

ON STCG @ 15% →  $\frac{15,000}{2,00,000}$

II. Listed Securities [Bonds, Govt. Securities]

Shares, EoMF, UTI units, Zero coupon Bonds.

LTCG: 10% without indexation OR  
20% with indexation + SC + cess, whichever  
is lower.

STCG: Normal Slabs.

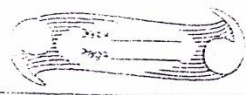
INCOME FROM PROFITS OR GAINS  
FROM BUSINESS OR PROFESSION

Business :- Trading, Manufacturing, Commerce or  
adventure or concern in the nature of trade, commerce  
or manufacture.

Imp :-

Dist-  
inction } Commercial Profits :- As per books of a/c or P&L A/c  
Taxable Profits

P&L A/c.			
Opening Stock	1,00,000	Sales	7,00,00
Purchases	12,00,000	Interest	2,00,00
Exp 1	50,000	Closing stock	6,00,00
Exp 2	25,000		
Depreciation	120,000		
Profit	5000		
	15,00,000		15,00,000



Sec. 10(32) - Income of Minor.

Exempt - Earning by minor's manual work. (work & ec)

Eg :: Painter  
Actor

Exemption (For parent) Rs. 1500 per child  
[No restriction on no. of children]

	Dividends	Capital Gains
Shares	10(34)	10(38) - STI Paid
Mutual Funds	10(35)	10(38) - EoMF
UTI	10(35)	10(33)

Sec. 10(15) - Interest.

Interest on Post office Saving Bank A/c.

For Single holder → 3500/-

For Joint A/c holder → 7000/-

Profits as per P&L A/c.

5000

ADD: Expenses debited to P&L but not allowable as a deduction for tax.

ADD: Incomes not credited to P&L but taxable under IT.

LESS: Expenses not debited to P&L but allowable as a deduction under IT.

LESS: Incomes credited but not taxable.

Sec. 30 :- Rent, Rates and Taxes, Repairs and Insurance  
- Buildings

Repairs : Revenue exp. → Permitted  
Capital exp. → Not permitted

Sec. 31 Repairs & Insurance - Plant & Machinery.

Sec. 32 : Depreciation

- on specified assets.

- on WDV on a block of assets.

\* block → group of assets that are entitled to same rate of depreciation.

- At the prescribed rates.

- Owned by assessee, used by assessee.

In case of Leasing of asset, the lessor gets the benefit of depreciation as he has used the asset as a leasing business.



- Compulsory
- Revaluation of Assets → ignore.
- No depreciation on Land.
- Used for 180 days or more - Prescribed Rate.  
Less than 180 days -  $\frac{1}{2}$  of prescribed Rate.

Eg: 1) on 1/4/14, WDV of block of assets [Rate of Depr - 15% is 80,000/-]. It consists of Plant A and B. Assessee purchase an old plant C same rate of depreciation during previous year 2014-15 for Rs. 30,000/- and sells plant A on May 3, 2014 for Rs. 1,80,000/- . Compute depreciation for AY 2015-16.

Sol: -

Opening WDV (2)	80,000
Add Purchase Plant C (1)	30,000
	<hr/>
	1,10,000
Less: Sale Plant A (1)	1,80,000
∴ S.T.C &	<hr/> (70,000)

2) X. Ltd owns 2 plants A & B on 1/4/14, WDV is 2,37,000 @ 15%. Plant C purchased on 31/5/14 for Rs. 20,000. Plant A sold on 10/4/14 for Rs. 10,000. Plant B sold on 23/12/14 for Rs. 15,000. and plant C sold on 1/3/15 for 24,000/- . Compute depreciation for 2015-16.

Sol: -

Opening WDV (2)	2,37,000
Add: Purchase plant (C) (1)	20,000
	<hr/> 2,57,000

Less: Sale of A	10,000
B	15,000
C	24,000
	<u>49,000</u>

S.T.C.L.

2,08,000

∴ No assets, no depreciation.

— Goodwill is a commercial assets and therefore depreciable.

