending March 31st 2014 is as under:

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>`</th>
<th>Income</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Medicine consumed</td>
<td>8,40,000</td>
<td>By Consultation and Medical charges</td>
<td>21,00,000</td>
</tr>
<tr>
<td>To Staff salary</td>
<td>4,25,000</td>
<td>By Income tax refund</td>
<td>16,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Principal <code>15,000, interest </code>1,500)</td>
<td></td>
</tr>
<tr>
<td>To Clinic consumables</td>
<td>1,55,000</td>
<td>By Dividend from Indian companies</td>
<td>27,000</td>
</tr>
<tr>
<td>To Rent paid</td>
<td>1,20,000</td>
<td>By Wining from lottery Net of TDS</td>
<td>35,000</td>
</tr>
<tr>
<td>To Administrative expenses</td>
<td>3,00,000</td>
<td>By Rent</td>
<td>54,000</td>
</tr>
<tr>
<td>To Donation (to IIT, Delhi for Research approved under section 35(2AA))</td>
<td>1,00,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PCC MAY – 2012
(i) Rent paid includes `36,000 paid by cheque towards rent for his residence.

(ii) Clinic equipments are:

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.04.2013</td>
<td>Opening WDV</td>
<td>4,50,000</td>
</tr>
<tr>
<td>07.02.2014</td>
<td>Acquired (cost- put to use on the same date)</td>
<td>1,00,000</td>
</tr>
</tbody>
</table>

(iii) Rent received relates to property let out at Madurai. Gross annual value `54,000. The municipal tax of `9,000, paid in January 2014 has been included in “administrative expenses”.

(iv) Dr. Gurumoorthy availed loan of `5,50,000 from a bank for higher education of his daughter. He repaid principal of `50,000, and interest thereon `65,000 during the year 2013-14.

(v) He paid `60,000 as tuition fee to the university for full time education of his son.

From the above, compute the Total Income of Dr. Gurumoorthy for the Assessment Year 2014-2015.

Answer.

Computation of Total Income of Dr. Gurumoorthy for A.Y. 2014-15

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from house property</td>
<td></td>
</tr>
<tr>
<td>Gross Annual Value (GAV)</td>
<td>54,000</td>
</tr>
<tr>
<td>Less : Municipal taxes paid</td>
<td>(9,000)</td>
</tr>
<tr>
<td><strong>Net Annual Value (NAV)</strong></td>
<td>45,000</td>
</tr>
<tr>
<td>Less : Deduction under section 24(a) (30% of `45,000)</td>
<td>(13,500)</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>31,500</td>
</tr>
<tr>
<td>Income from profession</td>
<td></td>
</tr>
<tr>
<td>Net profit as per Income and Expenditure account</td>
<td>2,92,500</td>
</tr>
<tr>
<td>Less :</td>
<td></td>
</tr>
<tr>
<td>Rent received</td>
<td>54,000</td>
</tr>
<tr>
<td>Dividend from Indian Companies</td>
<td>27,000</td>
</tr>
<tr>
<td>Winning from lottery (net of TDS)</td>
<td>35,000</td>
</tr>
<tr>
<td>Income tax refund</td>
<td>16,500</td>
</tr>
<tr>
<td>Depreciation on Clinic equipments</td>
<td></td>
</tr>
<tr>
<td>on `4,50,000 @ 15%</td>
<td>67,500</td>
</tr>
<tr>
<td>on `1,00,000 @ 7.5%</td>
<td>7,500</td>
</tr>
<tr>
<td>Additional deduction of 100% for amount paid to IIT, Delhi</td>
<td>1,00,000</td>
</tr>
<tr>
<td>For Research approved (Since weighted deduction of 200% is available in respect of such payment)</td>
<td></td>
</tr>
<tr>
<td>Add:</td>
<td></td>
</tr>
<tr>
<td>Rent for his residential accommodation included in Income and Expenditure A/c</td>
<td>36,000</td>
</tr>
<tr>
<td>Municipal tax paid relating to residential house at Surat included in administrative expenses</td>
<td>9,000</td>
</tr>
<tr>
<td>Income under the head Business/Profession</td>
<td>30,000</td>
</tr>
<tr>
<td>Income from other sources</td>
<td></td>
</tr>
<tr>
<td>Interest on income-tax refund</td>
<td>1,500</td>
</tr>
</tbody>
</table>
Income Under The Head Business/Profession

Dividend from Indian Company (Exempt u/s 10(34))................. Nil

Winnings from lottery
(‘35,000 + ‘15,000)........................................... 50,000

Income under the head Other Sources............................. 51,500

**Gross Total Income**........................................ 1,13,000

Less: Deductions under Chapter VI A
Deduction under section 80C...................................... 60,000
Tuition fee paid to university for full time education of his daughter
Deduction under section 80E...................................... 3,000
Interest on loan taken for higher education is deductible

**Total Income**..................................................... 50,000

Notes:
(i) The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head “Income from other sources”.

(ii) Winnings from Lottery should be grossed up for the chargeability under the head “Income from other sources” (‘35,000 + ‘15,000). Thereafter, while computing tax liability, TDS of ‘15,000 should be deducted to arrive at the tax payable. Winnings from lottery are subject to tax @ 30% as per section 115BB.

(iii) As per section 58(4) deduction under Chapter VIA is not allowed from casual income, Therefore Deduction u/s 80E is allowed upto ‘3,000.

**Question 6** (4 Marks)
A car purchased by Dr. Soman on 10.08.2011 for ‘5,25,000 for the personal use is brought into professional use on 01.07.2013 by him, when its market value was ‘2,50,000.

Compute the actual cost of the car and amount of depreciation for the assessment year 2014-15 assuming the rate of depreciation to be 15%.

Answer:
**Computation of Actual Cost of the Car and Depreciation for the A.Y.2014-15**

Actual cost of the car = ‘5,25,000
Depreciation [‘5,25,000 x 15%] = ‘78,750

**Question 7** (8 Marks)
Sanjay engaged in various types of activities gives the following information for the year ended 31.03.2014.

Loss from automobile business (Total turnover ‘6,00,000)........................................... 1,10,000
Profit from wholesale trade in furniture items at the prescribed percentage of turnover as per section 44AD.................................................. 4,00,000
Brought forward loss relating to discontinued textile business (discontinued w.e.f. 01.06.2009)........................................... 2,00,000
Short term capital loss on sale of vacant site during the year............................................... 70,000
Profit from speculation business related to oil seeds.................................................. 1,10,000
Loss from speculation business brought forward and related to cotton
Note: Aggregate total business turnover of Sanjay to be assumed as below limit prescribed under section 44AB.

Compute the Total Income of Sanjay for the Assessment Year 2014-15.

\[
\text{Income under the head Business/Profession} \\
\text{Income from wholesale trade in furniture} & 4,00,000 \\
\text{Less: Loss from automobile business (current year)} & (1,10,000) \\
\text{Less: Brought forward loss relating to discontinued textile business (P.Y. 2009-10)} & (2,00,000) \\
\text{Income from wholesale trade in furniture} & 90,000 \\
\text{Income from Speculation Business} & 1,10,000 \\
\text{Less: Loss from speculation business brought forward and related to cotton} & (50,000) \\
\text{Income from Speculation Business} & 60,000 \\
\text{Income under the head Business/Profession} & 1,50,000 \\
\text{Gross Total Income} & 1,50,000 \\
\text{Less: Deduction u/s 80C to 80U} & \text{Nil} \\
\text{Total Income} & 1,50,000 \\
\]

Note:
(i) Brought forward unabsorbed depreciation of trade in furniture items related to Assessment Year 2013-14 is not allowed to be adjusted from presumptive income under section 44AD.
(ii) Short Term Capital Loss on sale of vacant site A.Y. 2014-15 `70,000 to be carried forward for 8 years starting from Assessment Year 2015-16.

---

**IPCC NOV – 2011**

**Question 1**

X & Y, a partnership firm consisting of two partners, reports a net profit of `7,00,000 before deduction of the following items:

1. Salary of `20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
2. Depreciation on plant and machinery under section 32 (computed) `1,50,000.
3. Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest `5,00,000

Compute:
(i) Book-profit of the firm under section 40(b) of the Income-Tax Act 1961.

(ii) Allowable working partner salary for the Assessment Year 2014-2015 as per section 40(b) of the Income-tax Act, 1961.

**Answer:**
(i) Computation of Book- Profits under section 40(b) of Income Tax Act 1961
Net Profit 7,00,000.00
Less: Depreciation u/s 32 1,50,000.00
Less: Interest on capital 60,000.00
(5,00,000 x 12%)
Book Profit as per section 40(b) 4,90,000.00

(ii) Calculation of allowable salary to partners
Book Profit 4,90,000.00
Allowable Salary
On first 3,00,000 of book profit
90% of book profits or 1,50,000 whichever is higher 2,70,000.00
On balance book profit
60% on balance book profit (1,90,000 x 60/100) 1,14,000.00
Hence, salary as per section 40(b) would be 3,84,000.00

Question 4 (8 Marks)
Ramji Ltd., engaged in manufacture of medicines (pharmaceuticals) furnishes the following information for the year ended 31.03.2014:

(i) Municipal tax relating to office building `51,000 not paid till 30.09.2014.

(ii) Patent acquired for `20,00,000 on 01.09.2013 and used from the same month.

(iii) Capital expenditure on scientific research `10,00,000 which includes cost of land `2,00,000.

(iv) Amount due from customer X outstanding for more than 3 years written off as bad debt in the books `5,00,000.

(v) Income tax paid `90,000 by the company in respect of non-monetary perquisites provided to its employees.

(vi) Provident fund contribution of employees `5,50,000 remitted in July 2014.

(vii) Expenditure towards advertisement in souvenir of a political party `1,50,000.

(viii) Refund of sales tax `75,000 received during the year, which was claimed as expenditure in an earlier year.

State with reasons the taxability or deductibility of the items given above under the Income-tax Act, 1961.

Note: Computation of Total Income is not required. (Modified)

Answer:
(i) Municipal taxes relating to office building not paid till the last date of filing of the return is not allowed as deduction as per sec 43B.

(ii) Patent acquired for 20,00,000
    Depreciation shall be allowed @ 25% of 20,00,000 = `5,00,000.00

(iii) Capital expenditure on scientific research shall be allowed `8,00,000 u/s 35.
    Further deduction allowed shall be 200%. No deduction shall be allowed for land.

(iv) Amount written off as bad debts shall be allowed as deduction as per section 36(1).

(v) Income Tax paid `90,000 shall not be allowed as deduction u/s 40(a).
(vi) Provident fund paid in July 2014 shall be treated as the income of the employer under section 36(1)(va) and the employer is not allowed to debit the amount to the profit and loss account because as per paragraph 38 of The Employees’ Provident Funds Scheme, 1952, the employer should pay such contribution within 15 days of the subsequent month plus 5 days grace period. In this case, amount is being remitted in July 2014 hence expenditure is not allowed.

(vii) Expenditure towards advertisement in souvenir of political party shall not be allowed as deduction as per section u/s 37(2B).

(viii) As per section 41(1), refund of Sales Tax shall be treated as income since it was claimed as an expenditure in an earlier year.

**Question 5**

Mr. Chandran (aged 38) owned 6 heavy goods vehicles as on 01.04.2013. He acquired 2 more heavy goods vehicles on 01.07.2013. He is solely engaged in the business of plying goods vehicles on hire since financial year 2009-10.

He did not opt for presumptive provision contained in section 44AE for the financial year 2012-13. His books were audited under section 44AB and the return of income was filed on 05.08.2013. He has unabsorbed depreciation of `70,000 and Business loss of `1,00,000 for the financial year 2012-13.

Following further information is provided to you:

(i) Paid medical insurance premium of `23,000 for his parents (both aged above 70) by means of bank demand draft.

(ii) Paid premium on life insurance policy of his married daughter `25,000.

(iii) Repaid principal of `40,000 and interest of `15,000 to Canara Bank towards education loan of his daughter, who completed B.E. two years ago. She is employed after completion of her studies.

Assuming that Mr. Chandran has opted for presumptive provision contained in section 44AE of the Income-tax Act, 1961, compute the Total Income of Mr. Chandran for the Assessment Year 2014-15. (Modified)

**Answer:**

**Computation of total income Mr. Chandran**

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presumptive income u/s 44 AE</td>
</tr>
<tr>
<td>(5,000 x 6 x 12) + (5,000 x 2 x 9)</td>
</tr>
<tr>
<td>Less: Business loss to be adjusted</td>
</tr>
<tr>
<td>Less: Unabsorbed Depreciation</td>
</tr>
<tr>
<td>(Not allowed) (since covered u/s 32 (2))</td>
</tr>
<tr>
<td>Gross Total Income</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C</td>
</tr>
<tr>
<td>Less: Deduction u/s 80D</td>
</tr>
<tr>
<td>(Maximum deduction allowed is `20,000)</td>
</tr>
<tr>
<td>Less: Deduction u/s 80E</td>
</tr>
<tr>
<td>Total Income</td>
</tr>
</tbody>
</table>

**Question 7**

(ii) State with reasons whether you agree or disagree with the following statements:
Time limit for filing return under section 139(1) in the case of Mr. A having total turnover of `45 lakhs for
the year ended 31.03.2014, whether or not opting to offer presumptive income under section 44AD is 30th
September 2014.

Answer 7(i):
Deduction under section 35AD is available to assessee carrying on the “Specified Business”.

(i) Setting up and operating a cold chain facility. “Cold chain facility” means a chain of facilities for storage
or transportation of agricultural and forest produce, meat and meat products, poultry, marine and dairy
products, products of horticulture, floriculture and apiculture and processed food items under scientifically
controlled conditions including refrigeration and other facilities necessary for the preservation of such
produce.

(ii) Setting up and operating a warehousing facility for storage of agricultural produce.

(iii) 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.

(iv) Building and operating, anywhere in India, a new hotel of two star or above category as classified by the
Central Government. Such business should commence its operations on or after 01.04.2010.

Answer 7(ii):
Disagree. As per section 44AB an assessee whose turnover for the F.Y.2013-14 exceeds 100 lakhs, due date
for filing of income tax return shall be 30th September, 2014 otherwise the due date shall be 31st July 2014.

In this case, due date shall be 31st July’ 2014 but if he has not opted for presumptive income under section
44AD, in that case audit is required and last date shall be 30th September 2014.

---

PCC NOV – 2011

Question 2 (12 Marks)
Ms. Rachna was gifted a land by her father in December, 2002 at the occasion of her marriage. The land
was allotted to her father in November, 1991 at cost of `6 lac by DDA for commercial purpose.

She set up a nursery on land, earns profit `2 lacs during the year 2013-14 from seedling grown in nursery.
She sold the nursery to her friend at `50 lacs in October, 2013. Her friend paid `20 lacs in cash and `30 lacs
in the form of shares. Market value of land on date of sale was `90 lacs and shares `70 lacs.

Rachna, with an intention to earn profit, invested `20 lacs in shares by purchasing shares for `15 lacs from
National Stock Exchange and `5 lacs in subscription to equity shares forming part of eligible issue of capital
by a public company.

