

BASIS OF CHARGE [SECTION 28]		GENERAL DEDUCTIONS [SECTION 37]	
1	Profits & Gains of any business or profession carried on at any time during the PY. ▪ Capital Receipt → Not Taxable; ▪ Capital Loss → Not Deductible.	1	Not covered in Sec 30 to 36.
2	Compensation for Loss of Office ▪ Termination or Modification of contract relating to Agency in India. ▪ Termination/Modification of T&C of any business/professional contract.	2	Not a capital expenditure [Only revenue expenditure is deductible u/s 37]
3	Export Incentives [Sale of Import entitlements/Duty Drawback/DEPS/DFRC]	3	Incurred during PY.
4	Non-Compete Fees [Taxable u/h PGBP even if they are capital receipts] ▪ For not carrying out any activity in relation to any business or profession ▪ Not to share any know-how, patent, copyright, TM	4	It must have been incurred after the business was set up.
5	FMV of Inventory (SIT) on its conversion into Capital Asset ▪ Income = FMV of Inventory on date of conversion – Purchase Price.	5	Only Business Expenditure [Personal Expenditure → NOT deductible]
6	Benefit arising from Business/Profession (Gift) [Nexus Hona b/w Gift & Business]	6	Legal Purpose only (in & outside India) [Any Penalty → Not Deductible]
	Remuneration received by Partners is taxable in his hands. ▪ only to the extent it is deductible to the firm [Refer Section 40(b)]	►	Note: AO cannot question necessity of expenditure in allowing deduction.
8	Income of Trade/Professional Association from Specific Activities for its Members.	Important Circulars related to Section 37	
9	Maturity Amount of KIP (+ Bonus) → Taxable to Employer if Received by him.	☞ Premium paid on KIP by Employer → Business Expenditure & Deductible. ☞ Expenditure on CSR → Not Business Expenditure & Not Deductible ☞ Expenses on providing freebies to medical practitioner → Not Deductible.	
10	Sum received/receivable on demolition, destruction or transfer of any Capital Asset whole cost of which was allowed as deduction u/s 35AD.	FREQUENTLY ASKED ADJUSTMENTS IN EXAMS	
		▪ Income Tax & Related Payment, Surcharge → Not Deductible. ▪ Indirect Tax & Related Payment → Deductible. ▪ Demurrage paid to authorities for releasing confiscated goods → Deductible ▪ Penalty paid by assessee for non-completion of contract within time → Deductible as it is not a fine paid for infraction of law. [Infraction of contract]. ▪ Expenditure on Advertisement in souvenir/brochure/pamphlet published by Political Party → Not deductible u/h PGBP but deductible u/s 80GGB & 80GGC	

SPECULATION BUSINESS		SPECIFIC DEDUCTIONS [SECTION 30 - 36]			
<div>❖ Meaning: Contract for purchase/sale of any commodity (including stocks & shares) is settled otherwise than by Actual delivery or transfer of the commodity/Scripts [Section 43(5)]</div> <div>❖ Transactions NOT deemed to be speculative transactions:<ul style="list-style-type: none">▪ Hedging Contract i.r.o Raw Materials or Merchandise or Stocks & Shares▪ Forward Contract▪ Trading in Derivatives or Commodity Derivatives</div> <div>❖ Speculation Profits/Losses → Treated Separately from other business or profession since Speculation Business Loss can be set off against Speculative Business Profit only.</div>	1	Rent, Rates, Taxes, Repairs & Insurance for BUILDING (Section 30)			
		Rent	Taxes	Revenue Repairs	Insurance
		Tenant	Check 43B	Done by owner or Tenant	Owner
		💡 No Deduction for Notional Rent is allowed.			
	💡 Subletting of Rented premises → Deduction = Rent paid – Rent recovered.				
	💡 Capital Repairs → Added to COA of building & eligible for depreciation.				
	2	Revenue Repairs & Insurance of Plant, Machinery & Furniture [Sec 31]			
		PC Note: Deduction of Rent of P&M → Allowed u/s 37 & not u/s 31.			
		💡 Capital Repairs → Added to COA of P&M & eligible for depreciation.			

DEPRECIATION (Section 32)

[on BLOCK OF ASSETS & Not on Individual Asset] + Mandatory

CONDITIONS FOR CLAIMING DEPRECIATION

1. **OWNERSHIP** → Part/Full; Registered/Beneficial owner.

PC Note: If Tenant incurs Capital Expenditure on leased/rented building, he will get depreciation on such capital expenditure.