3) Opening WDV	Plant A & B	2,37,000
Purchase C	1/12/14	20,000
Sell A	10/6/14	10,000
- " - B	22/12/14	15,000

Sol: Opening WDV	2,37,000
Add: Purchase	20,000
	<u>2,57,000</u>
Less: Sell (A & B)	25,000
	<u>2,32,000</u>

2,32,000 [ WDV 2,12,000 @ 15%  
Purchase - 20,000 @ 7.5%

Additional Depreciation :-

- Manufacturing co.
- NEW Plant & Machinery
- Rate @ 20% (more than 180 days) or 10% [<180 days]

- Only for 1<sup>st</sup> year of use.

(35)

Lec # 8

DATE: 11/08/2015.

Amounts allowable on Deductions:

Sec. 30 → Rent, Rates and Taxes, Repairs & Insurance for Buildings.

Sec. 31 → Repairs & Insurance → Plant & Machinery.

Sec. 32 → Depreciation.

Sec. 35 → R & D Expenses.

Sec. 35 D → Preliminary Expenses

Sec. 36 → Insurance

Bonus or Commission

Interest

Discount on Zero Coupon Bonds

Contribution to RPF / Pension Scheme / Superannuation Funds

Contribution to Gratuity Funds

Contribution of Employees

Animals

Bad Debts

Expenses on Family Planning

Security Transaction Taxes [STT]

Sec. 37

Residuary Expenses

Section: 35 → R & D Expenses

Weighted Deductions:

	Related / Unrelated	%	Other Rules
1. Inhouse Revenue	Related	100%	Salary, Raw materials.
2. Inhouse Capital [excl. Land]	Related	100%	Capital.



3.	Contribution to approved Scientific Research Institution, university, college.	Related / UnRelated	175%	
4.	Contribution to Indian Co. [Approved]	Related / UnRelated	125%	
5.	Contribution to approved Social or Statistical Research	Related / UnRelated	125% / <del>200%</del>	Approved Programme
6.	National Lab. IIT University	-11-	200%	Approved Programme
7.	Inhouse - Specific Research		200%	

Preliminary Expenses: In 5 installments in commencement of business.

Non Corporate Entity  $\rightarrow$  5% of cost of capital  
 Corporate Entity  $\rightarrow$  5% of cost of capital or  
 5% of cost of capital employed.

Zero Coupon Bonds:

Eg:- F.V  $\rightarrow$  100  
 Issue Price  $\rightarrow$  80  
 $\therefore$  Discount = Rs. 20.

If issued for 5 years, then deduction of Rs. 4 for every ~~2~~ years.

Sec. 36 → Pension Scheme.

Upto 10% of employee's salary { Basic + DA }

Eg: Total salary = 10,00,000

Company's contribution to pension scheme = 1,20,000

Here, 20,000 is disallowed.

Eg:-

Opening Stock	100	Sales	500
Pension	120	Closing Stock	200
Profit	480		
	700		700

Salary = 10,00,000/-

⇒ Profits as per P & L

Add: Pension in Excess of  
10% of Salary

480

20

500.

Bad Debts:

Provision or Reserve for Doubtful Debts → Always disallowed { Add Back }

Bad Debts → Allowable → No Adjustments

Conditions: i) Written off as Bad Debts.

ii) Offered to tax in earlier year.

Sec. 37. → Residuary Expenses

Eg: Travel, Transport, Power, Printing, Stationery etc

→ Should not be a capital expenditure.

→ " " " " personal "

→ " " " " covered u/s 30 - 36.



### Amounts not allowable as deductions:-

- 1) Sec. 37 (2B) → Political Advertisement
- 2) Sec. 38 → PLM, Bldg. partly used for business  
Eg: Bldg. → 10,00,000  
1/4 → Personal. Rate of depreciation → 10%  
∴ Depreciation = 1,00,000  
∴ 25000 = Personal and 75000 = Business
- 3) Sec. 40 (a) (i) → Payments to Non-Residents - TDS.  
Any sum other than salary
- 4) Sec. 40 (a) (ia) → Payments to Residents - TDS
- 5) Sec. 40 (a) (ii) → Income Tax  
Provision to Income Tax → disallowed.
- 6) Sec. 40 (a) (iia) → Wealth Tax
- 7) Sec. 40 (a) (iii) → Salaries - TDS.
- 8) Sec. 40 A (2) → Related parties.
- 9) Sec. 40 A (3) → Cash Payments  
→ Any payments of more than 20,000/- in cash  
or Bearer's cheque or crossed cheque → Entire Amount  
Disallowed.
- 10) Sec. 40 A (7) → Provisions for Gratuity.
- 11) Sec. 40 A (9) → Employee Funds.