She spent `60,000 on purchase of computers on 10.10.2013 and was put to use on the same date. She has
spent `20,000 on internet connectivity and `2 lacs towards salary and other expenses. She paid monthly rent
`2,500 for a shop which was taken in October 2013, for trading in shares. Depreciation rate on computers is
60%.

The value of Shares purchased and sold during the year are as follows:

Purchases (including received from friend and purchase price is taken `30,00,000) ` 80,00,000
The market value of shares remains unsold as on 31.03.2014 is `40 lakhs. Ms. Rachna
• made contribution of `20,000 to approved pension fund.
• paid `25,000 to LIC for medical insurance premium of self and spouse by cheque.
• Repay loan `1,00,000 and interest `20,000 to SBI taken in February, 2013 for her son’s admission in Sri Ram College of Commerce in B.Com (Hons).
• contributed `25,000 to research association has its object to undertake scientific research.

Rachna did not earn any short term capital gain during the year. Rachna has not celebrated her 40\textsuperscript{th} birthday yet.

Compute the total income of Ms Rachna and tax thereon payable by her for the Assessment Year 2014-15. Cost inflation index for financial year 1991-92 is 199, 2001-02 is 426 and 2013-2014 is 939. (Modified)

Answer:

\textbf{Computation of income under the head Capital gains}

\begin{align*}
\text{Full value of consideration} & \quad 90,00,000.00 \\
\text{Less: Indexed cost of acquisition} & \\
\quad = \frac{6,00,000}{199} \times 939 & \quad 28,31,155.77 \\
\text{Long term capital gains} & \quad 61,68,844.23 \\
\text{Income under the head Capital Gains} & \quad 61,68,844.23
\end{align*}

\textbf{Computation of income under the head Business/Profession}

\begin{align*}
\text{Sales} & \quad 1,00,00,000.00 \\
\text{Add: Closing Stock} & \quad 40,00,000.00 \\
\text{Less:} & \quad 1,40,00,000.00 \\
\text{Purchases} (70,00,000 + 20,00,000 + 30,00,000) & \quad 1,20,00,000.00 \\
\text{Depreciation} (60,000 \times 60\% \times \frac{1}{2}) & \quad 18,00,000.00 \\
\text{Internet Connectivity} & \quad 20,00,000.00 \\
\text{Salary} & \quad 2,00,000.00 \\
\text{Rent} (2,500 \times 6) & \quad 15,00,000.00 \\
\text{Scientific research donation} & \quad 43,750.00 \\
\quad (25,000 \times 175\%) & \\
\text{Income under the head Business/Profession} & \quad 17,03,250.00
\end{align*}

\textbf{Computation of Total Income}

\begin{align*}
\text{Income under the head Business/Profession} & \quad 17,03,250.00 \\
\text{Income under the capital gains} & \quad 61,68,844.23 \\
\text{Gross Total Income} & \quad 78,72,094.23 \\
\text{Less: Deduction u/s} & \\
\quad 80CCC- Pension fund & \quad 20,00,000.00 \\
\quad 80D- Mediclaim Insurance Premium (Restricted to `15,000) & \quad 15,00,000.00 \\
\quad 80E- Interest & \quad 20,00,000.00 \\
\text{Total Income} & \quad 78,17,094.23 \\
\text{Normal Income} & \quad 16,48,250.00
\end{align*}
LTCG                      61,68,844.23  
Rounded off u/s 288A                   61,68,840.00  
Agricultural Income                     2,00,000.00  
Computation of Tax Liability  
Tax on long term capital gains `61,68,840 @ 20%                                    12,33,768.00  
Normal income                          `16,48,250  
Partial integration  
Tax on (Agricultural Income + Non-Agricultural Income)                              3,84,475.00  
Tax on (2,00,000 + 16,48,250) at slab rate                                         3,84,475.00  
Tax on (agricultural income + 2,00,000)                                             20,000.00  
Tax on normal income (3,84,475 – 20,000)                                          3,64,475.00  
Tax before education cess                                                15,98,243.00  
Add: Education Cess @ 2%                                           31,964.86  
Add: SHEC @ 1%                                         15,982.43  
Tax Liability                                                                       16,46,190.29  
Rounded off u/s 288B                                                               16,46,190.00  

Question 5               (7 Marks)  
State with reasons the allowability of the following expenses under Income-Tax Act, 1961 while computing income from business or profession for the Assessment Year 2014-15:  
(i) Provision made on the basis of actuarial valuation for payment of gratuity `5,00,000. However, no payment on account of gratuity was made before due date of filing return.  
(ii) Purchase of oil seeds of `50,000 in cash from a farmer on a banking day.  
(iii) Tax on non monetary perquisite provided to an employee `20,000.  
(iv) Payment of `50,000 by using credit card for fire insurance.  
(v) Salary payment of `2,00,000 by a company outside India without deduction of tax.  
(vi) Sales Tax deposited in cash `50,000 with State Bank of India.  
(vii) Payment made in cash `30,000 to a transporter in a day for carriage of goods.  

Answer:  
(i) Allowed, provision made on the basis of actuarial valuation is allowed as business expense.  
(ii) Allowed, cash payment of `50,000 for purchase of oil seeds is allowed as business expense.  
(iii) Not allowed, tax on non-monetary perquisite is not deductible u/s 40(a)  
(iv) Allowed, payment through credit card is allowed.  
(v) If tax is neither deducted nor paid, it is not allowed. In the given question it is not mentioned that tax is paid hence it is presumed that tax is not paid and in that case it is disallowed.  
(vi) Allowed, payment of Sales Tax in cash shall be allowed and deductible as per Rule 6DD.  
(vii) Allowed, as per section 40A(3), payment in cash to a transporter upto `35,000 is allowed
Question 6

Mr. X is having a trading business and his Trading and Profit & Loss Account for the financial year 2013-14 is asunder:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (())</th>
<th>Particulars</th>
<th>Amount (())</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Opening stock</td>
<td>1,00,000</td>
<td>By Sales</td>
<td>110,000,000</td>
</tr>
<tr>
<td>To Purchases</td>
<td>89,00,000</td>
<td>By Closing stock</td>
<td>50,000</td>
</tr>
<tr>
<td>To Gross profit</td>
<td>20,50,000</td>
<td>Total</td>
<td>110,50,000</td>
</tr>
<tr>
<td>To Gross profit</td>
<td>110,50,000</td>
<td>Total</td>
<td>110,50,000</td>
</tr>
<tr>
<td>Salary to employees (Including Contribution to PF)</td>
<td>5,00,000</td>
<td>By Gross Profit b/d</td>
<td>20,50,000</td>
</tr>
<tr>
<td>Donation to Prime Minister Relief Fund by cheque</td>
<td>1,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for bad debts</td>
<td>50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonus to employees</td>
<td>50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest of bank loan</td>
<td>50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family planning expenditure incurred on employees</td>
<td>20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>30,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Tax</td>
<td>1,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Net profit</td>
<td>11,50,000</td>
<td>Total</td>
<td>20,50,000</td>
</tr>
<tr>
<td>Total</td>
<td>20,50,000</td>
<td>Total</td>
<td>20,50,000</td>
</tr>
</tbody>
</table>

Other information:

(i) Depreciation allowable `40,000 as per Income Tax Rules.

(ii) No deduction of tax at source on payment of interest on bank loan has been made.

(iii) Payment of Interest on bank loan has been made in August 2014.

(iv) Payment of bonus to workers made in September 2014.

(v) Out of salary, `25,000 pertains to his contributions to recognized provident fund which was deposited after the due date. Further, employees contribution of `25,000 was also deposited after the due date.

Computation Total Income and Tax Liability of Mr. X for the Assessment Year 2014-15. (Modified)

Answer:

Computation of Total Income of Mr. X

Net profit as per profit and loss account 11,50,000

Add: inadmissible expenses
- Employees’ contribution deposited after due date of provident fund 25,000
- Employer’s contribution deposited after due date of filing of return of income 25,000
- Donation to Prime Minister Relief Fund 1,00,000
- Provision for bad debt 50,000
- Family planning expenses 20,000
- Depreciation as per books 30,000
- Income-tax 1,00,000
Income Under The Head Business/Profession

Less:
- Depreciation as per Income Tax Act 40,000

Gross Total Income 14,60,000
Less: Deduction u/s 80G 1,00,000
Total Income 13,60,000

**Computation of Tax Liability**

Tax on `13,60,000 at slab rate 2,38,000
Add: Education cess @ 2% 4,760
Add: SHEC @ 1% 2,380
Tax Liability 2,45,140

**Question 7**

M/s Dollar Ltd. a manufacturing concern furnishes the following particulars:-

(i) Opening writing down value under Income Tax of block plant and machinery 5,00,000
(ii) Purchase of plant and machinery 2,00,000 (put to use before 01.10.2013)
(iii) Sale proceeds of plant and machinery which became obsolete- the plant and machinery was purchased on 01.04.2011 for `5,00,000.

Further, out of purchase of plant and machinery:

(a) Plant and machinery of `20,000 has been installed in office.
(b) Plant and machinery of `20,000 was used previously for the purpose of business by the seller.

Compute depreciation and additional depreciation as per Income-Tax Act for the Assessment Year 2014-15.

**Answer:**

**Block – Plant and Machinery**

Opening writing down value 5,00,000
Add: Purchases 2,00,000
Less: Sales 5,000
W.d.v 6,95,000
Depreciation @ 15% 1,04,250
Additional depreciation (2,00,000 – 20,000 – 20,000) x 20% 32,000
(full depreciation because put to use for 180 days or more)

**IPCC MAY – 2011**

**Question 2**

Mr. Praveen Kumar has furnished the following particulars relating to payments made towards scientific research for the year ended 31.03.2014:

(i) Payments made to K Research Ltd. 20
(ii) Payment made to LMN College 15
(iii) Payment made to OPQ College 10

Note: K Research Ltd. and LMN College are approved research institutions and these payments are to be used for the purposes of scientific research.
(iv) Payment made to National Laboratory  8
(v) Machinery purchased for in-house scientific research  25
(vi) Salaries to research staff engaged in in-house scientific research  12

Compute the amount of deduction available under section 35 of the Income-tax Act, 1961 while arriving at the business income of the assessee. 

**(Answer)**

**Computation of deduction allowable under section 35**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (“in lacs”)</th>
<th>% of weighted deduction</th>
<th>Amount of deduction (“in lacs”)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Payment for scientific research</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>K Research Ltd.</td>
<td>20</td>
<td>125%</td>
<td>25.00</td>
</tr>
<tr>
<td>LMN College</td>
<td>15</td>
<td>175%</td>
<td>26.25</td>
</tr>
<tr>
<td>OPQ College [See Note 1]</td>
<td>10</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>National Laboratory</td>
<td>8</td>
<td>175%</td>
<td>14.00</td>
</tr>
<tr>
<td><strong>In-house research</strong> [See Note 2]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>25</td>
<td>100%</td>
<td>25.00</td>
</tr>
<tr>
<td><strong>Revenue expenditure</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>12</td>
<td>100%</td>
<td>12.00</td>
</tr>
<tr>
<td><strong>Deduction allowable under section 35</strong></td>
<td></td>
<td></td>
<td><strong>102.25</strong></td>
</tr>
</tbody>
</table>

**Notes :-**

1. **Payment to OPQ College**
   Since the note in the question below item (iii) clearly mentions that only K Research Ltd. and LMN College (mentioned in item (i) and (ii), respectively) are approved research institutions, it is a logical conclusion that OPQ College mentioned in item (iii) is not an approved research institution. Therefore, payment to OPQ College would not qualify for deduction under section 35.

2. **Deduction for in-house research and development**
   Only company assessee are entitled to weighted deduction @ 200% under section 35(2AB) in respect of in-house research and development. However, in this case, the assessee is an individual. Therefore, he would be entitled to deduction @ 100% of the revenue expenditure incurred under section 35(1)(i) and 100% of the capital expenditure incurred under section 35, assuming that such expenditure is laid out or expensed on scientific research related to his business.

**Question 3**

Mr. Vidyasagar, resident individual aged 64, is a partner in Oscar Musicals & Co., a partnership firm. He also runs a wholesale business in medical products. The following details are made available for the year ended 31.03.2014:

(i) Interest on capital received from Oscar Musicals & Co., at 15%  1,50,000
(ii) Interest from bank on fixed deposit (Net of TDS `1,500)  13,500
(iii) I.T. refund received relating to asst. year 2012-13 including interest of `2,300  34,500
(iv) Net profit from wholesale business  5,60,000

Amounts debited include the following:
Depreciation as per books  34,000
Motor car expenses 40,000
Municipal taxes for the shop 7,000
(For two half years; payment for one half year made on 12.06.2014 and for the other on 14.11.2014)
Salary to manager for whom single cash payment was made for 21,000

(v) The WDV of the assets (as on 01.04.2013) used in above wholesale

   Business is as under:
   Computers 1,20,000
   Motor car 3,20,000
   (20% used for personal use)

(vi) LIP paid for major son 60,000
    PPF of his wife 70,000

Compute the Total Income of the assessee for the Assessment Year 2014-15. The computation should show the proper heads of income. Also compute the WDV of the different blocks of assets as on 31.03.2014.

Answer.

Computation of Total Income of Mr. Vidyasagar for the A.Y. 2014-15

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profits and gains of business or profession</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from own business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit as per books</td>
<td>5,60,000</td>
<td></td>
</tr>
<tr>
<td>Add:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation as per books</td>
<td>34,000</td>
<td></td>
</tr>
<tr>
<td>Disallowance of municipal taxes paid for the second half-year under section 43B, since the same was paid after the due date of filing of return (` 7,000/2)</td>
<td>3,500</td>
<td></td>
</tr>
<tr>
<td>Disallowance under section 40A(3) in respect of salary paid in cash since the same exceeds `20,000</td>
<td>21,000</td>
<td></td>
</tr>
<tr>
<td>20% of car expenses for personal use</td>
<td>8,000</td>
<td>66,500</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation allowable (Note 1)</td>
<td>6,26,500</td>
<td></td>
</tr>
<tr>
<td><strong>Income from firm</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on capital from partnership firm (Note 2)</td>
<td>1,20,000</td>
<td></td>
</tr>
<tr>
<td><strong>Income from other sources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on bank fixed deposit (Gross)</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>Interest on income-tax refund</td>
<td>2,300</td>
<td>17,300</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>6,53,400</td>
<td></td>
</tr>
<tr>
<td>Less: Deductions under Chapter VI-A (Note 3)</td>
<td></td>
<td>1,00,000</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>5,53,400</td>
<td></td>
</tr>
</tbody>
</table>

Notes:
(1) **Depreciation allowable under the Income-Tax Act, 1961**

<table>
<thead>
<tr>
<th></th>
<th>Opening WDV</th>
<th>Rate</th>
<th>Depreciation</th>
<th>Closing WDV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Block 1</td>
<td>Computers</td>
<td>1,20,000</td>
<td>60%</td>
<td>72,000</td>
</tr>
<tr>
<td>Block 2</td>
<td>Motor Car</td>
<td>3,20,000</td>
<td>15%</td>
<td>48,000</td>
</tr>
</tbody>
</table>
(2) Only to the extent the interest is allowed as deduction in the hands of the firm, the same is includible as business income in the hands of the partner. Maximum interest allowable as deduction in the hands of the firm is 12% p.a. It is assumed that the partnership deed provides for the same and hence is allowable to this extent in the hands of the firm. Therefore, interest @12% p.a. amounting to `1,20,000 would be treated as the business income of Mr. Vidyasagar.

