

UNIT – 3: PROFITS AND GAINS OF BUSINESS OR PROFESSION

LEARNING OUTCOMES

After studying this unit, you would be able to-

- ◆ **comprehend** the meaning of “business” and “profession” and the scope of income chargeable to tax under this head;
- ◆ **comprehend** the meaning of speculative transaction and the tax treatment of loss incurred in speculation business;
- ◆ **identify** the expenditures/payments which are admissible as deduction, **comprehend** the conditions to be satisfied to avail such deductions, the limits, if any, specified in respect thereof;
- ◆ **compute** the deductions available while computing business income applying the relevant provisions under default tax regime under section 202(1);
- ◆ **compute** the deductions available while computing business income applying the relevant provisions under normal provisions of the Act;
- ◆ **identify** the expenditures/payments which are not admissible as deduction;
- ◆ **identify** the deductions allowable only on actual payment;
- ◆ **examine** when certain receipts are deemed to be income chargeable to tax under this head;
- ◆ **identify** the assessee who is required to compulsorily maintain books of account and get them audited;
- ◆ **apply** the presumptive tax provisions under the Act to compute income from eligible business or profession;
- ◆ **compute** the business income by applying the charging and deeming provisions and allowing permissible deductions;
- ◆ **compute** the business income in cases where income is partly agricultural and partly business in nature.

Proforma for computation of income under the head "Profits and gains of business or profession" under default tax regime under section 202(1)

Particulars		Amount (₹)	Amount (₹)
Net profit as per statement of profit and loss			A
Add:	Expenses debited to statement of profit and loss but not allowable		
◆	Depreciation as per books of account	xxx	
◆	Income-tax [disallowed u/s 35(a)(i)]	xxx	
◆	30% of sum payable to residents on which tax is not deducted at source or has not been paid upto the due date specified u/s 263(1), after deduction, disallowed under section 35(b)(i) [The same is allowable in the year in which the tax is deducted and remitted]	xxx	
◆	Any expenditure incurred, in respect of which payment is made for goods, services or facilities to a related person, to the extent the same is excessive or unreasonable, in the opinion of the A.O, having regard to its FMV [disallowed u/s 36(2)]	xxx	
◆	Any expenditure incurred in respect of which payment or aggregate of payments to a person exceeding ₹ 10,000 in a single day is made not through specified banking or online mode [disallowed u/s 36(4)]	xxx	
◆	Certain sums payable by the assessee which have not been paid during the relevant T.Y. in which the liability was incurred on or before the due date of filing of return u/s 263(1) in respect of that T.Y. [disallowed u/s 37]	xxx	
◆	Sum payable by the assessee to a micro or small enterprise beyond the time limit specified in section 15 of MSME Development Act, 2006 [disallowed u/s 37]	xxx	
◆	Personal expenses [not allowable as per section 34]	xxx	
◆	Capital expenditure [not allowable as per section 34]	xxx	

◆ Repairs of capital nature [not allowable as per Sections 28]	xxx	
◆ Amortization of preliminary expenditure u/s 44/ expenditure incurred under voluntary retirement scheme under section 52(1) (Table: Sl. No. 2) [4/5th of such expenditure to be added back]	xxx	
◆ Family planning expenses not allowable in the case of a person other than a company	xxx	
◆ Fine or penalty paid for infringement or breach of law [However, penalty in the nature of damages for delay in completion of a contract, being compensatory in nature, is allowable]	xxx	
◆ All expenses related to income which is not taxable under this head e.g. municipal taxes in respect of residential house property	xxx	
◆ Any sum paid by the assessee as an employer by way of contribution to pension scheme u/s 124 exceeding 14% of the salary of the employee	xxx	B
(A + B)		C
Less: Expenditure allowable as deduction but not debited to statement of profit and loss		
◆ Depreciation computed as per Rule 25 of Income-tax Rules, 2026	xxx	
◆ 30% of expenditure disallowed in an earlier T.Y. due to non-deduction of tax at source/ non-remittance upto due date specified u/s 263(1) of that year, allowed this year on remittance (This item of adjustment is generally given under "Additional information" in the question)	xxx	
◆ Amount disallowed in an earlier T.Y. as per section 37, due to non-payment on or before the due date u/s 263(1), allowed as deduction in this year on actual payment (This item of adjustment is generally given under "Additional information" in the question)	xxx	D
(C - D)		E