2. **USED BY THE ASSESSEE FOR HIS BUSINESS/PROFESSION DURING PY**

- Active or Passive use. [Ex: Trial run/Generators].
- 2nd PY onwards: Asset used for 1 day in PY → 100% Depreciation (as per ROD)
- 1st PY: If used for < 180 days → Only 50 % of the Allowable Depreciation.

PC Note: Asset acquired in PY but not put to use, 180 days condition is NA for 2nd PY; Thus 100% depreciation will be allowed in Next PY when it is put to use.

"BLOCK OF ASSETS" [Same Class & having Same ROD]

1. Classify assets into (i) Intangible Assets & (ii) Tangible Assets **Except Goodwill**.
2. Group the classified assets in each category separately on the basis of ROD.
3. Assets having same rate of depreciation should be grouped together.

B. STEPS TO CALCULATE DEPRECIATION [V. IMP]

1. **Find Closing WDV of each block for PY.**

Opening WDV as on 1st April of current PY

Add: Cost of Assets purchased during PY (Not GW of business/profession)

Less: Sale Value of assets sold, discarded, demolished or destroyed during PY

Less: Actual cost of the goodwill - amount of depreciation that would have been allowable to the assessee for such goodwill (upto PY 2019-20) as if goodwill was the only asset in the block. **However, such amount of reduction cannot exceed the WDV.**

2. **Bifurcate Closing WDV of each block into two categories:**

- (i) WDV of the assets used for less than 180 days during PY
- (ii) Balance WDV. [It is **not always equal** to WDV of Assets used for > 180 days]

3. **Apply Rate of depreciation** on (i) Assets used for < 180 days. [50% of ROD]
(ii) Balance WDV. [100% of ROD].

PC Note: Letting out of assets is:

- (a) Business of Assessee → Depreciation is allowed u/s 32.
- (b) Not a business → Depreciation is allowed u/s 57(ii).

1. **Building** includes Roads, bridges & tubewells attached to it or forming part of it.
2. **Machinery** → Asset which is directly connected with Production or Manufacture.
3. **Furniture** → Asset used for Convenience & Decoration.
4. **Plant** → Any other Asset Essential to carry out the business.

PC Note

- No Depreciation on **Land & Personal assets** & thus not included in **any block**.
- While calculating Depreciation on Building, Cost of Land is to be Excluded.
- No Depreciation is allowed on Goodwill from PY 2020-21.

ADDITIONAL DEPRECIATION [Sec 32(1)(iia)] → [On New P&M in Factory]

Assessee	(a) Engaged in Manufacturing or Production or (b) Generation, transmission or Distribution of Power
Ineligible Investment	1. Ships & Aircrafts 2. Second-hand P&M (in/out of India) 3. P&M installed in office premises, residential/guest house. 4. Office appliances or Road Transport Vehicles. 5. P&M whose whole of Actual cost has been allowed as deduction.
Rate	20% of Actual cost

Use < 180 days in first PY: 1st PY = Restricted to 50% & Next PY = Remaining 50%.

- ☞ Addition depreciation will be over & above normal depreciation allowed.
- ☞ It should be reduced from WDV of the asset.
- ☞ Printing &/ Publishing = Manufacture & eligible for Additional Depreciation.
- ☞ **No Additional Depreciation on L&B or Old P&M.**

Allowed only in old Tax Regime. Not Allowed in Default (New) Tax Regime.

Space for PC Analysis:

DEPRECIATION ON SLM BASIS [Sec 32(1)(i)]

Assessee	Engaged in Generation, transmission, Distribution of Power .
Time to Exercise	Before DD of Filing ROI u/s 139(1) of PY in which they begin to generate power. The option once exercised shall be Final.
New Assets used for < 180 days	Depreciation is allowable at 50% of ROD ; Remaining 50% will be allowed in next Year.
Sale in 1st Year	Profit/Loss arising shall be treated as STCG/STCL .
Option of SLM → For Tangible Assets only; Intangible Assets → only WDV is applicable. Depreciation can be charged on tangible assets individually ; i.e SLM/WDV (more beneficial)	

TRANSFER OF DEPRECIABLE ASSETS BY POWER SECTOR UNITS

Conditions	Treatment
1. NSC < WDV	Terminal Depreciation (Loss) = WDV - NSC. Deductible u/s 32.
2. COA > NSC > WDV	Balancing Charge (Profit) = NSC - WDV. Taxable u/s 41(2).
3. NSC > COA	<ul style="list-style-type: none"> Balancing Charge (Profit) = Original COA - WDV. Taxable u/s 41(2). Capital Gain = NSC — Original COA.