(3) **Deduction under Chapter VI-A**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under section 80C</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIP for major son</td>
<td>60,000</td>
<td></td>
</tr>
<tr>
<td>PPF paid in wife’s name</td>
<td>70,000</td>
<td></td>
</tr>
<tr>
<td>As per section 80CCE, deduction is restricted to</td>
<td>1,30,000</td>
<td></td>
</tr>
<tr>
<td>Total deduction</td>
<td>1,00,000</td>
<td></td>
</tr>
</tbody>
</table>

**Question 7** (4 Marks)

During the financial year 2013-14, the following payments/expenditure were made/incurred by Mr. Yuvan Raja, a resident individual (whose turnover during the year ended 31.03.2013 was `59 lacs):

(i) Interest of `12,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;

(ii) Interest of `4,000 was paid as interest to Mr. R.D. Burman, a non-resident, without deduction of tax at source;

(iii) `3,00,000 was paid as salary to a resident individual without deduction of tax at source;

(iv) He had sold goods worth `5 lacs to Mr. Deva. He gave Mr. Deva a cash discount of `12,000 later. Commission of `15,000 was paid to Mr. Vidyasagar on 02.07.2013. In none of these transactions, tax was deducted at source.

Briefly discuss whether any disallowance arises under the provisions of section 40(a)(i)/40(a)(ia) of the Income tax Act, 1961.

**Answer.**

Disallowance under section 40(a)(i)/40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

The assessee is a resident individual, who was not subjected to tax audit during the immediately preceding previous year i.e., P.Y.2012-13 (as his turnover is less than the prescribed limit u/s 44AB) and the TDS obligations have to be considered bearing this in mind.

(i) The obligation to deduct tax at source from interest paid to a resident arises under section 194A in the case of an individual, only where he was subject to tax audit under section 44AB in the immediately preceding previous year, i.e., P.Y.2012-13. From the data given, it is clear that he was not subject to tax audit under section 44AB in the P.Y.2012-13. Hence, disallowance under section 40(a)(ia) is not attracted in this case.

(ii) In the case of interest paid to a non-resident, there is obligation to deduct tax at source under section 195, hence non-deduction of tax at source will attract disallowance under section 40(a)(i).
(iii) Disallowance under section 40(a)(ia) is not attracted for failure to deduct tax at source under section 192 from salaries.

(iv) The obligation to deduct tax at source under section 194-H from commission paid in excess of ₹5,000 w.e.f. 01.07.2012 to a resident arises in the case of an individual, only where he was subject to tax audit under section 44AB in the immediately preceding previous year. From the data given, it is clear that he was not subject to tax audit under section 44AB in the P.Y.2012-13. Hence, there is no obligation to deduct tax at source under section 194H during the P.Y. 2013-14. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

---

PCC MAY – 2011

**Question 1.** (5 Marks)

Mr. Praveen engaged in Retails Trade, reports a turnover of ₹58,50,000 for the financial year 2013-14. His income from the said business as per books of account is computed at ₹2,90,000. Retail trade is the only source of income for Mr. Praveen.

(i) Is Mr. Praveen eligible to opt for presumptive determination of his income chargeable to tax for the Assessment Year 2014-15?

(ii) Is so, determine his income from retail trade as per the applicable presumptive provision.

(iii) In case, Mr. Praveen does not opt for presumptive taxation of income from retail trade, what are his obligations under the Income-tax Act, 1961?

(iv) What is the ‘due date’ for filing his return of income, under both the options?

**Answer.**

(i) Yes. Since his total turnover for the F.Y.2013-14 is below ₹100 lakhs, he is eligible to opt for presumptive taxation scheme under section 44AD in respect of his retail trade business.

(ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be ₹4,68,000, being 8% of ₹58,50,000.

(iii) In case he does not opt for the presumptive taxation scheme under section 44AD, and claims that his income is ₹2,90,000 (which is lower than the presumptive business income of ₹4,68,000), he has to maintain books of account as required under section 44AA(2) and also get them audited and furnish a report of such audit under section 44AB, since his total income exceeds the basic exemption limit of ₹2,00,000.

(iv) In case he opts for the presumptive taxation scheme under section 44AD, the due date would be 31st July, 2014.

In case he does not opt for the presumptive taxation scheme and claims that his income is ₹2,90,000 as per books of account, then he has to get his books of account audited under section 44AB, in that case the due date for filing of return would be 30th September, 2014.

**Question 2** (12 Marks)

Mr. Rajiv a resident individual and practicing Chartered Accountant furnishes you the receipts and payments account for the Financial Year 2013-14.

<table>
<thead>
<tr>
<th>Receipts and Payments Account</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Receipts</strong></td>
</tr>
<tr>
<td>Opening balance (01.04.2013)</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
Income Under The Head Business/Profession

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand and at Bank</td>
<td>articled clerks</td>
</tr>
<tr>
<td>Fee from professional services</td>
<td>9,38,000</td>
</tr>
<tr>
<td>Rent</td>
<td>60,000</td>
</tr>
<tr>
<td>Motor car loan from Canara Bank (@ 9% per annum)</td>
<td>2,50,000</td>
</tr>
<tr>
<td>Housing loan repaid to SBI (includes interest of 88,000)</td>
<td>1,88,000</td>
</tr>
<tr>
<td>Life insurance premium</td>
<td>24,000</td>
</tr>
<tr>
<td>Motor car (acquired in Jan. 2014)</td>
<td>4,25,000</td>
</tr>
<tr>
<td>Medical insurance premium (for self and wife) paid by cheque</td>
<td>18,000</td>
</tr>
<tr>
<td>Books bought of annual publications</td>
<td>20,000</td>
</tr>
<tr>
<td>Computer acquired on 01.11.2013 and put to use on the same date (for professional use)</td>
<td>30,000</td>
</tr>
<tr>
<td>Domestic drawings</td>
<td>2,72,000</td>
</tr>
<tr>
<td>Public provident fund subscription</td>
<td>20,000</td>
</tr>
<tr>
<td>Motor car maintenance</td>
<td>10,000</td>
</tr>
<tr>
<td>Closing balance (31.03.2014)</td>
<td>15,000</td>
</tr>
<tr>
<td>Cash on hand and at Bank</td>
<td>12,50,000</td>
</tr>
</tbody>
</table>

Following further information is given to you:

1. He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of 5,000. The building was constructed during the year 1998-99.

2. Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.

3. The written down value of assets as on 01.04.2013 are given below:
   - Furniture & fittings: 60,000
   - Plant & Machinery: 80,000
   - Computers: 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting.

Compute the Total Income and Tax Liability of Mr. Rajiv for the Assessment Year 2014-15. (Modified)

**Answer.**

**Computation of Total Income of Mr. Rajiv for the Assessment Year 2014-15**

**Income from house property**

**Self-occupied**

Annual value: Nil

Less: Deduction under section 24(b)

- Interest on housing loan: 30,000.00
- 50% of 88,000 = 44,000 but limited to (30,000.00)

Loss from self occupied property: (30,000.00)

**Let out property**

Gross Annual value: 60,000.00

Less: Municipal Tax: Nil
## Income Under The Head Business/Profession

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Annual Value</strong></td>
<td>60,000.00</td>
</tr>
<tr>
<td><strong>Less: Deductions under section 24</strong></td>
<td></td>
</tr>
<tr>
<td>(a) 30% of Net Annual Value</td>
<td>(18,000.00)</td>
</tr>
<tr>
<td>(b) Interest on housing loan</td>
<td>(44,000.00)</td>
</tr>
<tr>
<td>(50% of 88,000)</td>
<td></td>
</tr>
<tr>
<td><strong>Loss from let out house property</strong></td>
<td>(2,000.00)</td>
</tr>
<tr>
<td><strong>Total loss under the head House Property</strong></td>
<td>(32,000.00)</td>
</tr>
</tbody>
</table>

### Profits and gains of business or profession

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fees from professional services</strong></td>
<td>9,38,000.00</td>
</tr>
<tr>
<td><strong>Less: Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Staff salary, bonus and stipend</td>
<td>1,50,000.00</td>
</tr>
<tr>
<td>Other administrative expenses</td>
<td>48,000.00</td>
</tr>
<tr>
<td>Office rent</td>
<td>30,000.00</td>
</tr>
<tr>
<td>Motor car maintenance (10,000 x 4/5)</td>
<td>8,000.00</td>
</tr>
<tr>
<td>Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Depreciation on Motor car `4,25,000 x 7.5% x 4/5</strong></td>
<td>25,500.00</td>
</tr>
<tr>
<td><strong>Depreciation on Books being annual publications @ 100%</strong></td>
<td>20,000.00</td>
</tr>
<tr>
<td><strong>Depreciation on Furniture and fittings @ 10% of `60,000</strong></td>
<td>6,000.00</td>
</tr>
<tr>
<td><strong>Depreciation on Plant and machinery @ 15% of `80,000</strong></td>
<td>12,000.00</td>
</tr>
<tr>
<td><strong>Depreciation on Computer @ 60% of `50,000</strong></td>
<td>30,000.00</td>
</tr>
<tr>
<td><strong>Depreciation on Computer (New) `30,000 @ 60% x ½ thereon</strong></td>
<td>9,000.00</td>
</tr>
<tr>
<td><strong>Income under the head Business/Profession</strong></td>
<td>5,99,500.00</td>
</tr>
</tbody>
</table>

### Gross Total Income

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Total Income</strong></td>
<td>5,67,500.00</td>
</tr>
</tbody>
</table>

### Less: Deduction under Chapter VI-A

#### Section 80C

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing loan principal repayment</td>
<td>1,00,000</td>
</tr>
<tr>
<td>PPF subscription</td>
<td>20,000</td>
</tr>
<tr>
<td>Life insurance premium</td>
<td>24,000</td>
</tr>
<tr>
<td><strong>Total 1,44,000 but limited to</strong></td>
<td>1,00,000.00</td>
</tr>
</tbody>
</table>

#### Section 80D

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical insurance premium paid `18,000 but limited to</td>
<td>15,000.00</td>
</tr>
</tbody>
</table>

### Total Income

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Income</strong></td>
<td>4,52,500.00</td>
</tr>
</tbody>
</table>

### Computation of Tax Liability

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on `4,52,500 at slab rate</td>
<td>25,250.00</td>
</tr>
<tr>
<td>Less: Rebate u/s 87A (<code>25,250 or </code>2,000 whichever is less)</td>
<td>2,000.00</td>
</tr>
<tr>
<td>Tax before Education cess</td>
<td>23,250.00</td>
</tr>
<tr>
<td>Add: Education cess @ 2%</td>
<td>465.00</td>
</tr>
<tr>
<td>Add: SHEC @ 1%</td>
<td>232.50</td>
</tr>
<tr>
<td><strong>Tax Liability</strong></td>
<td>23,947.50</td>
</tr>
<tr>
<td>Rounded off u/s 288B</td>
<td>23,950.00</td>
</tr>
</tbody>
</table>

### Question 6

Ramamurthy had 4 heavy goods vehicles as on 01.04.2013. He acquired 7 heavy goods vehicles on 27.06.2013. He sold 2 heavy goods vehicles on 31.05.2013.
He has brought forward business loss of ` 50,000 relating to Assessment Year 2010-11 of a discontinued business. Assuming that he opts for presumptive taxation of income as per section 44AE, compute his Total Income chargeable to tax for the Assessment Year 2014-15.

**Answer.**

**Computation of Total Income of Mr. Ramamurthy for A.Y.2014-15**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>`</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presumptive business income under section 44AE</td>
<td>`</td>
</tr>
<tr>
<td>2 heavy goods vehicles for 2 months (2 x `5,000 x 2)</td>
<td>20,000</td>
</tr>
<tr>
<td>Balance 2 heavy goods vehicles for 12 months (2 x `5,000 x 12)</td>
<td>1,20,000</td>
</tr>
<tr>
<td>7 heavy goods vehicles for 10 months (7 x `5,000 x 10)</td>
<td>3,50,000</td>
</tr>
<tr>
<td><strong>Business Income</strong></td>
<td>4,90,000</td>
</tr>
<tr>
<td>Less: Brought forward business loss of discontinued business</td>
<td>50,000</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>4,40,000</td>
</tr>
<tr>
<td>Less: Deduction u/s 80C to 80U</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>4,40,000</strong></td>
</tr>
</tbody>
</table>

**Note:** The assessee is eligible for computing the income from goods carriages applying the presumptive provisions of section 44AE, since he did not own more than 10 goods carriages at any time during the previous year.

**Question 6**

Win Limited commenced the business of operating a three star hotel in Tirupati on 01.04.2013. It furnishes you the following information:

(i) Cost of land (acquired in June 2011) `60 lakhs

(ii) Cost of construction of hotel building

   Financial year 2011-12 `30 lakhs
   Financial year 2012-13 `150 lakhs

(iii) Plant and machineries (all new)

   Acquired during financial year 2012-13 `30 lakhs

[All the above expenditures were capitalized in the books of the company]

Net profit before depreciation for the financial year 2013-14 `80 lakhs

Determine the amount eligible for the deduction under section 35AD of the Income-tax Act, 1961, for the Assessment Year 2014-15.

**Answer.**

Under section 35AD, 100% of the capital expenditure incurred during the previous year, wholly and exclusively for the specified business, which includes the business of building and operating a hotel of two-star or above category anywhere in India which commences its operations on or after 01.04.2010, would be allowed as deduction from the business income. However, expenditure incurred on acquisition of any land, goodwill or financial instrument would not be eligible for deduction.

Further, the expenditure incurred, wholly and exclusively, for the purpose of specified business prior to commencement of operation would be allowed as deduction during the previous year in which the assessee commences operation of his specified business. A condition has been inserted that such amount incurred prior to commencement should be capitalized in the books of account of the assessee on the date of commencement of its operations.

Accordingly, the deduction under section 35AD for the A.Y. 2014-15 in the case of Win Ltd. would be calculated as follows, assuming that the expenditures were capitalised in the books of the company on 01.04.2013, being the date of commencement of operations-
<table>
<thead>
<tr>
<th>Particulars</th>
<th><code>(in lakhs)</code></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of land (not eligible for deduction under section 35AD)</td>
<td>Nil</td>
</tr>
<tr>
<td>Cost of construction of hotel building (<code>30 lakhs + </code>150 lakhs)</td>
<td>180</td>
</tr>
<tr>
<td>Cost of plant and machinery</td>
<td>30</td>
</tr>
<tr>
<td><strong>Deduction under section 35AD</strong></td>
<td><strong>210</strong></td>
</tr>
</tbody>
</table>

**Note** – For A.Y.2014-15, the loss from specified business of operating a three star hotel would be `130 lakhs (i.e. `210 lakhs – `80 lakhs). As per section 73A, any loss computed in respect of the specified business referred to in section 35AD shall be set off only against profits and gains, if any, of any other specified business. The unabsorbed loss, if any, will be carried forward for set off against profits and gains of any specified business in the following assessment year.