Lec # 9      DATE: 01/03/2015.

Interest Before Business Setup → Add to cost of Asset  
After → Allowable as Deduction  
Before Expansion → Add to cost of Asset

TDS:-

P.Y → 2014-15

Royalty → 1,00,000.

TDS Deducted → 25,000.

Date of deduction → 30/05/2014

Due date of payment to Govt → 07/06/2014.

Paid on → 31/05/2015.

Due date for P.Y. 2014-2015 → 30/09/2015.

∴ Deduction Allowed.

Suppose paid on 31/10/2015; the entire amount i.e. 1,00,000 will be disallowed and added back; the same will be allowed next year.

Sec. 40(a) (i) → 30% disallowance.

If the deductee pays the tax, then no disallowance.

Sec. 40(a) (ii) → Tax Paid → Allowed.

Provision → Disallowed.

Tax Refund → Not Taxable.

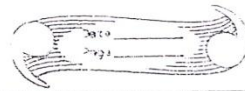
Interest Paid → Disallowed

Recd → - " - {Taxable}.

Imp Sec. 43(B) :-

① Tax, cess, duty, fee.

② Contribution to P.F. / Superannuation / Pension / Gratuity funds.



- ③ Bonus.
- ④ Interest to Scheduled Banks / Financial Institutions.
- ⑤ Leave Encashment. - Allowable as a deduction only on payments.

LEC # 10      DATE: 08/09/2015.

1) Illustration : 10 [Textbook Pg. No. 8-24]

Sol:-

	Amt.	Amt.	Amt.
Profits as per P&L A/c.			41600
<u>Add:</u>			
Expense of Trade Mark		15000	
Rent for Residence		3000	
Household Expenses		14500	
Income Tax u/s 40a(ii)		4800	
Postage Exp. for personal use		500	
Charity and Donations		11400	
Purchase of Machinery		15000	
Interest on Loan from Bank u/s 43(B)		10000	
Life Insurance Premium		6000	
R.D.D.		7000	
Interest on capital		<u>2500</u>	<u>89700</u>
			1,31,300
<u>Less:</u>			
Depreciation on Plant & machinery	2250		
Depreciation on Trade Mark	<u>1125</u>	3375	
[u/s 32]			

(21)



Income Tax Refund u/s 40(a)(ii)	4500	7875
Profits or Gains from Business or Profession		1,23,42

Working Notes :-

- 1) Expenditure on Trademark cannot be allowed u/s 37, since it is a capital expenditure.
- 2) Depreciation on Machinery will be charged at half the depreciation rate given, since the asset was used for less than 180 days i.e. 7.5% of 15,000.
- 3) Interest on loan from bank will be disallowed u/s 43B as it is unpaid.
- 4) Income Tax Refund is not taxable, but interest on same is not allowable.
- 5) Rent for Residence, Household Expenses, Postage for personal use, Life Insurance Premium are not allowable since these are personal expenses.

2) Illustration : 12 [Textbook pg. No :- 8-27]

	Amt.	Amt.	Amt.
Profits as per P&L			23945
<u>Add :-</u>			
Reserve for doubtful debts		2000	
Interest on capital		2000	
Income Tax u/s 40 a (ii)		5000	
Sales Tax not paid u/s 43 (B)		500	
Drawings		12000	

Car Expenses		1100	
Contribution to Scientific Research		7500	
Gen. Expenses			
a) Charity	500		
b) Furniture	500	1000	
Depreciation on car $\frac{1}{5}$ of personal use and therefore disallowed		400	31500
			270950
<u>Less :-</u>			
Contribution to Scientific Research		9375	
Bad Debts Recovered		1000	10375
Profits/Gains from Business or Profession			<u>260575</u>

### Working Notes :-

- 1) Unpaid Sales Tax - Rs. 500 disallowed u/s 43(B).
- 2) Motor car:  $\frac{1}{5}$  is for personal use.  
 $\therefore \frac{1}{5}$  of 5500 is chargeable to tax.  
 Also,  $\frac{1}{5}$  of depreciation is disallowed.  
 $\therefore \frac{1}{5}$  of 2000 = 400 Rs  $\rightarrow$  disallowed.
- 3) Gen. Expenses: Charity  $\rightarrow$  Personal Exp  $\rightarrow$  Disallowed.  
 Furniture  $\rightarrow$  Capital Expenditure  $\rightarrow$  Disallowed.