Class Note:

DETERMINATION OF ACTUAL COST FOR DEPRECIATION [Sec 43(1)]

Cost of Acquisition/Construction of Asset		XXX
Less:		
(i) GST on which ITC is Allowed	(xx)	
(ii) Subsidy/Grant received (Directly/Indirectly)	(xx)	(xx)
Add:		
(i) Interest upto the date on which asset is put to use	xxx	
(ii) Expenses incurred for acquiring Asset	xxx	
(iii) Expenses incurred for Installation of Asset.	xxx	
(iv) FOREX Fluctuations (if asset is imported) [Sec 43A]	xxx	Xxx
ACTUAL COST for computing Depreciation		XXX

PC Note: Any Expenditure for Acquisition of Asset for which aggregate payments made to A Person in A Day, **otherwise than** by A/c Payee Cheque/Draft or ECS > **Rs. 10,000**, such expenditure shall **not be included in COA of such asset**.

Space for PC Note:

Prescribed Electronic modes:

- Credit card, Debit card, Net banking
- RTGS/IMPS/NEFT
- UPI (Unified Payment Interface) & BHIM (Bharat Interface for Money).

SET OFF & CARRY FORWARD OF DEPRECIATION [SECTION 32(2)]

- Can be Carried Forward for Infinite PYs even if business is discontinued.
- Priority for Set-off in subsequent PYs: **(i) PY Depreciation (ii) B/f Business Loss (iii) Unabsorbed Depreciation.**

If assessee is paying tax under default tax regime u/s 115BAC & there is a depreciation i.r.o. a block of asset from an earlier AY attributable to additional depreciation u/s 32(1)(ia), which has not been given full effect to prior to AY 2024-25 & which is not allowed to be set-off in AY 2024-25, corresponding adjustment shall be made to the WDV of such block of assets as on 1.4.2023 in the prescribed manner (i.e. **WDV as on 1.4.2023 will be increased by unabsorbed additional depreciation not allowed to be set-off**).

Space for PC Analysis:

“ACTUAL COST” IN SPECIAL CASES [Explanation to Section 43(1)]

Cases	Actual Cost
Scientific Asset/ 35AD Asset brought into business.	Nil
Conversion of CA into SIT	FMV of CA on date of conversion into SIT
Conversion of SIT into CA & used into Business	FMV of SIT on date of conversion into CA
Acquired by Gift/Will/ Inheritance	WDV to Previous owner .
Second hand asset	If AO is satisfied that main purpose was to reduce Tax Liability by claiming depreciation on enhanced cost, he may, with previous approval of JCIT, determine Actual Cost .
Re-acquisition of Asset used for Business/profession earlier.	(a) WDV at the time of original transfer or (b) Cost of re-acquisition whichever is Lower
Sale & Leaseback	Cost of asset in the hands of Transferee = WDV of asset in the hands of Lessee.
Building which was used for non-business purpose earlier . Note: Applicable for Building only	Actual cost of building – Deemed Depreciation as if building was used for Business. ► Other assets → Recorded @ original COA.
Foreign Asset brought to India by NR & used for his business or profession.	Actual cost – Deemed Depreciation as if asset has been used in India since acquisition.

CASES WHEN NO DEPRECIATION IS ALLOWED & STCG/STCL Arises

- ☞ WDV is Zero but Block is not Empty → No Depreciation & STCG u/s 50(1).
- ☞ Block is empty but WDV is not Zero → No Depreciation & STCL u/s 50(2).

Space for PC Class Note:

EXPENDITURE ON SCIENTIFIC RESEARCH [SECTION 35]

1. SCIENTIFIC RESEARCH CARRIED ON BY ASSESSEE [Related to business]

Revenue Expenditure [Sec 35(1)(i)]		[100 % Deduction]
1 Pre-commencement [Last 3 years only]	(i) Payment of Salary (excluding perquisites) (ii) Purchase of Materials used in research.	
2 Post-commencement	Any Revenue Expenditure	
Capital Expenditure [Sec 35(1)(iv) & 35(2)]		[100 % Deduction]
1 Pre-commencement [Last 3 years]	Any Capital Expenditure (Except Cost of Land).	
2 Post-commencement	Any Capital Expenditure (Except Cost of Land).	