**Question 7**

X Co. Ltd. paid `120 lakhs as compensation as per approved Voluntary Retirement Scheme (VRS) during the financial year 2013-14.

How much is deductible under section 35 DDA for the assessment year 2014-15?

**Answer.**

It is deductible in 5 equal annual instalments commencing from the previous year of payment. `24 lakhs, being 1/5th of `120 lakhs, is deductible under section 35DDA for the A.Y.2014-15.

**Question 7**

Bad debts claim disallowed in an earlier assessment year, recovered subsequently. Is the sum recovered, chargeable to tax?

**Answer.**

Recovery of a bad debt claim disallowed in the earlier year cannot be brought to tax under section 41(4). Section 41(4) can be invoked only in a case where bad debts or part thereof has been allowed as deduction earlier under section 36(1)(vii).

**Question 7**

What are the conditions to be satisfied for the allowability of expenditure under section 37 of the Income-tax Act, 1961?

**Answer.**

The following conditions are to be fulfilled for the allowability of expenditure under section 37 –

1. The expenditure should not be of the nature described in section 30 to 36;
2. It should not be in the nature of personal expenditure of the assessee;
3. It should have been incurred by the assessee during the previous year.
4. The expenditure should have been laid out or expended wholly or exclusively for the purposes of the business or profession.
5. It should not be in the nature of a capital expenditure.
6. It should not have been incurred for any propose which is an offence or which is prohibited by law.

**Question 7**

Tax deducted at source on salary paid to employees not remitted till the ‘due date’ for filing the return prescribed in section 139. Is the expenditure to be disallowed under section 40a(ia)?

**Answer.**
The salary expenditure is allowable while computing the income of the employer even though TDS has not been deposited within the due date under section 139(1). The disallowance under section 40(a)(ia) will not apply for non-deduction of tax at source from income chargeable under the head “Salaries”.

**IPCC NOV – 2010**

**Question 3** (8 Marks)

Dr. Shuba is medical practitioner. Her age is 64 as on 1 Jan 2014. Her Receipts and Payments account of 2013-14 is asunder:

<table>
<thead>
<tr>
<th>Receipt</th>
<th><code> </code></th>
<th>Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance B/f:</td>
<td>10,000</td>
<td>Purchase of motor car on 01.07.2013</td>
</tr>
<tr>
<td>Receipts from sale of Medicine</td>
<td>2,50,000</td>
<td>Drawing 2,50,000</td>
</tr>
<tr>
<td>Consultation fee</td>
<td>50,000</td>
<td>Deposit in bank for 5 years 1,50,000</td>
</tr>
<tr>
<td>Visiting fee</td>
<td>2,00,000</td>
<td>Surgical instrument purchased before 30 Sep. 2013 50,000</td>
</tr>
<tr>
<td>Lecture Fees</td>
<td>5,000</td>
<td>Instalment of motor car loan paid (including interest `18,000) 1,18,000</td>
</tr>
<tr>
<td>Family pension</td>
<td>2,80,000</td>
<td>Medical insurance premium 32,000</td>
</tr>
<tr>
<td>Saving bank interest</td>
<td>1,000</td>
<td>Instalment of housing loan (Principal component <code>48,000 and interest </code>60,000) 1,08,000</td>
</tr>
<tr>
<td>Loan from bank for purchase of motor car @ 8% p.a.</td>
<td>3,00,000</td>
<td>Advance tax paid 20,000</td>
</tr>
<tr>
<td>Share from HUF</td>
<td>50,000</td>
<td>Purchase of medicine 47,000</td>
</tr>
<tr>
<td>Agricultural income</td>
<td>1,00,000</td>
<td>Payment for medical journal 5,000</td>
</tr>
<tr>
<td>Income from lottery (net after deduction of TDS @ 30%)</td>
<td>35,000</td>
<td>Motor car expenses 50,000</td>
</tr>
<tr>
<td>Total</td>
<td>12,81,000</td>
<td>Balance C/f: 51,000</td>
</tr>
<tr>
<td>Total</td>
<td>12,81,000</td>
<td></td>
</tr>
</tbody>
</table>

Other relevant information is as under:

(i) She resides in her own house which was constructed in 1998 with a loan from LIC Housing of `10,00,000 out of which 6,00,000 was still due. She got a loan from SBI of `6,00,000 on 01.04.2013 at the rate of 10% and repaid the original loan. One fourth portion of the house is used for clinic purposes.

(ii) She invested in term deposit `1,50,000 in Bank of Baroda on 01.07.2013 for a period of 5 years in the name of her minor daughter at 9% interest p.a.

(iii) She purchased a motor car on 1 July 2013 and put to use on the same date at `4,00,000. A loan of `3,00,000 was taken to buy the motor car at 8% p.a. interest. One fourth use of vehicle is estimated to be personal.

(iv) She paid medical insurance premium for herself of `16,000 and for mother `16,000. Her mother is dependent on her.

(v) She got her share from HUF’s income of `50,000. (Modified)
Compute her Total Income and Tax Liability for Assessment Year 2014-15.

**Answer.**

**Computation of total income of Dr. Shuba for A.Y. 2014-15**

**Income from house property:**

Annual value of self-occupied house Nil
Less: Interest on loan [\(\text{\textasciitilde}45,000, \text{being} \frac{3}{4}\text{th of}\text{\textasciitilde}60,000\)]
(Restricted to \(\text{\textasciitilde}30,000\)) \(30,000.00\)
Loss under the head House Property \(30,000.00\)

**Income from profession:**

Sale of medicine \(2,50,000.00\)
Consultation fees \(50,000.00\)
Visiting fee \(2,00,000.00\)
Less: Expenses
Medicine purchases \(47,000.00\)
Medical journal \(5,000.00\)
Depreciation on Surgical instrument(15% of `50,000) \(7,500.00\)
Depreciation on Vehicle (15% of `4,00,000) x \(\frac{3}{4}\) \(45,000.00\)
Vehicle expenses (3/4th) \(37,500.00\)
Interest on loan (18,000 x 3/4) \(13,500.00\)
Interest on housing loan (60,000 x 1/4) \(15,000.00\)
Income under the head Business/Profession \(3,29,500.00\)

**Income from other sources**

Family Pension \(2,80,000\)
Less: 33\(\frac{1}{3}\)% or `15,000, whichever is lower \(15,000\)
Lecture fees \(5,000.00\)
Savings bank interest \(1,000.00\)
Interest on bank FD in the name of minor daughter \([1,50,000 \times 9\% \times 9/12]\) \(10,125\)
Less: Exempt u/s 10(32) \(1,500\)
Winnings from lottery \(50,000.00\)
Income under the head Other Sources \(3,29,625.00\)

**Gross Total Income**

\(6,29,125.00\)

Less: Deductions under Chapter VI-A

**Section 80C**

Repayment of housing loan (48,000 x \(\frac{3}{4}\)) \(36,000.00\)

**Section 80D** Medical Insurance Premium

Own \(16,000.00\)
Mother (Senior Citizen, hence fully allowed since premium is less than `20,000) \(16,000.00\)

**Section 80TTA**

\(1,000.00\)

**Total income** \(5,60,125.00\)

**Rounded off u/s 288A** \(5,60,130.00\)

Agricultural Income \(1,00,000.00\)

**Computation of Tax Liability**
Income Under The Head Business/Profession

Tax on agricultural income + non-agricultural income
Tax on `1,00,000 + 5,10,130 at slab rate 47,026.00
Tax on agricultural income + `2,50,000
Tax on `1,00,000 + `2,50,000 at slab rate 10,000.00
Tax on normal income (47,026 – 10,000) 37,026.00
Tax on `50,000 @ 30% 15,000.00
Tax before education cess 52,026.00
Add: Education cess @ 2% 1,040.52
Add: SHEC @ 1% 520.26
Tax Liability 53,586.78
Less: TDS 15,000.00
Less: Advance Tax 20,000.00
Tax Payable 18,586.78
Rounded off u/s 288B 18,590.00

Notes:
(i) Since the residential house was constructed before 01.04.1999, the deduction for interest is restricted to 30,000.
(ii) Since ¼th portion of house is used for business purposes, therefore, ¼th share of interest paid is deductible while computing business income.
(iii) Agricultural income is exempt under section 10(1) and share of income from HUF is exempt under section 10(2).
(iv) Term deposit of `1,50,000 in the name of minor daughter does not qualify for deduction under section 80C. However, principal repayment of housing loan (3/4th) would qualify for deduction under section 80C. Therefore, the deduction under section 80C would be `36,000 (i.e. 3/4th of `48,000).
(v) Depreciation @15% has been provided on surgical instruments.

Question 6 (8 Marks)
Sai Ltd. has a block of assets carrying 15% rate of depreciation, whose written down value on 01.04.2013 was `40 lacs. It purchased another asset of the same block on 01.11.2013 for `14.40 lacs and put to use on the same day. Sai Ltd. was amalgamated with Shirdi Ltd. with effect from 01.01.2014.

You are required to compute the depreciation allowable to Sai Ltd. & Shirdi Ltd. for the previous year ended on 31.03.2014 assuming the assets transferred to Shridi Ltd. at `60 lacs. (Modified)

Answer.

Statement showing computation of depreciation allowable to Sai Ltd. & Shirdi Ltd. for P.Y. 2013-14

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written down value (WDV) as on 01.04.2013</td>
<td>`40,00,000</td>
</tr>
<tr>
<td>Addition during the year (used for less than 180 days)</td>
<td>`14,40,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>54,40,000</strong></td>
</tr>
<tr>
<td>Depreciation on `40,00,000 @ 15%</td>
<td>`6,00,000</td>
</tr>
<tr>
<td>Depreciation on `14,40,000 @ 7.5%</td>
<td>`1,08,000</td>
</tr>
<tr>
<td><strong>Total depreciation for the year</strong></td>
<td><strong>7,08,000</strong></td>
</tr>
</tbody>
</table>

Apportionment between two companies:
(a) Amalgamating company, Sai Ltd.
 `6,00,000 × 275/365 4,52,054.79
 `1,08,000 × 61/151 43,629.14
(b) Amalgamated company, Shirdi Ltd.

\[
\begin{align*}
&\text{`6,00,000} \times \frac{90}{365} \quad 1,47,945.21 \\
&\text{`1,08,000} \times \frac{90}{151} \quad 64,370.86
\end{align*}
\]

\[2,12,316.07\]

**Notes:**
(i) The aggregate deduction, in respect of depreciation allowable to the amalgamating company and amalgamated company in the case of amalgamation shall not exceed in any case, the deduction calculated at the prescribed rates as if the amalgamation had not taken place. Such deduction shall be apportioned between the amalgamating company and the amalgamated company in the ratio of the number of days for which the assets were used by them.
(ii) The price at which the assets were transferred, i.e., `60 lacs, has no implication in computing eligible depreciation.

**Question 7**

State under which heads the following incomes are taxable:

(i) Rental income in case of dealer in property
(ii) Dividend on shares in case of a dealer in shares
(iii) Salary by a partner from his partnership firm
(iv) Rental income of machinery
(v) Winnings from lotteries by a person having the same as business activity
(vi) Salaries payable to a Member of Parliament
(vii) Receipts without consideration
(viii) In case of retirement, interest on employee’s contribution if provident fund is unrecognized.

**Answer.**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Head of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Rental income in case of dealer in property</td>
<td>Income from house property</td>
</tr>
<tr>
<td>(ii) Dividend on shares in case of a dealer in shares</td>
<td>Income from other sources</td>
</tr>
<tr>
<td>(iii) Salary by partner from his partnership firm</td>
<td>Profit and gains of business or profession</td>
</tr>
<tr>
<td>(iv) Rental income of machinery (See Note below)</td>
<td>Income from other sources/ Profits and gains of business or profession</td>
</tr>
<tr>
<td>(v) Winnings from lotteries by a person having the same as business activity</td>
<td>Income from other sources</td>
</tr>
<tr>
<td>(vi) Salaries payable to a Member of Parliament</td>
<td>Income from other sources</td>
</tr>
<tr>
<td>(vii) Receipts without consideration</td>
<td>Income from other sources</td>
</tr>
<tr>
<td>(viii) In case of retirement, interest on employee’s contribution if provident fund is unrecognized.</td>
<td>Income from other sources</td>
</tr>
</tbody>
</table>
provident fund is unrecognized

**Note –**
As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head “Income from Other Sources”, if the same is not chargeable to income-tax under the head “Profits and gains of business or profession”.

---

**PCC NOV – 2010**

**Question 2**
(12 Marks)

Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2014.

<table>
<thead>
<tr>
<th>Description</th>
<th><code>\</code></th>
<th>By</th>
<th><code>\</code></th>
</tr>
</thead>
<tbody>
<tr>
<td>To Opening Stock</td>
<td>71,000</td>
<td>By Sales</td>
<td>32,00,000</td>
</tr>
<tr>
<td>To Purchase of Raw materials</td>
<td>16,99,000</td>
<td>By Closing Stock</td>
<td>2,00,000</td>
</tr>
<tr>
<td>To Manufacturing Wages &amp; Expenses</td>
<td>5,70,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Gross profit</td>
<td>10,60,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>34,00,000</td>
<td></td>
<td>34,00,000</td>
</tr>
<tr>
<td>To Administrative charges</td>
<td>3,26,000</td>
<td>By Gross profit</td>
<td>10,60,000</td>
</tr>
<tr>
<td>To State VAT penalty paid</td>
<td>5,000</td>
<td>By Dividend from domestic companies</td>
<td>15,000</td>
</tr>
<tr>
<td>To General Expenses</td>
<td>1,64,000</td>
<td>By Income from agriculture (net)</td>
<td>1,80,000</td>
</tr>
<tr>
<td>To Interest to Bank (On machinery term loan)</td>
<td>60,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Depreciation</td>
<td>2,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Net Profit</td>
<td>5,00,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>12,55,000</td>
<td></td>
<td>12,55,000</td>
</tr>
</tbody>
</table>

Following are the further information relating to the financial year 2013-14:

(i) Administrative charges include `46,000 paid as commission to brother of the assessee. The commission amount at the market rate is `36,000.

(ii) The assessee paid `33,000 in cash to a transport carrier on 29.12.2013. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment.)

(iii) A sum of `4,000 per month was paid as salary to a staff throughout the year and this has not been debited in the books of account.

(iv) Bank term loan interest actually paid upto 31.03.2014 was `20,000 and the balance was paid in October 2014.

(v) Housing loan principal repaid during the year was `50,000 and it relates to residential property occupied by him. Interest on housing loan was `23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.