### Imp Note

If in 1<sup>st</sup> year, RDD was a part of P&L, then it is to be added back { since Reserves are disallowed }

and in 2<sup>nd</sup> year, money was recovered and was shown in P&L. you need to not pay tax because it has already been offered to tax in 1<sup>st</sup> year.  
: Less: Bad Debts Recovered.

2) In 1<sup>st</sup> year → Bad Debts written off → Allowable and therefore no adjustments.

In 2<sup>nd</sup> year, it is paid and entered in P&L : No adjustments

If not in P&L, then adjustment required.

3) Illustration: 13 {Textbook Pg. No: 8-28}

	Amt.	Amt.	Amt
Profits as per P & L			15515
Add :-			
Salary to self		24000	
Reserve for discounts		12000	
Rent paid in cash %s 40A(3)		30000	
Income Tax %s 40 a(ii)		6000	
Loss on sale of furniture		1250	
Interest on capital		4500	
Depreciation		4000	8175
			23690
Less:			
Depreciation Allowable		32500	
Dividends		14000	46500
Profits/Gains from Business/ profession.			190400



Page No. \_\_\_\_\_  
Date \_\_\_\_\_

### Working Notes :-

1) Depreciation on plant of Rs. 15000 is allowable @  $\frac{1}{2}$  of 100% since it was used for less than 180 days

on 20000 @ 100%	20,000
on 15000 @ 50%	7,500
on other assets	5000
	<u>32,500.</u>

2) Loss on sale of furniture is not a revenue expenditure.

3) Rent paid in cash is disallowable u/s 40A(3):- Any expenditure incurred and in respect of which payment is made of a sum exceeding Rs. 20,000 by not by A/c payee cheque, is said to be disallowed as a deduction.

4) Dividends to be considered separately as it is not a business income.

5) Bank OD is not allowable u/s 43(B), but is paid before filing the returns.

4) Illustration : 15 { Textbook Page : 8-30 }

	Amt	Amt	Amt.
Profits as per P & L			1,71,00
<u>Add :-</u>			
Salary to Driver { $\frac{1}{4}$ of 2,500 }		625	
Rent { $\frac{1}{2}$ for Residence }		8000	
Motor car Expenses { $\frac{1}{4}$ of 8000 }		2000	
Medical Expenses [ Note . 2 ]		6000	
Wealth Tax Paid u/s 40 a (ii a)		2000	
Depreciation on Motor car		6000	
Advance Income Tax Sec. 40 a (ii)		1000	25625
<u>Less :</u>			
Gift from father		10000	
Profit on sale of old motor car		17000	
Income Tax Refund		3000	
Depreciation [ Note . 3 ]		15450	45450
Income from Business or Profession			<u>15117</u>

Working Notes :-

1) Salary to driver per annum =  $250 \times 10 = 2500$   
 but  $\frac{1}{4}$  of car expenses is for personal use  $\therefore$  625/-  
 is not allowable and to be added back.

2) Medical expenses is a personal expense though it may benefit business is not allowable.

3) Calculation of depreciation:-

	Opening NDR	50,000
Add:	Purchase of New car on 1-10-2014	120,000
		<hr/>
		1,70,000
Less:	Sale of old car	50,000
	Profits	<hr/>
		17,000
		<hr/>
		67,000

$\therefore$  Total  $\rightarrow$  (~~17,000~~ 1,70,000 - 67,000) = 1,03,000

Depreciation @ 20% of 1,03,000 = 20,600

Less:	$\frac{1}{4}$ is personal	<hr/>
		5,150
	$\therefore$ Allowable depreciation $\rightarrow$	<hr/>
		15,450