2. CONTRIBUTION TO OUSIDER [Related to Business/Not]

Research	Sec	Contribution to whom	Deduction
Scientific	35 (2AA)	National laboratory, National university, IITs, IIMs	100%
	35 (1)(ii)	Approved Research Association or Approved University/College etc.	100%
	35 (1)(ia)	Indian Company having scientific research as its main business objective.	100%
Social or Statistical	35 (1)(iii)	Approved Research Association or Approved University/College etc.	100%

➡ Deduction cannot be denied just because approval granted was withdrawn.

PC Note:

- Deduction specified in (1) above is available in both new & old scheme.
- However, deductions specified in (2) is available only in old scheme.

INVESTMENT IN SPECIFIED BUSINESS [SEC 35AD] → Old Scheme Only

Specified Business ↓

Cold Chain Facility	Warehouse for Agro. Produce	Warehouse for Sugar
Hotel (2 Star +)	Hospitals (100 Beds)	Production of Fertilizer
Slurry Pipeline	Cross country pipeline	Setting up ICD/CFS
Affordable Housing Project & Slum Redevelopment Project		
Bee-keeping & Production of Honey & Bee wax		
Setting semiconductor Wafer Fabrication Manufacture unit		
Developing/Maintaining/Operating new infrastructure facility.		

Deduction = 100% of Capital Expenditure [Except Land, GW & Fin. Instrument]

Note: Prior Period Expenses → Deductible if CAPITALIZED in books of A/c.

Conditions to claim Deduction u/s 35AD:

☞ Business Not Formed by Splitting/Reconstruction of Existing Business.

☞ Not Formed by Transfer of **Used P&M**. [Used P&M → Allowed upto 20%]

Note: Imported P&M → Treated as New for Sec 35AD.

☞ **Use Asset 'Only for Specified Business' for 8 Years:**

Otherwise **PGBP Income** = Total Deduction Claimed – Deemed Depreciation.

PC Note: Any Expenditure for Acquisition of any Asset for which aggregate payment made to **A Person in A Day**, **otherwise than by A/c Payee Cheque/Draft** or Electronic Medium > **Rs. 10,000** → Not Eligible for Deduction u/s 35AD.

☞ Loss from one specified business u/s 35AD can be set-off against the profit of another specified business only u/s 73A **even if the second specified business is not eligible for deduction u/s 35AD.**

Deductions u/s 35AD is available only in old scheme.

AMORTIZATION OF PRELIMINARY EXPENDITURE [SEC 35D]

Assessee	(a) Indian Company or (b) Other Residents in India.
Eligible Expenditure	(a) In case of New companies → Expenses for setting up any business. (b) In case of Existing companies → Expenses for Expansion of Business. <ul style="list-style-type: none"> ▪ Expenditure on Preparation of feasibility report, Project report, conducting market survey or engineering services. ▪ Legal charges for drafting any agreement related to business. ▪ Legal charges for drafting MOA & AOA of the company. ▪ Printing charges of MOA & AOA of the company. ▪ Registration fees of the company. ▪ Expenditure on public issue of shares/debenture, underwriting commission, brokerage & drafting & advertising prospectus.
Maximum Limit	1. Indian Company: Higher of 5% of [Project Cost or Capital]. 2. Other Assessee: 5% of Cost of Project.
Qualifying Expenditure	Lower of (i) Eligible Expenditure or (ii) Maximum Limit
Deduction	1/5th of the Qualifying expenditure in 5 successive PYs.
Audit	COMPULSORY AUDIT for PYs in which expenditure is incurred.

▪ Cost of Project → Actual cost of Fixed assets [L & B, P & M, F & F etc];

▪ Capital Employed → Issued share capital + Debentures + Long-term borrowings;

AMORTIZATION OF COMPENSATION PAID UNDER VRS (SECTION 35DDA)

Assessee	Any Assessee
Deduction	➤ 1/5th of Expenditure shall be deductible for 5 succeeding PYs . If Paid in Instalments: <ul style="list-style-type: none"> ➤ Each Part Payment of VRS is deductible in 5 Instalments. ➤ 1st Instalment is deductible in the PY in which VRS is Paid.

PC Note: In case of any Business Re-organization → Deduction shall be allowed to resulting company (organisation) for Remaining years.

MISCELLANEOUS DEDUCTIONS [SECTION 36(1)]

INSURANCE PREMIUM PAID ON:

(i) Stocks or stores

(ia) Lives of Cattles owned by members of primary milk co-operative society.

(ib) Health of Employees → Paid by Employer [Any mode other than Cash].