(vi) Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation rate @ 15%)
Income Under The Head Business/Profession

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening WDV (as on 01.04.2013)</td>
<td>12,00,000</td>
</tr>
<tr>
<td>Additions during the year (used for more than 180 days)</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Total additions during the year</td>
<td>4,00,000</td>
</tr>
</tbody>
</table>

Note: Ignore additional depreciation

Compute the Total Income of Mr. Raju for the Assessment Year 2014-15.

He has rejected presumptive income under section 44AD and his accounts were audited. (Modified)

Answer.

**Computation of Total Income of Mr. Raju for the A.Y. 2014-15**

**Profits and gains of business or profession**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit as per profit and loss account</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
</tr>
<tr>
<td>Excess commission paid to brother disallowed under section 40A(2)</td>
<td>10,000</td>
</tr>
<tr>
<td>Disallowance under section 40A(3) is not attracted since the limit for cash payment has been increased from <code>20,000 to </code>35,000 w.e.f. 01.10.2010 in respect of payment to transport operators. Therefore, amount of `33,000 paid in cash to a transport carrier is allowable as deduction.</td>
<td>Nil</td>
</tr>
<tr>
<td>Bank term loan interest paid after the due date of filing of return under section 139(1) – disallowed as per section 43B</td>
<td>40,000</td>
</tr>
<tr>
<td>State VAT penalty paid disallowed</td>
<td>5,000</td>
</tr>
<tr>
<td>Depreciation debited to profit and loss account</td>
<td>2,00,000</td>
</tr>
</tbody>
</table>

**Less:**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary paid to the staff not debited to profit and loss account</td>
<td>48,000</td>
</tr>
<tr>
<td>Dividend from domestic companies [Exempt under section 10(34)]</td>
<td>15,000</td>
</tr>
<tr>
<td>Income from agriculture [Exempt under section 10(1)]</td>
<td>1,80,000</td>
</tr>
<tr>
<td>Depreciation under the Income-tax Act, 1961 (As per working note)</td>
<td>2,25,000</td>
</tr>
</tbody>
</table>

**Total Income**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from house property</td>
<td></td>
</tr>
<tr>
<td>Annual value of self-occupied property</td>
<td>Nil</td>
</tr>
<tr>
<td>Less: Deduction under section 24(b) – interest on housing loan</td>
<td>(23,000)</td>
</tr>
<tr>
<td>Gross Total Income</td>
<td>2,64,000</td>
</tr>
<tr>
<td>Less: Deduction under section 80C in respect of Principal repayment of housing loan</td>
<td>50,000</td>
</tr>
<tr>
<td>Total Income</td>
<td>2,14,000</td>
</tr>
</tbody>
</table>

**Working Note:**

**Computation of depreciation under the Income-tax Act, 1961**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation @15% on <code>14 lakh (Opening WDV of </code>12 lakh plus assets purchased during the year and used for more than 180 days `2 lakh)</td>
<td>2,10,000</td>
</tr>
<tr>
<td>Depreciation @7.5% on `2 lakh (Cost of assets used for less than 180 days)</td>
<td>15,000</td>
</tr>
<tr>
<td></td>
<td>2,25,000</td>
</tr>
</tbody>
</table>
Question 4 (5 Marks)
M/s Arora Ltd., submits the following details of expenditures pertaining to the financial year 2013-14:

(i) Payment of professional fees to Mr. Mani `50,000. Tax not deducted at source.

(ii) Interior works done by Mr. Hari for `2,00,000 on a contract basis. Payment made in the month of March 2014. Tax deducted in March 2014, was paid on 30.06.2014.

(iii) Factory Rent paid to Mrs. Rao `15,00,000. Tax deducted at source and paid on 01.10.2014.


(v) Payment made to M/s Green & Co. towards import of Raw Materials `25,00,000. No tax was deducted at source. The supplier Green & Co. is located in London.

Examine the above with reference to allowability of the same in the Assessment Year 2014-15 under the Income Tax Act, 1961. Your answer must be with reference to Section 40(a) read with relevant tax deduction at source provisions.

Answer.
Allowability of expenses of M/s. Arora Ltd for the A.Y. 2014-15
(i) Payment of professional fees is subject to TDS under section 194J. Since no tax is deducted at source, the expenditure of `50,000 is disallowed under section 40(a).

(ii) Since the tax was deducted in March, 2014 and paid on or before the due date of filing the return (i.e., on or before September 30th, 2014), the expenditure on interior works will be allowed as deduction. Hence, disallowance under section 40(a) is not attracted.

(iii) The maximum time allowable for deposit of tax deducted at source is up to the due date of filing return i.e., 30th September, 2014. In this case, since tax deducted under section 194-I was paid after the due date of filing the return, the expenditure can be claimed only in the subsequent year i.e., P.Y. 2014-15. Hence, for the P.Y. 2013-14, the expenditure of `15,00,000 is disallowed under section 40(a).

(iv) Since the tax was deducted in December, 2013 and paid on or before the due date of filing the return (i.e., on or before September 30th, 2014), the interest paid on fixed deposits will be allowed as deduction. Hence, disallowance under section 40(a) is not attracted.

(v) Since payment towards import of raw materials does not attract the provisions of deduction of tax at source, the expenditure will be allowed as deduction. Hence, no disallowance is attracted under section 40(a).

Question 5 (4 Marks)
State the conditions for deductibility of bad debt written off under the Income-tax Act, 1961.

Answer.
The conditions for deductibility of bad debts written off under the Income-tax Act, 1961 are –

(1) There must be a debt – i.e., a bad debt presupposes the existence of a debt and relationship of a debtor and creditor.

(2) The debt must be incidental to the business or profession of the assessee.

(3) The debt must have been taken into account in computing the assessable income – No such deduction shall be allowed unless such debt or part thereof was taken into account in computing the income of the
assessee of the previous year in which it was written off or of an earlier previous year or it represents money lent in the ordinary course of business of banking or money lending carried on by the assessee.

(4) The debt must have been written off as irrecoverable in the books of account of the assessee.

(5) Where the amount ultimately recovered is less than the difference between the debt and the amount deducted, the deficiency shall be deductible in the previous year in which the ultimate recovery is made.

Question 6  
(2 Marks)
Bad debt written off and allowed in the financial year 2011-12 of `50,000 recovered in the financial year 2013-14.
Answer.
As per section 41(4), any amount recovered by the assessee against bad debt earlier allowed as deduction shall be taxed as income in the year in which it is received. Therefore, in this case, `50,000 would be taxable in the F.Y.2013-14 (A.Y.2014-15).

IPCC MAY – 2010

Question 1  
(16 Marks)
Mr. Dinesh Karthik, a resident individual aged 45, furnished the following information pertaining to the year ended 31.03.2014:

(i) He is a partner in Badrinath & Co. He has received the following amounts from the firm:

| Interest on capital at 15% | `3,00,000 |
| Salary as working partner (at 1% of firm’s sales) | `90,000 |

(ii) He is engaged in a business in which he manufactures wheat flour from wheat. The profit and loss account pertaining to this business (summarised form) is as under:

<table>
<thead>
<tr>
<th>To</th>
<th>By</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>`1,20,000</td>
</tr>
<tr>
<td>Bonus</td>
<td>`48,000</td>
</tr>
<tr>
<td>Car expenses</td>
<td>`50,000</td>
</tr>
<tr>
<td>Machinery repairs</td>
<td>`2,34,000</td>
</tr>
<tr>
<td>Advance tax</td>
<td>`70,000</td>
</tr>
<tr>
<td>Depreciation</td>
<td>`3,00,000</td>
</tr>
<tr>
<td>Car</td>
<td>`3,00,000</td>
</tr>
<tr>
<td>Machinery</td>
<td>`1,25,000</td>
</tr>
<tr>
<td>Net profit</td>
<td>`4,32,000</td>
</tr>
<tr>
<td>Gross profit</td>
<td>`12,50,000</td>
</tr>
<tr>
<td>Interest on Bank FD (Net of TDS 5,000)</td>
<td>`45,000</td>
</tr>
<tr>
<td>Agricultural income</td>
<td>`60,000</td>
</tr>
<tr>
<td>Pension from LIC Jeevan Dhara</td>
<td>`24,000</td>
</tr>
</tbody>
</table>

Net profit: `4,32,000
Gross profit: `12,50,000

Opening WDV of assets are as under:
| Car | `3,00,000 |
| Machinery | `6,50,000 |

(Used during the year for 170 days)

Additions to machinery:
- New purchased on 23.09.2013: `2,00,000
- New purchased on 12.11.2013: `3,00,000
- Old purchased on 12.04.2013: `1,25,000

(New machinery is purchased for manufacturing purpose)
(All assets added during the year were put to use immediately after purchase)

Bonus amount was paid on 11.10.2013.

One-fifth of the car expenses are towards estimated personal use of the assessee.

(iii) In March, 2012, he had sold a house at Chennai. Arrears of rent relating to this house amounting to `75,000 was received in February, 2014.

(iv) Details of his Savings and Investments are as under:

- Life Insurance Premium for policy in the name of his major son employed in LMN Ltd. at a salary of `6 lacs p.a. (Sum assured `2,00,000)
- Contribution to Pension Fund of National Housing Bank
- Medical Insurance Premium for his father aged 70, who is not dependent on him

You are required to compute the income of Mr. Dinesh Karthik for the Assessment Year 2014-15 and the Tax Payable by him. Also indicate whether interest, if any, under section 234A and 234B are payable, assuming that the return was filed on 28th September, 2014.

Computation of interest, if any, is NOT required. (Modified)

**Answer.**

**Computation of Total Income of Mr. Dinesh Karthik for the A.Y. 2014-15**

**Particulars**

<table>
<thead>
<tr>
<th>Income from house property</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrears of rent received in respect of the Chennai house taxable under section 25B</td>
<td>75,000</td>
</tr>
<tr>
<td>Less: Deduction @ 30%</td>
<td>22,500</td>
</tr>
<tr>
<td>Income under the head House Property</td>
<td>52,500</td>
</tr>
</tbody>
</table>

**(iii) Computation of income from own business**

**Particulars**

Net profit as per profit and loss account | 4,32,000 |
Less:
Interest on bank FD (net of TDS 5,000) | (45,000) |
Agricultural income | (60,000) |
Pension from LIC Jeevan Dhara | (24,000) |
Depreciation (See Working Note below) | (2,74,750) |

Add:
Advance tax | 70,000 |

**Income from own business** | 5,33,250 |
Add: Salary from partnership firm (Assumed as fully allowed in firm’s hands) | 90,000 |
Add: Interest from partnership firm (3,00,000 / 15% x 12%) | 2,40,000 |
Income under the head Business/Profession | 8,63,250 |
Working Note:
Computation of depreciation allowable under the Income-tax Act, 1961

Block I Car
3,00,000 x 15% 45,000
Less: 1/5th for personal use (9,000) 36,000

Block II Machinery
Opening WDV 6,50,000
Additions during the year (Used for more than 180 days) 3,25,000
Additions during the year (used for less than 180 days) 3,00,000
Total 12,75,000
9,75,000 x 15% 1,46,250
3,00,000 x 7.5% 22,500
Additional depreciation
New machinery
Used for more than 180 days 2,00,000 x 20% 40,000
Used for less than 180 days 3,00,000 x 10% 30,000
Total depreciation (36,000 + 1,46,250 + 22,500 + 40,000 + 30,000) 2,74,750

Income from other sources
LIC Jeevan Dhara pension 24,000
Interest from bank FD (gross) 50,000
Income under the head Other Sources 74,000

Computation of Total income and Tax Liability
Income under the head House Property 52,500
Income under the head Business/Profession 8,63,250
Income under the head Other Sources 74,000
Gross Total Income 9,89,750
Less: Deductions under Chapter VI-A
Section 80C
Life insurance premium for policy in the name of major son not dependent on the assessee, restricted to 10% of sum assured i.e. 10% of `2,00,000. 20,000
Contribution to pension fund of NHB 70,000
Total 90,000

Section 80D
Mediclaim premium for father, a senior citizen (qualifies for deduction, even though the father is not dependent on the assessee) 22,000
Maximum amount allowable 20,000
Total Income 8,79,750

Computation of Tax Payable
Tax on aggregate of non-agricultural income and agricultural income i.e., `9,39,750 (being, `8,79,750 + `60,000) 1,17,950.00
Less: Tax on the aggregate of agricultural income and
Interest under section 234B

Under section 208, obligation to pay advance tax arises in every case where the advance tax payable is '10,000 or more. Interest under section 234B is attracted for non-payment of advance tax or payment of advance tax of an amount less than 90% of the assessed tax. Therefore, in this case, interest under section 234B would be attracted on the balance tax payable.

Interest under section 234A

Mr. Dinesh Karthik receives salary of '90,000 from the firm, Badrinath & Co., which is given as 1% of the firm’s sales. Therefore, the turnover of the firm is '90 lakh, being 90,000/1%. Since the turnover of the firm does not exceeds 100 lakhs, the firm is not subject to tax audit. Since Mr. Dinesh Karthik is a working partner in a partnership firm whose accounts are not subject to tax audit, his due date for filing of return would be 31st July, 2014. Since the return was filed after the due date, interest is payable under section 234A. (40,300 x 1% x 2 = 806)

Question 2

Mr. Tenzingh is engaged in composite business of growing and curing (further processing) Coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.03.2014 are given below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>WDV of Car as on 01.04.2013</td>
<td>3,00,000</td>
</tr>
<tr>
<td>WDV of machinery as on 31.03.2013</td>
<td>15,00,000</td>
</tr>
<tr>
<td>Expenses incurred for growing coffee</td>
<td>3,10,000</td>
</tr>
<tr>
<td>Expenditure for curing Coffee</td>
<td>3,00,000</td>
</tr>
<tr>
<td>Sale value of cured Coffee</td>
<td>22,00,000</td>
</tr>
</tbody>
</table>

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for car running and maintenance are '50,000. The machines were used in coffee curing business operations.

Compute the income arising from the above activities for the Assessment Year 2014-15. Show the WDV of the assets as on 31.03.2014. (Modified) Answer.

Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income-tax Rules, 1962. As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income.

Sale value of cured coffee

Less:
Expenses for growing coffee
Car expenses (80% of '50,000)
Depreciation on car (80% of 15% of ₹3,00,000)  
36,000

Expenditure for coffee curing operations  
3,00,000

Depreciation on machinery  
(15% of 15,00,000) (See Note below)  
2,25,000

Total profits from composite activities  
12,89,000

Amount regarded as business income (25% of above)  
3,22,250

Amount treated as agricultural income (75% of above)  
9,66,750

### Computation of value of depreciable assets as on 31.03.2014

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Opening value as on 01.04.2013</th>
<th>Depreciation thereon at 15%</th>
<th>Less: Disallowance @ 20% for personal use</th>
<th>Depreciation actually allowed</th>
<th>Closing value as on 31.03.2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Car</strong></td>
<td>3,00,000</td>
<td>45,000</td>
<td>9,000</td>
<td>36,000</td>
<td>2,64,000</td>
</tr>
<tr>
<td><strong>Machinery</strong></td>
<td>15,00,000</td>
<td></td>
<td></td>
<td>2,25,000</td>
<td>12,75,000</td>
</tr>
</tbody>
</table>

Explanation 7 has been inserted in section 43(6) to provide that in cases of ‘composite income’, for the purpose of computing written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire composite income of the assessee (and not just 25%) is chargeable under the head “Profits and gains of business or profession”. The depreciation so computed shall be deemed to have been “actually allowed” to the assessee.

**Note** – It has been assumed that the written down value of machinery as on 31.03.2013 i.e., `15 lakh given in the question represents the closing balance after providing depreciation for the previous year 2012-13. It is also possible to assume that the written down value of `15 lakh as on 31.03.2013 represents the written down value on which depreciation has to be charged for the previous year 2012-13 and solve the problem accordingly.

### Question 4

(2Marks)

State the concessions granted to transport operators from 1\textsuperscript{st} October, 2009 onwards in the context of cash payments under section 40A(3).

**Answer.**

Section 40A(3) provides for disallowance of expenditure incurred in respect of which payment or aggregate of payments made to a person in a day exceeds `20,000, and such payment or payments are made otherwise than by account payee cheque or account payee bank draft.

This limit of `20,000 has been raised to `35,000 in case of payment made to transport operators for plying, hiring or leasing goods carriages. Therefore, payment or aggregate of payments up to `35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank draft, without attracting disallowance under section 40A(3).
Mr. Prakash has the following Assets which are eligible for depreciation at 15% on Written Down Value (WDV) basis:

01.04.2010         WDV of plant ‘X’ and Plant ‘Y’         ₹2,00,000
10.12.2013         Acquired a new plant ‘Z’ for         ₹2,00,000
22.01.2014         Sold plant ‘Y’ for         ₹4,00,000

Expenditure incurred in connection with transfer         ₹10,000

Compute eligible depreciation claim/chargeable capital gain if any, for the Assessment Year 2014-15.

Answer.

Computation of depreciation and capital gains of Mr. Prakash for the A.Y. 2014-15

\[
\begin{align*}
W.D.V. & \text{ of Plant ‘X’ & Plant ‘Y’ as on 01.04.2010} & 2,00,000 \\
& \text{Less: Depreciation @ 15% for the assessment year 2011-12} & (30,000) \\
W.D.V. & \text{of Plant ‘X’ & Plant ‘Y’ as on 01.04.2011} & 1,70,000 \\
& \text{Less: Depreciation @ 15% for the assessment year 2012-13} & (25,500) \\
W.D.V. & \text{of Plant ‘X’ & Plant ‘Y’ as on 01.04.2012} & 1,44,500 \\
& \text{Less: Depreciation @ 15% for the assessment year 2013-14} & (21,675) \\
W.D.V. & \text{of Plant ‘X’ & Plant ‘Y’ as on 01.04.2013} & 1,22,825 \\
& \text{Add : Cost of new Plant ‘Z’ acquired during the previous year ending on 31.03.2014} & 2,00,000 \\
& \text{3,22,825} \\
& \text{Less: Sale consideration of Plant ‘Y’ ’4,00,000 (restricted to)} & (3,22,825) \\
W.D.V. & \text{of Plant ‘X’ and ‘Z’ as on 01.04.2014} & Nil \\
Depreciation & & Nil \\
Sale proceeds of Plant ‘Y’ & & 4,00,000 \\
& \text{Less: Deduction under section 50} & \\
& \text{W.D.V of the block} & (3,22,825) \\
& \text{Expenditure incurred in connection with transfer} & (10,000) \\
\text{Short term Capital Gains} & & 67,175
\end{align*}
\]

PCC NOV – 2009

Question 1 (2 Marks)
The benefit of weighted deduction of 125% under section 35 of the Income-tax Act, 1961 has now been extended to contribution made to a company, for scientific research approved under Section 35(1)(iia) to an assessee.

Answer.

True: The benefit of weighted deduction has now been extended to contribution made to companies for scientific research. Under section 35, an assessee is entitled to claim weighted deduction of 125% under section 35, who has made contribution to company for scientific research.

Question 2 (20 Marks)
Dr. Parekh is a resident individual. His Income and Expenditure Account for the year ending 31st March, 2014 is given below:
Income Under The Head Business/Profession

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Amount</th>
<th>Income</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary to staff</td>
<td>3,78,000</td>
<td>Consultation fees</td>
<td>11,85,000</td>
</tr>
<tr>
<td>Cost of medicine</td>
<td>6,35,000</td>
<td>Cost of medicines recovered</td>
<td>7,85,000</td>
</tr>
<tr>
<td>Rent</td>
<td>66,000</td>
<td>Stock of medicine</td>
<td>25,000</td>
</tr>
<tr>
<td>Administrative cost</td>
<td>1,98,000</td>
<td>Interest on Post Office Monthly</td>
<td>86,400</td>
</tr>
<tr>
<td>Advance income tax</td>
<td>2,40,000</td>
<td>Interest on Term Deposit with bank (Net of TDS 3,000)</td>
<td>27,000</td>
</tr>
<tr>
<td>Membership fees</td>
<td>5,000</td>
<td>Rent received</td>
<td>20,000</td>
</tr>
<tr>
<td>Depreciation on apparatus</td>
<td>42,500</td>
<td>Winning from lotteries (Net of TDS 3,000)</td>
<td>7,000</td>
</tr>
<tr>
<td>Net profit</td>
<td>5,70,900</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(i) He has deposited `70,000 in PPF.
(ii) He received salary of `1,50,000 and commission of `50,000 from a nursing home in which Dr. (Mrs.) Parekh also an equal partner.
(iii) He received fees of `50,000 from University of Calcutta as lecturer.
(iv) Received pension of `84,000 from LIC Jeevan Suraksha.
(v) Paid `22,500 by cheque as mediclaim insurance premium for his medical treatment.
(vi) He paid LIC premium of `80,000 for his own life.
(vii) Cost of administration includes `3,000 paid for municipal tax for the house let out to a tenant.
(viii) Depreciation as per Income-tax Rules to be computed as follow:

| WDV as on 01.04.2013 | `3,00,000 |
| Rates of depreciation | 15%       |

(ix) Cost of lottery tickets amounting to `350 has not been debited to Income and Expenditure account.

You are required to compute the Total Income and Tax Payable thereon by Dr. Parekh for the Assessment Year 2014-15. (Modified)

Answer.

**Computation of Total Income and Tax Payable by Dr. Parekh for the A. Y. 2014-15**

**Salary from University of Calcutta**

50,000.00

**Computation of Income from House Property**

- Gross Annual Value: 20,000
- Less: Municipal taxes paid: 3,000
- Net Annual Value: 17,000
- Less: Statutory deduction under section 24(a) @ 30% NAV: 5,100

**Income from House Property**

11,900

**Computation of Profits and gains of business or profession**

Net Profit as per Income & Expenditure Account: 5,70,900

Add:
Depreciation charged  
Municipal Taxes paid  
Advance Tax  
Salary from Nursing Home as partner  
Commission from Nursing home as partner  
Less:
Rent received  
Interest on Post Office Monthly Income Scheme  
Interest on Term Deposit with bank (Net of TDS)  
Winning from lotteries (Net of TDS)  
Depreciation as per Income Tax Act.  
Depreciation of Apparatus:
WDV as on 01.04.2013  
Depreciation @15%  
Income from business  

Computation of Income from Other Sources
Interest Post Office Monthly Income Scheme  
Interest on Term Deposit with Bank (Gross)  
Winning from lotteries (Gross)  
Pension from LIC Jeevan Suraksha  
Income from Other Sources  
Gross Total Income  
Less: Deductions under Chapter VIA
(i) Deduction under section 80C
   Investment in PPF  
   Life insurance premium paid  
   Deduction restricted to  
(ii) Deduction under section 80D
   Mediclaim premium paid by cheque for himself  
   Deduction restricted to  
Total income  

Computation of Tax Liability
Casual income `10,000 @ 30% u/s 115BB  
Normal income `10,18,300 at slab rate  
Tax before education cess  
Add: Education cess @ 2%  
Secondary and Higher Education cess @ 1%  
Tax Liability  
Less: Tax deducted at source
from Interest  
from lottery income  
Less : Advance tax paid  
Refund (rounded off u/s 288B)  

Note (i)
Any salary, bonus, commission or remuneration by whatever name called due to or received by a partner of a firm from the firm shall not be treated as salary for the purposes of section 15 but it shall be treated as income from business or profession for the purposes of section 28.

Note (ii)
As per section 58(4), no expenditure can be allowed against winnings from lotteries. Therefore, amount spent on lottery tickets being ₹350, cannot be allowed as deduction from income from winnings of lotteries.

Note (iii)
Pension from LIC Jeevan Suraksha is taxable as Income from other sources.

Question 5
(4 Marks)
Are there any restrictions on deduction allowable to the partnership firm in respect of salary and interest to its partners under section 40(b) of the Income-tax Act, 1961?

Answer.
Restrictions on deduction allowable to the Partnership Firm in respect of salary and interest to its partners under section 40(b) of the Income tax Act, 1961.

In the case of a partnership firm, there are following restrictions:

(i) The remuneration payable to its working partners and interest payable to partners should be authorized by and in accordance with the partnership deed and should fall after the date of execution of the deed.

(ii) The payment of interest to partners is allowable up to 12% simple interest if it is authorized in the partnership deed and must fall after the date of the deed.

(iii) Maximum amount of salary, bonus, commission etc. allowed to a partner shall be computed in the manner given below:

* First ₹3,00,000 of the book profits 90% of the book profit or ₹1,50,000 whichever is more
* On balance amount of book profit 60% of book profit

PCC JUNE – 2009

Question 2
(20 Marks)
Mr. X is a resident individual. His Profit and Loss account for the year ending 31st March, 2014 is given below:

<table>
<thead>
<tr>
<th>To</th>
<th>Amount</th>
<th>By</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>General charges</td>
<td>35,650</td>
<td>Gross Profit</td>
<td>5,25,860</td>
</tr>
<tr>
<td>Insurance</td>
<td>3,500</td>
<td>Commission</td>
<td>6,800</td>
</tr>
<tr>
<td>Salary</td>
<td>1,14,960</td>
<td>Rent received for letting out house</td>
<td>37,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>property</td>
<td></td>
</tr>
<tr>
<td>Donation to political party</td>
<td>1,000</td>
<td>Interest on debentures</td>
<td>25,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Net amount ₹22,500 plus TDS ₹2,500)</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,25,656</td>
<td>Agricultural income</td>
<td>45,000</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>42,500</td>
<td>Short-term Profit on sale of investment</td>
<td>29,000</td>
</tr>
<tr>
<td>Advance Tax (Income Tax)</td>
<td>17,000</td>
<td>Dividend from Indian Company</td>
<td>16,000</td>
</tr>
<tr>
<td>Net Profit</td>
<td>3,44,894</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>6,85,160</td>
</tr>
</tbody>
</table>

(i) Depreciation has been calculated as per the Income Tax Act at ₹75,000.

(ii) He has deposited ₹35,000 in a notified scheme under Post Office Time Deposit Rules, 1981 for five year time.

(iii) He had bought 200 shares of AB Co. Ltd. on 05.12.2010 @ ₹75 each. 150 shares of PQ Co. Ltd. on
03.08.2013 @ `112 each and 150 shares of AB Co. Ltd. on 05.09.2013 @ ` 60 each. He sold all the shares of AB Co. Ltd. on 15.12.2013 @ `98 each and sold the shares of PQ Co. Ltd. on 10.03.2014 @ `102 each. All shares were sold in National Stock Exchange through a registered broker and securities transaction tax is paid.

(iv) One of his life insurance policy was matured on 14.06.2013. The sum assured was `1,00,000 and amount received on maturity was `1,62,850.

(v) Donation to the political party represented the contribution made to a political party registered under section 29A of the Representation of the People Act, 1951.

(vi) Income tax department refunds `42,580 (including interest of `1,470) which was directly credited in his personal savings account.

(vii) He incurred expenditure of `40,000 on treatment of his dependent father who was suffering from specified disease as defined in rule 11DD of Income Tax Rules, 1962. The payment of medical expenses was made by cheque and an amount of `7,500 was reimbursed to him by an insurance company.

(viii) Bad debt of a business which was discontinued in earlier years, recovered during the year `15,000.

Compute Total Income and Tax Payable thereon by Mr. X for the Assessment Year 2014-2015. (Modified)

**Answer.**

**Computation of Taxable Income and Tax Payable by Mr. X for the Assessment Year 2014-15**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Income from House Property (Note (i))</td>
<td>26,250</td>
</tr>
<tr>
<td>2. Profits and gain of business or profession (Note (ii))</td>
<td>2,76,050</td>
</tr>
<tr>
<td>3. Capital gains (Note (iii))</td>
<td>33,200</td>
</tr>
<tr>
<td>4. Income from other sources (Note (iv))</td>
<td>26,470</td>
</tr>
<tr>
<td><strong>Gross Total Income</strong></td>
<td><strong>3,61,970</strong></td>
</tr>
</tbody>
</table>

**Less : Deductions under Chapter VI-A**

(i) Deduction under section 80C (Note (v))                                     35,000

(ii) Deduction under section 80DDB in respect of expenditure on medical treatment incurred on treatment of his father 40,000
Less: Expenditure reimbursed by insurance company 7,500 32,500

(iii) Deduction under section 80GGC in respect of contribution to the Political Party (Note (xi)) 1,000

**Total Income** 2,93,470

**Computation of Tax Payable**

Short term capital gains u/s 111A `4,200 @ 15% 630
Normal income `2,89,270
Partial integration
Step 1
45,000 + 2,89,270 = 3,34,270 13,427
Step 2
45,000 + 2,00,000 = 2,45,000 4,500 8,927.00 9,557.00
Less: Rebate u/s 87A (`9,557 or `2,000 whichever is less) 2,000.00
Notes:
(i) Computation of Income from House Property
Gross Annual Value (GAV)
Rent received is taken as the GAV in the absence of other information
Less: Municipal taxes paid
Net Annual Value (NAV)
Less: Deduction under section 24 @ 30% of NAV
Income from House Property

(ii) Computation of Profits and gains of business or profession
Net profit as per Profit & Loss account
Add : Inadmissible expenses
Depreciation charges
Advance Income tax (Note (ix))
Donation to political party
Add: Recovery of bad debt (Note (viii))
Less : Income chargeable under any other head / exempt income
Rent received
Interest on debentures (gross)
Agricultural income (Note (x))
Short term capital gain on sale of investment
Dividend from Indian Company (Note (x))
Less: Depreciation as per Income-tax Act
Profits and gains of business or profession

(iii) Computation of Capital Gains
Short term capital gains on sale of investment
Shares of AB Co. Ltd.
Sale consideration 150 shares @ `98 each
Less: Cost of 150 shares @ `60 each
Shares of PQ Co. Ltd.
Sale consideration 150 shares @ `102 each
Less: Cost of 150 shares @ `112 each
Long term capital gains on sale of shares
Long-term capital gains on sale of 200 shares of AB Co. Ltd.
is exempt under section 10(38).
Since the holding period of 200 shares of AB Ltd. is more than twelve months, the capital gain on sale of such shares is a
long-term capital gain and hence, exempt from income-tax.