(ii) BONUS OR COMMISSION [Sec 43B will Apply]

- Bonus/commission PAID to the Employees [if not payable as dividend]

(iii) Interest on Capital Borrowed for Business

- Interest for the period **after asset is put to use** → Deductible u/s 36(1)(iii).
- Interest for the period before asset is put to use → Added to COA of Asset.

PC Note:

- Interest on money borrowed for payment of dividends → Deductible.
- Interest on money borrowed for payment of Tax → Not Deductible.
- Interest paid by a firm to partners → Deductible.
- Interest paid by AOP to its members → Not Deductible.

(iii)(a) Amortization of Discount on ZCBs by Issuing Company

- Discount on ZCB – Deductible **over the life of such bond.**

EMPLOYER'S CONTRIBUTION towards

(iv) RPF or Approved SF, if paid as per section 43B [subject to the Limits]

(v) Approved Gratuity Fund if paid as per section 43B.

(iva) Pension scheme to the extent of **10% of salary** of the employee in PY.

EMPLOYEE'S CONTRIBUTION

(va) Employee's contribution towards RPF/SF, if deposited by employer before DD under the respective Act & not DD u/s 139(1).

PC Note: Employee's contribution is **first included** in **total income** of the employer. Deduction is given under this section if sum received is **deposited before due date.**

(vii) BAD DEBTS (EXCLUDING PROVISIONS FOR BAD DEBT)

Conditions:

- Debt must be **charged as income** in computing the income of assessee of any PY
- **Must be written off in books of A/c.**
- Debt may be money lent in ordinary course of banking or money lending business

Second Proviso inserted by FA, 2015:

If whole or part of Debt has been included in the income of PY in which it becomes irrevocable or earlier PYs without recording the same in the books of accounts; such Debt amount shall be allowed in PY in which, it becomes irrevocable and it shall be deemed that such amount has been written off in the accounts.

Other points:

1. In case of succession → Successor can claim deduction of Bad debt when a debt originally due to predecessor is written off as bad debt by successor in his books.
2. **Recovery of Bad debts is taxable u/h PGBP in PY of recovery. [Sec 41(4)]**

(ix) Expenditure on Family Planning → Only for Company.

- **Revenue Expenditure:** Fully allowed in the PY in which it is incurred.
- **Capital Expenditure:** **1/5th of the expenditure allowed in 5 PY's.**

Note: **Treatment of Unabsorbed Expenditure** is same as unabsorbed depreciation.

(xv)	Securities Transaction Tax [STT] paid
(xvi)	Commodity Transaction Tax [CTT] paid

SPECIFIC DISALLOWANCES

ANY PAYMENT TO NON-RESIDENT [SECTION 40(a)(I)]	
Conditions for Disallowance	(i) Tax is not deducted before the end of PY OR (ii) Tax is deducted but not paid before DD of filing ROI u/s 139(1).
Consequences	100 % of such amount paid/payable is disallowed in that PY .
Deduction or Payment in Subsequent PY	(i) Where tax has been deducted in any subsequent PY OR (ii) has been deducted during PY but paid after DD; then 100% of such sum shall be allowed as deduction in PY in which such tax has been paid .
Payment of Tax by Payee of such sum [Section 201]	<ul style="list-style-type: none"> If Tax on such income has been paid by the payee of such income by showing such sum as his income in his ROI, then it shall be deemed that Assessee has deducted & paid tax & No disallowance shall be attracted under this section. Deemed Date of TDS & Payment of tax by the payer → Date of filing ROI by the payee.
PC Note: Since date of filing ROI by the payee is deemed to be date on which payer has deducted & paid tax → 30% shall be disallowed u/s 40(a)(i) in the year in which said expenditure is incurred. However, such 30% will be allowed as deduction in subsequent year in which ROI is filed by the payee.	
PC Note: (1) Deduct Tax in PY & (2) Pay before DD; Otherwise disallowed.	
PAYMENTS TO RESIDENT [SECTION 40(a)(ia)]	
Conditions for Disallowance	(i) Tax is not deducted before the end of PY. OR (ii) Tax is deducted but not paid before DD of filing ROI u/s 139(1).
Consequences	30% of such amount paid/payable is disallowed in that PY .
Deduction or Payment in Subsequent PY	(i) Where tax has been deducted in any subsequent PY OR (ii) has been deducted during PY but paid after DD; then 30% of such sum shall be allowed as deduction in the PY in which such tax has been paid .
Payment of Tax by the Payee of such sum [Sec 201] – Same as Sec 40(a)(i)	