**Capital Gains**

33,200

**Computation of Income from other sources**

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on debentures</td>
<td>25,000</td>
</tr>
<tr>
<td>Interest on refund from IT authority (Note (vii))</td>
<td>1,470</td>
</tr>
<tr>
<td><strong>Income from other sources</strong></td>
<td>26,470</td>
</tr>
</tbody>
</table>

(v) The Finance Act, 2008 has amended section 80C to include within its fold, five year time deposit in an account under Post Office Time Deposit Rules, 1981.

(vi) The maturity proceeds of the life insurance policy are exempt under section 10(10D) assuming that the policy does not fall under the exceptions stated under that section.

(vii) Refund of income tax is not taxable. However, interest on refund is chargeable to tax under the head “Income from other sources”.

(viii) Recovery of bad debts, assumed to be allowed in full in an earlier year, is taxable under section 41(4), whether or not the business or profession in respect of which the deduction has been allowed is in existence at the time when it is recovered.

(ix) Advance income tax is not allowable as deduction.

(x) Agricultural income is exempt under section 10(1) and dividend from an Indian company is exempt from tax under section 10(34).

(xi) Contribution to a Political Party registered under section 29A of the Representation of the People Act, 1951 is deductible under section 80GGC.

---

**PCC  NOV – 2008**

**Question 1**

Depreciation is allowed only when it is claimed.

**Answer.**

The statement is false.

According to section 32, depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating business income, whether or not the assessee has claimed the deduction in respect of depreciation in computing his total income.

---

**Question 1**

Rural branches of the co-operative banks are not allowed to claim provision for bad and doubtful debts.

**Answer.**

The statement is false.

Sub-clause (a) of section 36(1)(viia) allows the cooperative banks to claim deduction for provision for bad and doubtful debts in respect of advances made by rural branches of such banks. However, the deduction should not exceed 10% of the aggregate average advances made by the rural branches of such banks computed in the prescribed manner.

---

**Question 2**

Dr. Smt. Niranjana, a resident individual, aged 59 years is running a clinic. Her Income and Expenditure Account for the year ending March 31st, 2014 is as under

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Amount</th>
<th>Income</th>
<th>Amount</th>
</tr>
</thead>
</table>

---

Cautimates.com
Income Under The Head Business/Profession

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (')</th>
<th>Amount (')</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Medicine consumed</td>
<td>5,38,400</td>
<td>By Consultation and Medical charges 18,85,850</td>
</tr>
<tr>
<td>To Staff salary</td>
<td>3,80,000</td>
<td>By Income-tax refund (principal '5,000 interest '450) 5,450</td>
</tr>
<tr>
<td>To Clinic consumable</td>
<td>1,10,000</td>
<td>By Dividend from units of UTI 10,500</td>
</tr>
<tr>
<td>To Rent paid</td>
<td>90,000</td>
<td>By Wining from game show on T.V. net of TDS (TDS '15,000) 35,000</td>
</tr>
<tr>
<td>To Administrative expenses</td>
<td>2,55,000</td>
<td>By Rent 27,000</td>
</tr>
<tr>
<td>To Amount paid to scientific research association approved u/s 35</td>
<td>1,50,000</td>
<td></td>
</tr>
<tr>
<td>To Net profit</td>
<td>4,40,400</td>
<td>19,63,800</td>
</tr>
</tbody>
</table>

(i) Rent paid includes `30,000 paid by cheque towards rent for her residential house.

(ii) Clinic equipments are:
- 01.04.2013 Opening W.D.V. – `5,00,000
- 07.12.2013 Acquired and put to use (cost) – `2,00,000

(iii) Rent received relates to a property situated at Surat. Gross annual value `27,000. The municipal tax of `2,000 paid in December, 2013, has been included in “administrative expenses”.

(iv) She received salary `7,500 p.m. from “Full Cure Hospital” which has not been included in the “consultation and medical charges”.

(v) Dr. Niranjana availed loan of `5,50,000 from a bank for higher education of her daughter. She repaid principal of `1,00,000 and interest thereon `55,000 during the year 2013-14.

(vi) She paid `1,00,000 as tuition fee (not in the nature of development fees/donation) to the university for full time education of her daughter.

(vii) An amount of `18,000 has also been paid by cheque on 27th March, 2014 for her medical insurance premium.

From the above compute the Total Income and Tax Payable thereon by Dr. Smt. Niranjana for the Assessment Year 2014-2015. (Modified)

Answer.

**Computation of Total Income and Tax Payable of Dr. Niranjana for A.Y. 2014-15**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (')</th>
<th>Amount (')</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income from Salary</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic Salary (`7,500 x 12)</td>
<td></td>
<td>90,000</td>
</tr>
</tbody>
</table>

**Income from house property**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (')</th>
<th>Amount (')</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Value (GAV)</td>
<td></td>
<td>27,000</td>
</tr>
<tr>
<td>Less : Municipal taxes paid</td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Net Annual Value (NAV)</strong></td>
<td></td>
<td>25,000</td>
</tr>
<tr>
<td>Less : Deduction under section 24 (@ 30% of `25,000)</td>
<td>7,500</td>
<td>17,500</td>
</tr>
</tbody>
</table>

**Income from profession**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (')</th>
<th>Amount (')</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit as per Income and Expenditure account</td>
<td></td>
<td>4,40,400</td>
</tr>
<tr>
<td>Less : Items of income to be treated separately</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Rent received</td>
<td>27,000</td>
<td></td>
</tr>
<tr>
<td>(ii) Dividend from units of UTI</td>
<td>10,500</td>
<td></td>
</tr>
</tbody>
</table>
(iii) Winning from game show on T.V. (net of TDS) 35,000
(iv) Income tax refund 5,450 77,950

Less : Allowable expenditure

Depreciation on Clinic equipments
on `5,00,000 @ 15% 75,000
on `2,00,000 @ 7.5% 15,000

Additional deduction of 75% for amount paid to scientific research association (Since weighted deduction of 175% is available in respect of such payment) 1,12,500 2,02,500

Add: Items of expenditure not allowable while computing business income
(i) Rent for her residential accommodation included in Income and Expenditure A/c 30,000
(ii) Municipal tax paid relating to residential house at Surat included in administrative expenses 2,000 32,000

Income from other sources
(a) Interest on Income-Tax Refund 450
(b) Dividend from UTI 10,500
Less : Exempt under section 10(35) 10,500 Nil
(c) Winnings from the game show on T.V. (`35,000 + `15,000) 50,000

Gross Total Income 3,49,900
Less: Deductions under Chapter VI A
(a) Deduction under section 80C Tuition fee paid to university for full time education of her daughter 1,00,000
(b) Deduction under section 80D Medical insurance premium (maximum allowable upto `15,000) 15,000
(c) Deduction under section 80E Interest on loan taken for higher education is deductible 55,000 1,70,000

Total Income 1,79,900

Tax Payable
Tax @ 30% on winnings of `50,000 from T.V. game show 15,000
Tax on balance income of `1,29,900 Nil 15,000
Less: Rebate u/s 87A (`15,000 or `2,000 whichever is less) 2,000
Tax before Education cess 13,000
Add: Education cess @ 2% 260
Add: Secondary and higher education cess @ 1% 130

Tax Liability 13,390
Less: TDS 15,000
Refund 1,610

Notes:
(i) The principal amount received towards Income-Tax refund will be excluded from computation of total income. Interest received will be taxed under the head “Income from other sources”.

(ii) Winnings from game show on T.V. should be grossed up for the chargeability under the head “Income from other sources” (`35,000 + `15,000). Thereafter, while computing tax liability, TDS of `15,000 should be
deducted to arrive at the tax payable. Winnings from game show are subject to tax @ 30% as per section 115BB.

**Question 5**

Can an Assessing Officer make a request for withdrawal of approval which was granted to an institution by the National Committee for carrying out any eligible project or scheme, under section 35AC of the Income-tax Act, 1961?

**Answer.**

The National Committee can withdraw the approval to an association or institution if it is satisfied that the project or the scheme (notified as an eligible project or scheme) is not being carried on in accordance with all or any of the conditions subject to which approval was granted or if the association/institution has failed to furnish to the National Committee, after the end of each financial year, a progress report within the prescribed time in the prescribed form. The National Committee should, however, give a reasonable opportunity to the concerned association or institution of showing cause against the proposed withdrawal.

A copy of the order withdrawing the approval or notification should be forwarded to the Assessing Officer having jurisdiction over the concerned association or institution. Therefore, the Assessing Officer is not empowered to make a request for withdrawal of the approval which was granted to an institution by the National Committee under section 35AC.

**PCC MAY – 2008**

**Question 5**

List six items of expenses which otherwise are deductible shall be disallowed, unless payments are actually made within the due date for furnishing the return of income under Section 139(1). When can the deduction be claimed, if paid after the said date?

**Answer.**

Section 43B provides that the following expenses shall not be allowed as deduction unless the payments are actually made within the due date for furnishing the return of income under section 139(1):

(i) Any tax, duty, cess or fees under any law in force.

(ii) Employer’s contribution to provident fund or superannuation fund or gratuity fund or any other fund for the welfare of the employees;

(iii) Any bonus or commission paid to employees;

(iv) Any interest on any loan borrowings from any public financial institution or State financial corporation or State industrial investment corporation.

(v) Interest on loans and advances from a scheduled bank;

(vi) Any sum paid as an employer in lieu of earned leave at the credit of his employee.

In case the payment is made after the due date of filing of return of income, deduction can be claimed only in the year of actual payment.

**PCC NOV – 2007**

**Question 1**

Discuss with brief reasons, whether true or false:
(i) It is a condition precedent to write off in the books of account, the amount due from debtor to claim deduction for bad debt.

(ii) Failure to deduct tax at source in accordance with the provisions of Chapter XVII-B, inter alia, from the amounts payable to a resident as rent or royalty, will result in disallowance while computing the business income.

**Answer.**

(i) **True:** It is mandatory to write off the amount due from a debtor as not receivable, in order to claim the same as bad debt under section 36(1)(vii).

(ii) **True:** As per section 40(a), expenditure is disallowed if the assessee has failed to deduct tax at source but if the assessee is not deemed to be an assessee in default under section 201, in that case expenditure is allowed i.e. it will be presumed that the assessee has deducted tax at source.

**Question 3**

(7 Marks)

Vivitha Bio-medicals Ltd. is engaged in the business of manufacture of bio-medical items. The following expenses were incurred in respect of activities connected with scientific research:

<table>
<thead>
<tr>
<th>Year ended</th>
<th>Item</th>
<th>Amount (\textdollar)</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.03.2011</td>
<td>Land</td>
<td>10,00,000</td>
</tr>
<tr>
<td>(Incurred after 01.09.2010)</td>
<td>Building</td>
<td>25,00,000</td>
</tr>
<tr>
<td>31.03.2012</td>
<td>Plant and machinery</td>
<td>5,00,000</td>
</tr>
<tr>
<td>31.03.2013</td>
<td>Raw materials</td>
<td>2,20,000</td>
</tr>
</tbody>
</table>

The business was commenced on 01.09.2013 and expenditure incurred on raw materials and salaries is \textdollar 1,80,000.

In view of availability of better model of plant and machinery, the existing plant and machinery were sold for \textdollar 8,00,000 on 01.03.2014.

Discuss the implications of the above for the Assessment Year 2014-15 along with brief computation of deduction permissible under section 35 assuming that necessary conditions have been fulfilled. You are informed that the assessee’s line of business is eligible for claiming deduction under Section 35 at 200% on eligible items.

**Answer.**

1. As per section 35, where a company engaged in manufacture of bio-medical items incurs any expenditure on scientific research during the current year, it is eligible for claiming weighted deduction of a sum equal to 200% of the eligible expenditure.

The eligible expenditure and quantum of deduction will be:

(a) Current year capital or revenue expenditure incurred for scientific research (weighted deduction @ 200%).

(b) Any expenditure incurred during earlier 3 years immediately preceding the date of commencement of business on payment of salary or purchase of materials, or capital expenditure incurred other than expenditure on acquisition of land (actual expenditure qualifies for deduction).

The deduction available under section 35 for scientific research will, therefore, be:

<table>
<thead>
<tr>
<th>Particulars</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Land</td>
<td>Nil</td>
</tr>
<tr>
<td>(b) Building</td>
<td>25,00,000</td>
</tr>
<tr>
<td>(c) Revenue expenses of last 3 years</td>
<td>2,20,000</td>
</tr>
<tr>
<td>(d) Capital expenditure of last 3 years: Plant and machinery</td>
<td>5,00,000</td>
</tr>
</tbody>
</table>
(e) Current year revenue expenditure `1,80,000 (200% of `1,80,000) 3,60,000
Deduction under section 35 35,80,000

**Tax treatment on sale of Plant and Machinery**
Section 41(3) provides that where a capital asset used for scientific research is sold, without having been used for other purposes, the sale proceeds shall be considered to be income under the head business/profession but only to the extent amount was debited to the profit and loss account hence there will income under the head business/profession `5,00,000 and balance amount of `3,00,000 shall be considered to be short term capital gain.

**Question 4** (2 Marks)
Mr. Achal, a hotelier, claimed expenditure on replacement of Linen and carpets in his hotel as revenue expenditure.

**Answer.**
The expenditure on replacement of linen and carpets in a hotel are in the nature of expenses incurred for the business and are allowable as revenue expenses under section 37(1).

**Question 4** (8 Marks)
Mr. B.A. Patel, a non-resident, operates an Aircraft between London to Ahmedabad. For the Financial year ended on 31st March, 2014, he received the amounts as under:

(i) For carrying passengers from Ahmedabad `50 lacs.

(ii) For carrying passengers from London `75 lacs received in India.

(iii) For carrying of goods from Ahmedabad `25 lacs.

The total expenditure incurred by Mr. B.A. Patel for the purposes of the business for the financial year 2013-14 was `1.4 crores.

Compute the income of Mr. B.A. Patel under the head “Profits and Gains from business or profession” for the financial year ended on 31st March 2014 relevant to Assessment Year 2014-15. (Modified)

**Answer.**
Under section 44BBA, in case of an assessee, being a non-resident, engaged in the business of operation of aircraft, a sum equal to 5% of the aggregate of the following amounts shall be deemed to be his business income:

(a) the amount paid or payable, whether in or out of India, to the assessee on account of carriage of passengers, goods etc. from any place in India; and

(b) the amount received or deemed to be received in India by the assessee on account of carriage of passengers, goods etc. from any place outside India.