INCOME TAX → NOT DEDUCTIBLE – Sec 40(a)(ii)	
SALARY PAID TO NR [SECTION 40(a)(iii)]	
<ul style="list-style-type: none"> on which tax has been <u>neither deducted</u> before the end of PY <u>nor paid</u> before DD of filing ROI u/s 139(1) → Not allowed as deduction. 	
TAX PAID BY EMPLOYER ON NON-MONETARY PERQUISITES [Sec 40(a)(v)]	
<ul style="list-style-type: none"> Not Deductible to Employer. Exempt in the hands of employee – [Sec 10(10CC)] 	
DISALLOWANCE FOR PARTNERSHIP FIRM/LLP [SECTION 40(b)]	
A. REMUNERATION TO PARTNERS [By whatever name]	
Following payments to partners are disallowed to Partnership firm:	
1. Remuneration to Non- Working Partner. 2. Remuneration to Working Partner if: <ul style="list-style-type: none"> (a) Not Authorized by Partnership deed. (b) Not in Accordance with T&C of partnership deed. (c) For the period prior to the date of agreement. (d) Exceeding the limit given below ↓ 	
Book Profit	Amount of Remuneration
Upto Rs. 3 Lacs of Book Profit or Book Loss	(i) Rs 1.5 Lacs or (ii) 90% of Book Profit [Higher]
Balance of Book Profit [Above 3L]	60% of Book Profit
B. INTEREST PAID TO PARTNERS	
Interest paid to partners is disallowed in following cases:	
(a) Not Authorized by Partnership deed; (b) Rate Exceeding 12% p.a. (c) For the period prior to the date of Partnership Deed.	
Note: Remuneration Paid by AOP/BOI to its Members [Sec 40(ba)] → Not Deductible	

Section 40A(2): EXCESSIVE PAYMENT TO RELATIVES → Excess Payment is not Allowed as deduction.

PAYMENT IN CASH [OTHER THAN A/C PAYEE CHEQUE ETC] [SEC 40A (3)]

1. A Payment or **Aggregate of Payments** made to **A Person** in **A Day** for **An Expenditure exceeds Rs. 10,000** [35,000 for Transport/Goods Carriage Business]
2. Payment is made **otherwise than by A/c payee cheque/draft/Electronic Medium**. **NO DEDUCTION** shall be allowed for such whole expenditure.

Exceptions: [In following cases, NO Disallowance even if amount paid > Rs. 10,000]

Payment made to Banks , LIC etc.	Payment made to Government
Payment through Banking System .	Payment by Book Adjustments .
Payments made to Cultivator, Grower or producer of agricultural & related product	Payments made to producer of goods of cottage industry without the aid of power.
Payment @ place not served by bank .	Any Terminal benefits ≤ Rs. 50,000.
Payment on a day when banks are closed	Payment to Employees on temporary posting for more than continuous period of 15 days if such payment is made after TDS & employee does not have bank A/c at such place.
Payments made by any person to his commission agent	
Payment made by Authorized Dealer or Money changer	

PC Note:

- If Expenditure has been allowed as deduction in any earlier PY on accrual basis (if assessee is following accrual basis) & payment for such expenditure has been made in any subsequent PY exceeding Rs. 10,000/35,000 in cash to a person in a day, then such payment shall be deemed to be the income of PY in which payment is made.
- Section 40A(3) does not apply for Repayment of Loans. But it applies to interest payments since interest is a deductible expenditure.
- **Payment made by commission agents** for goods received by them for sale on commission basis (such payment is not a deductible expenditure in computing taxable income of commission agent).

➡ **Provision for payment of unapproved gratuity 'Not yet due' → Not Deductible** [Section 40A(7)]

➡ **Contribution by Employer to URPF → Not Deductible** [Sec 40A(9)]

EXPENDITURES DEDUCTIBLE ON PAYMENT BASIS ONLY [SEC 43B]

Following Expenses (which are deductible in normal circumstances) are **deductible in relevant PY only** if they are **paid before due date of filing ROI** of such PY u/s 139(1).

1. **Tax, Duty, Cess or Fee** (by whatever name called) levied under any law.
2. **Employer's Contribution to any PF/SF/Gratuity Fund** or any recognized fund.
3. **Bonus/Commission to employees.**
4. **Interest** on any Loan or borrowing from any PFI/SFC/SIIC/Bank.
5. **Interest on any Loan or borrowing from notified class of NBFCs.**
6. **Leave Salary**
7. Any **Sum Payable to Indian Railways** for use of Railways Assets.
8. **Sum payable to a MICRO or SMALL Enterprise beyond time-limit specified in section 15 of MSME Development Act, 2006.**

Sec 15 of MSME Development Act, 2006: Due Date of Payment

- If there is a written agreement: Date agreed upon (Max. 45 Days)
- If no written agreement: Within 15 days of acceptance of goods.

PC Analysis:

- If paid as per section 15 → **Deduction on accrual basis.**
- If not paid as per section 15 → **Deduction in PY of payment.**

PC Note: Conversion of unpaid interest into Fresh Loan by Bank /FI → Not deemed to be paid & thus no deduction shall be allowed.

❖ **Issue of debentures for unpaid interest → Not deemed as paid & thus no deduction.**

ADJUSTMENT IN COA OF ASSET DUE TO CHANGE IN FOREX RATE [SEC 43A]

- If any business asset is acquired or loan is taken in **Foreign Currency**;
- At the time of payment, there is a change in foreign exchange rates;
- Such Difference [**Increase/decrease in liability**] shall be adjusted in COA of Asset

PC Note: Consider Profit/loss only on amount actually paid during PY & Ignore loss/profit on outstanding amount.

FVC IN CASE OF TRANSFER OF L&B HELD AS SIT [Section 43CA] → To be Studied with Section 50C u/h 'Capital Gains'.

COMPULSORY MAINTENANCE OF BOOKS OF A/C [Section 44AA]

DEEMED PROFIT & THEIR TREATMENT [Section 41]

A. SPECIFIED PROFESSIONS

GR > 1,50,000 in All of the Last 3 PY	Books prescribed u/r 6F
GR ≤ 1,50,000 in Any of the last 3 PY	Books of A/c which will enable AO to compute taxable income.

Specified Professionals: Legal, Medical, Engineering, Architectural, Accountancy, Technical consultancy or Interior Decoration etc.

B. FOLLOWING PERSON WILL BE REQUIRED TO MAINTAIN SUCH BOOKS OF A/C WHICH WILL ENABLE AO TO COMPUTE THEIR TAXABLE INCOME

- INDIVIDUAL/HUF** carrying Non-Specified Business or Profession:
 - Income > 2.5 Lac **OR** Sale, T/O or GR > 25 Lac in ANY ONE of last 3 PY.
- Other than Ind/HUF** carrying Non-Specified Business or Profession:
 - Income > 1.2 Lac **OR** Sales, T/O or GR > 10 Lac in ANY ONE of last 3 PY.
- Person showing **lower Income** than computed on Presumptive basis u/s 44AE.

☞ Minimum period of Maintenance of books of A/Cs = **6 years** from the end of AY.

☞ **Penalty for failure to maintain books of A/c [Section 271A] = Rs. 25,000.**

- Refund/Recovery against any Deduction or Remission/Cessation of Trading Liability.
- Balancing Charge – Refer Depreciation in Case of “Power-Generating Undertakings”.
- Sale of Scientific Research Asset**
 - Taxable Amount = **Lower of**
 - Sale Price + Deduction u/s 35 – Capital Expenditure
 - Deduction Allowed
 - Year of Taxability: PY of Transfer/Sale.
- Recovery of Bad Debt** Allowed as deduction → Taxable in PY of **Recovery**.
- Adjustment of Loss of Discontinued Business incurred in PY of Discontinuance**
 - Generally, loss from business cannot be c/f after **8 years**.
 - If loss of discontinued business cannot be set off against any other income in the year of discontinuation; **AND**
 - After discontinuation of business, there is a receipt which is deemed as business income u/s 41(1)/(3)/(4);
 - Unabsorbed loss of PY of Discontinuance** only (not earlier years) **can be set off against any deemed income u/s 41(1), (3), (4), (4A);**
 - Even if no ROL is filed within time u/s 139(1).