Hence, the income of Mr. B.A. Patel chargeable to tax in India under the head “Profits and Gains of business or profession” is determined as under:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) For carrying passengers from Ahmedabad</td>
<td>50,00,000</td>
</tr>
<tr>
<td>(ii) For carrying passengers from London, amount received in India</td>
<td>75,00,000</td>
</tr>
<tr>
<td>(iii) For carrying goods from Ahmedabad</td>
<td>25,00,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,50,00,000</strong></td>
</tr>
</tbody>
</table>

Hence, income from business computed on presumptive basis as per section 44BBA is `7,50,000, being 5% of `1,50,00,000.
Note: No deduction is allowable in respect of any expenditure incurred for the purpose of the business.

PCC MAY – 2007

Question 1 (2 Marks)
Payment made in respect of a business expenditure incurred on 16th February, 2014 for ‘25,000 through a cheque duly crossed as “& Co.” is hit by the provisions of section 40A(3).

Answer.
True: In order to escape the disallowance specified in section 40A(3), payment in respect of the business expenditure ought to have been made through an account payee cheque. Payment through a cheque crossed as “& Co.” will attract disallowance under section 40A(3).

Question 3 (6 Marks)
Swadeshi Ltd., which follows mercantile system of accounting, obtained licence on 01.06.2012 from the Department of telecommunication for a period of 10 years. The total licence fee payable is ‘18,00,000. The relevant details are:

<table>
<thead>
<tr>
<th>Year ended 31st March</th>
<th>Licence fee payable for the year</th>
<th>Payments made</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Date</td>
</tr>
<tr>
<td>2013</td>
<td>10,00,000</td>
<td>30.03.2013</td>
</tr>
<tr>
<td></td>
<td></td>
<td>15.05.2013</td>
</tr>
<tr>
<td>2014</td>
<td>8,00,000</td>
<td>28.02.2014</td>
</tr>
</tbody>
</table>

Balance of ‘2,60,000 is pending as on 31.03.2014.

Compute the amount of deduction available to the assessee under section 35ABB for the Assessment Years 2013-14 and 2014-15. Can any deduction be claimed under section 32 also? (Modified)

Answer.
As per section 35ABB, any amount actually paid for obtaining licence to operate telecommunication services, shall be allowed as deduction in equal installments during the number of years for which the licence is in force. Therefore, the year of actual payment is relevant and not the previous year in which the liability for the expenditure was incurred according to the method of accounting regularly employed by the assessee.

1. ‘3,70,000 paid on 30.03.2013 [P.Y. 2012-13]
Unexpired period of licence 10 years
Hence ‘37,000 [i.e. ‘3,70,000/10] can be claimed under section 35ABB for period of 10 years commencing from A.Y.2013-14.

2. ‘11,70,000 paid during year ended 31.03.2014 [P.Y. 2013-14]
Unexpired period of licence 9 years
Hence ‘1,30,000 [i.e. ‘11,70,000/9] can be claimed under section 35ABB for a period of 9 years commencing from A.Y.2014-15.

3. Amount of deduction u/s 35ABB

<table>
<thead>
<tr>
<th>Assessment Year</th>
<th>Amount (‘)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-14</td>
<td>37,000</td>
</tr>
<tr>
<td>2014-15</td>
<td>37,000 + 1,30,000 = 1,67,000</td>
</tr>
</tbody>
</table>

Question 4 (8 Marks)
A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office during F.Y. 2013-14 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for A.Y. 2014-15:

Caultimates.com
Income Under The Head Business/Profession

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Description</th>
<th>Date of acquisition</th>
<th>Date when put to use</th>
<th>Amount `</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.</td>
<td>Books (of which books being annual publications are of `12,000)</td>
<td>1 Apr., 2013</td>
<td>1 Apr., 2013</td>
<td>13,000</td>
</tr>
<tr>
<td>5.</td>
<td>Office furniture (Acquired from practising C.A.)</td>
<td>1 Apr., 2013</td>
<td>1 Apr., 2013</td>
<td>3,00,000</td>
</tr>
<tr>
<td>7.</td>
<td>Fire extinguisher</td>
<td>1 Apr., 2013</td>
<td>1 Apr., 2013</td>
<td>2,500</td>
</tr>
<tr>
<td></td>
<td>(No instance arose to use during F.Y. 2013-14)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Purchased practising CA’s office in April’ 2013 who had run it for 4 years, for <code>5 lacs which includes </code>2 lacs for goodwill and `3 lacs for cost of furniture (included in 5 above)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Depreciation is to be provided at the applicable rates.

(Modified)

Answer.

**Computation of depreciation allowable for A.Y. 2014-15**

<table>
<thead>
<tr>
<th>Asset</th>
<th>Rate</th>
<th>Depreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Block 1: Furniture</td>
<td>10%</td>
<td>30,000</td>
</tr>
<tr>
<td>Block 2: Plant (Computer, computer software, laptop)</td>
<td>60%</td>
<td>51,900</td>
</tr>
<tr>
<td>Block 3: Plant (Books)</td>
<td>60%</td>
<td>600</td>
</tr>
<tr>
<td>Block 4: Plant (Books)</td>
<td>100%</td>
<td>12,000</td>
</tr>
<tr>
<td>Block 5: Plant (Fire Extinguisher and Printer)</td>
<td>15%</td>
<td>2,250</td>
</tr>
<tr>
<td>Block 6: Goodwill</td>
<td>25%</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>Total depreciation allowable</strong></td>
<td></td>
<td><strong>1,46,750</strong></td>
</tr>
</tbody>
</table>

Notes -

Computation of depreciation

**Block of Assets**

**Block 1: Furniture – rate 10%**

`3,00,000 @ 10% 30,000

**Block 2: Plant – rate 60%**

Computer 35,000
Computer software 8,500
Laptop 43,000
Total 86,500 @ 60% 51,900

**Block 3: Plant – Rate 60%**

Books (other than annual publications)
1,000 @ 60% 600

**Block 4: Plant – Rate 100%**

Books (being annual publications)
12,000 @100% 12,000

**Block 5: Plant – Rate 15%**

Computer printer 12,500
As per decided case of Smifs Securities Ltd vs CIT (SC) Goodwill is an intangible asset.

Block 6: Intangible Asset– Rate 25%

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill</td>
<td>2,00,000 @ 25%</td>
</tr>
<tr>
<td></td>
<td>50,000</td>
</tr>
</tbody>
</table>

IT-I : Goodwill - Goodwill is an asset under Explanation 3(b) to section 32(1) and, thus, it is eligible for depreciation

IT-II : Stock exchange membership card - Stock exchange membership card is an asset eligible for depreciation under section 32

[2012] 24 taxmann.com 222 (SC)

SUPREME COURT OF INDIA

Commissioner of Income-tax, Kolkata

v.

Smifs Securities Ltd.*

S.H. KAPADIA, CJI AND MADAN B. LOKUR, J.

CIVIL APPEAL NO. 5961 OF 2012†

AUGUST 22, 2012

I. Section 32 of the Income-tax Act, 1961 - Depreciation - Allowance/Rate of - Assessment year 2003-04 - Whether 'goodwill' is an asset under Explanation 3(b) to section 32(1) - Held, yes - During relevant assessment year, one 'Y' Ltd. amalgamated with assessee-company - According to assessee, excess consideration paid by it over value of net assets acquired of 'Y' Ltd. amounted to goodwill on which depreciation was to be allowed - Authorities below recorded a finding that assets and liabilities of 'Y' Ltd. were transferred to assessee for a consideration; that difference between cost of an asset and amount paid constituted goodwill and that assessee-company in process of amalgamation had acquired a capital right in form of goodwill because of which market worth of assessee-company stood increased - Accordingly, assessee's claim was allowed - Whether since revenue could not rebut factual findings recorded by authorities below, impugned order passed by them was to be upheld - Held, yes [Para 8] [In favour of assessee]

II. Section 32 of the Income-tax Act, 1961 - Depreciation - Allowance /Rate of - Whether stock exchange membership card is an asset eligible for depreciation under section 32 - Held, yes [Para 1] [In favour of assessee]

FACTS-I

• In accordance with scheme of amalgamation of 'Y' Ltd. with assessee, assets and liabilities of 'Y' Ltd. were transferred to and vested in the assessee company.

• According to assessee, excess consideration paid by it over the value of net assets acquired of 'Y' Ltd. should be considered as goodwill arising on amalgamation.

• The assessee's claim for depreciation on goodwill was rejected by the Assessing Officer on ground that goodwill was not an asset falling under Explanation 3 to section 32(1).

• On appeal:

HELD-I

• Explanation 3 to section 32(1) states that the expression 'asset' shall mean an intangible asset, being know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial
rights of similar nature. A reading of the words 'any other business or commercial rights of similar nature' in clause (b) of Explanation 3 indicates that goodwill would fall under the expression 'any other business or commercial rights of a similar nature'. The principle of ejusdem generis would strictly apply while interpreting the said expression which finds place in Explanation 3 (b). (Para 4)

- In view of the above, it is opined that 'Goodwill' is an asset under Explanation 3(b) to section 32(1). (Para 5)

- One more aspect needs to be highlighted. In the present case, the Assessing Officer, as a matter of fact, came to the conclusion that no amount was actually paid on account of goodwill. This is a factual finding. The Commissioner (Appeals) has come to the conclusion that the assessee had filed copies of the orders of the High Court ordering amalgamation of the above two companies; that the assets and liabilities of 'Y' Ltd. were transferred to the assessee for a consideration; that the difference between the cost of an asset and the amount paid constituted goodwill and that the assessee-company in the process of amalgamation had acquired a capital right in the form of goodwill because of which the market worth of the assessee-company stood increased. This finding has also been upheld by Tribunal. There is no reason to interfere with the factual finding. (Para 6)

- One more aspect which needs to be mentioned is that, against the decision of Tribunal, the revenue had preferred an appeal to the High Court in which it had raised only the question as to whether goodwill is an asset under section 32. In the circumstances, before the High Court, the revenue did not file an appeal on the finding of fact referred to hereinabove. (Para 7)

- In view of the above, it has to be held that goodwill is an asset within the meaning of section 32 and depreciation on 'goodwill' is allowable under the said section. (Para 8)

EDITOR'S NOTE

- Further, in view of finding of fact recorded by authorities below that bad debts was incurred by assessee in normal course of business, assessee's claim for deduction in respect of same was to be allowed [Para 9]

ORDER

1. None appears for the respondent, though served. Heard learned counsel for the Department. Leave granted. This civil appeal concerns the Assessment Year 2003-2004. Three questions arise for determination by this Court. They are as follows:

   Question No.[a]: "Whether Stock Exchange Membership Cards are assets eligible for depreciation under Section 32 of the Income Tax Act, 1961? Whether, on the facts and in the circumstances of the case, deletion of Rs. 53,84,766/- has been made correctly?"

   Answer: Learned Additional Solicitor General fairly concedes that the said question is covered by the decision of this Court in the case of Techno Shares and Stocks Limited vs. Commissioner of Income Tax, reported in [2010] 327 I.T.R. 323, in favour of the assessee.

   Question No.[b]: "Whether goodwill is an asset within the meaning of Section 32 of the Income Tax Act, 1961, and whether depreciation on 'goodwill' is allowable under the said Section?"

   Answer: In the present case, the assessee had claimed deduction of Rs. 54,85,430/- as depreciation on goodwill. In the course of hearing, the explanation regarding origin of such goodwill was given as under:

   "In accordance with Scheme of Amalgamation of YSN Shares & Securities (P) Ltd with Smifs Securities Ltd (duly sanctioned by Hon'ble High Courts of Bombay and Calcutta) with retrospective effect from 1st April, 1998, assets and liabilities of YSN Shares & Securities (P) Ltd were transferred to and vest in the company. In the process goodwill has arisen in the books of the company."

2. It was further explained that excess consideration paid by the assessee over the value of net assets acquired of YSN Shares and Securities Private Limited [Amalgamating Company] should be considered as goodwill arising on amalgamation. It was claimed that the extra consideration was paid towards the reputation which the Amalgamating Company was enjoying in order to retain its existing clientele.
3. The Assessing Officer held that goodwill was not an asset falling under Explanation 3 to Section 32(1) of the Income Tax Act, 1961 ['Act', for short].

We quote hereinbelow Explanation 3 to Section 32(1) of the Act:

"Explanation 3.-- For the purposes of this sub-section, the expressions 'assets' and 'block of assets' shall mean-- [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."

4. Explanation 3 states that the expression 'asset' shall mean an intangible asset, being know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature. A reading the words 'any other business or commercial rights of similar nature' in clause (b) of Explanation 3 indicates that goodwill would fall under the expression 'any other business or commercial right of a similar nature'. The principle of ejusdem generis would strictly apply while interpreting the said expression which finds place in Explanation 3(b).

5. In the circumstances, we are of the view that 'Goodwill' is an asset under Explanation 3(b) to Section 32(1) of the Act.

6. One more aspect needs to be highlighted. In the present case, the Assessing Officer, as a matter of fact, came to the conclusion that no amount was actually paid on account of goodwill. This is a factual finding. The Commissioner of Income Tax (Appeals) ['CIT(A)', for short] has come to the conclusion that the authorised representatives had filed copies of the Orders of the High Court ordering amalgamation of the above two Companies; that the assets and liabilities of M/s. YSN Shares and Securities Private Limited were transferred to the assessee for a consideration; that the difference between the cost of an asset and the amount paid constituted goodwill and that the assessee-Company in the process of amalgamation had acquired a capital right in the form of goodwill because of which the market worth of the assessee-Company stood increased. This finding has also been upheld by Income Tax Appellate Tribunal ['ITAT', for short]. We see no reason to interfere with the factual finding.

7. One more aspect which needs to be mentioned is that, against the decision of ITAT, the Revenue had preferred an appeal to the High Court in which it had raised only the question as to whether goodwill is an asset under Section 32 of the Act. In the circumstances, before the High Court, the Revenue did not file an appeal on the finding of fact referred to hereinabove.

8. For the afore-stated reasons, we answer Question No.[b] also in favour of the assessee.

Question No.[c]:

The last question raised in this civil appeal is regarding cancellation of disallowance of an amount of Rs. 83,02,976/- as a bad debt.

Answer:

It has been stated on behalf of the Revenue that, since the Tax Audit Report indicated the amount to have been incurred on capital account, the assessee was not entitled to deduction on account of bad debt. Both the CIT(A) as well as the ITAT concluded that the assessee has satisfied the provisions of Section 36(1)(vii) of the Act. They have held that bad debt claimed by the assessee was incurred in the normal course of business and, therefore, the assessee was entitled to deduction under Section 36(1)(vii) of the Act. It is well-settled now by a catena of decisions that the manner in which the assessee maintains its accounts is not conclusive for deciding the nature of expenditure.

9. In the present case, the concurrent finding of facts recorded by the authorities below indicate that the assessee was entitled to claim deduction in the course of business under Section 36(1)(vii) of the Act. For the afore-stated reasons, we answer all the three questions in favour of the assessee and against the Revenue. The civil appeal filed by the Department stands dismissed with no order as to costs.

Sunil

*In favour of assessee

Other Information
• In favour of assessee