AUDIT OF BOOKS OF ACCOUNTS [SECTION 44AB]

[Penalty = Lower of (a) 0.5% of Turnover in PY or (b) Rs. 1,50,000]

Taxpayer	Circumstances when audit is compulsory before specified date [i.e 1 month prior to the due date for filing ROI u/s 139(1)]
(a) Business Person	<ul style="list-style-type: none"> If TO, GR for PY > Rs. 1 Crore. [** Section 44AB does not apply to a person who declared profit u/s 44AD on presumptive basis] Limit of Audit increased from Rs. 1 Cr to 10 Cr subject to following conditions: <ul style="list-style-type: none"> Total Cash receipts in PY < 5% of total receipts (including receipt for sales, turnover, gross receipts); & Total Cash payments in PY < 5% of total payments (including amount incurred for expenditure). If Turnover for the PY < Rs. 1 crore but such resident assessee claims that his income is LOWER than income computed on Presumptive basis u/s 44AD & his Income > BEL in PY → Audit is compulsory. If Total turnover ≤ Rs. 2 crores & assessee has opted for section 44AD in any earlier PY (say, PY 2022-23) or Assessee whose Total Cash Receipts in relevant PY ≤ 5% of Total turnover & Turnover ≤ Rs. 3 Crores & who has opted for section 44AD in any earlier PY (say, PY 2022-23) → If he declares profit for any of 5 successive PYs not in accordance with section 44AD (i.e., he declares profits lower than 8% or 6%), then, he cannot opt for section 44AD for 5 successive PYs after the year of such default (i.e., from PY 2024-25 to PY 2028-29). For the year of default (i.e., PY 2023-24) & next 5 PYs (i.e., PY 2024-25 to PY 2028-29), he has to maintain books of account u/s 44AA and get them audited u/s 44AB, if his income > BEL.

(b)	Professionals	If Gross Receipt for PY > Rs. 50 Lacs. PC Note: If Gross Receipts for the PY < Rs. 50 Lacs OR Assessee whose Total Cash receipts in relevant PY < 5% of Total receipts & whole Gross Receipts < Rs. 75 Lacs but such resident assessee claims that his income is LOWER than income computed on Presumptive basis u/s 44ADA & his Income > BEL in PY → Audit is compulsory.
(c)	44AE Assessee	If such person claims that his income is LOWER than income computed on Presumptive basis u/s 44AE.

PRESUMPTIVE SCHEME OF TAXATION

Particulars	Sec 44 AD → Business	Sec 44ADA → Profession	Sec 44AE → Transport Business
Eligible Assessee	<ul style="list-style-type: none"> ▪ Resident Individual/HUF/Partnership Firm (No LLP) & ▪ Engaged in Any Business (other than Negative Listed). ▪ Turnover ≤ Rs. 2 Crores in the PY. ▪ Limit = 3 Crores if Total Cash Receipts in the PY ≤ 5% of total turnover. 	<ul style="list-style-type: none"> ▪ Resident Individual/HUF/ Firm (No LLP) ▪ Specified Professional u/s 44AA. ▪ Gross Receipt ≤ Rs. 50 Lacs. ▪ Limit = 75 Lacs if Total Cash Receipts in the PY ≤ 5% of total turnover. 	<ul style="list-style-type: none"> ▪ Persons carrying on business of plying, hiring, & leasing goods carriages & ▪ not owning more than 10 Goods Carriages at any time during the PY.
Income	Income = 8% of Turnover. However, Income = 6% of Turnover or Gross Receipt for amount received by A/c Payee cheque/draft/Electronic Medium during PY or before DD of Filing ROI u/s 139(1).	Income = 50% of Gross Receipt	1. Heavy Vehicle (> 12,000 Kgs) → Rs. 1,000 per ton per month or part of it. 2. Other than Heavy Vehicle → Rs. 7,500 per month or part of it. only for the period during which vehicle is owned by Assessee in PY.
Deduction	No Deduction u/s 30 - 38 shall be available. However, Salary & Interest paid by Firm to Partner → Deductible u/s 44AE only.		
Audit & Books of A/c	Not required.		
VI-A Deductions	Deduction u/s 80C to 80U shall be available to the Assessee.		
Advance Tax	Pay 100% Advance Tax in 1 instalment on/before 15th March. (Except 44AE) [Section 44AE walo ko 4 instalments me hi bharna padega]		
Depreciation	For subsequent PY (after becoming ineligible for presumptive scheme) → WDV shall be computed, as if Depreciation had been allowed in earlier year.		
Option to Pay Higher	Yes. Available in all cases.		
Option to Pay Less	Yes. But (i) He will have to maintain books of accounts & (ii) If declared income > BEL, he will have to get his books of accounts Audited.		

Section 44AD(4): If assessee declares profit for any PY as per 44AD & he does NOT declare profit as per section 44AD(1) **for any of the next 5 consecutive PY**, he **becomes ineligible** to claim the **benefit of presumptive income** as per AD(1) for next 5 AYs subsequent to PY in which profit has not been declared as per 44 AD.