Less:	Income credited in statement of profit and loss but not taxable/taxable under any other head		
◆	Dividend income	xxx	
◆	Agricultural income exempt under schedule II (Table: Sl. No. 1)	xxx	
◆	Interest on securities/savings bank account/FD taxable under the head "Income from other sources"	xxx	
◆	Profit on sale of capital asset taxable under the head "Capital Gains"	xxx	
◆	Rent from house property taxable under the head "Income from house property"	xxx	
◆	Winnings from lotteries, horse races, games etc. taxable under the head "Income from other sources"	xxx	
◆	Gifts exempt or taxable under the head "Income from other sources"	xxx	
◆	Income-tax refund not taxable	xxx	
◆	Interest on income-tax refund taxable under the head "Income from other sources"	xxx	F
	(E - F)		G
Add:	Income chargeable under this head/ Deemed Income [If the same is given as additional information and has not already been credited to Statement of Profit & Loss]		
◆	Salary, remuneration, interest received by a partner from the firm to the extent the same is deductible in the hands of the firm as per section 35(e)	xxx	
◆	Bad debt allowed as deduction u/s 31(2) in an earlier T.Y., now recovered [deemed as income u/s 38(1)(d)]	xxx	
◆	Remission or cessation of a trading liability [deemed as income u/s 38(1)(a)]	xxx	H
	Profits and gains from business or profession (G + H)		I

Proforma for computation of income under the head “Profits and gains of business or profession” under optional tax regime taking business income computed under default tax regime under section 202(1) as the starting point

Particulars	Amount (₹)	Amount (₹)
Profits and gains from business or profession as per section 202(1)		A
Less: Expenditure allowable as deduction		
◆ Additional depreciation@20% of actual cost of new P & M acquired by an assessee engaged in the business of manufacture or production of any article or thing or generation, transmission or distribution of power (10% of actual cost, if put to use for less than 180 days in the year of acquisition) [Balance additional depreciation can be claimed in the next year i.e., T.Y.2027-28]	xxx	
◆ Balance additional depreciation @10% of actual cost of P & M acquired and installed during the T.Y. 2025-26 and put to use for less than 180 days in that year	xxx	B
Profits and gains from business or profession as per normal provisions of the Act (A – B)		C

Note - An assessee carrying on specified business and exercising the option under section 202(4) to shift out of the default tax regime, is eligible for deduction u/s 46 in respect of capital expenditure (other than land, goodwill and financial instruments) incurred for such business, subject to fulfillment of specified conditions. However, if he pays tax under default tax regime under section 202(1), he would **not** be eligible for deduction u/s 46.

The table in the next page depicts the allowability of deduction for expenditure incurred for in-house scientific research related to the business of the assessee and contribution to outsiders for scientific research/social science/statistical research under the default tax regime and optional tax regime.

Deduction for expenditure incurred for in-house scientific research related to business and contribution to outsiders for scientific research/social science/statistical research

Nature of Expenditure/ contribution for scientific research/social science/ statistical research		Under the default tax regime u/s 202		Under the optional tax regime as per the normal provisions of the Act		
		Allowability of deduction	Treatment while computing income under the head "PGBP"		Allowability of deduction	Treatment while computing income under the head "PGBP"
			If debited to Profit & Loss A/c	If given as additional information		
I. In house research expenditure on scientific research related to assessee's business						
45(1)(a)(ii)/(b)	Revenue expenditure	Allowable as deduction	No adjustment required, since it is already debited to profit and loss A/c	To be deducted while computing income under the head "PGBP"	Allowable as deduction	No adjustment required, since it is already debited to profit and loss A/c
45(1)(a)(i)/(c)	Any capital expenditure (other than cost of acquisition of land)					To be deducted while computing income under the head "PGBP"

Nature of Expenditure/ contribution for scientific research/social science/ statistical research		Under the default tax regime u/s 202		Under the optional tax regime as per the normal provisions of the Act	
		Allowability of deduction	Treatment while computing income under the head "PGBP"	Allowability of deduction	Treatment while computing income under the head "PGBP"
			If debited to Profit & Loss A/c	If given as additional information	If debited to Profit & Loss A/c If given as additional information
II. Contribution to outsiders					
45(3)(a)(i)	Notified approved research association/university/ college/other institution for scientific research	Not allowable as deduction	To be added back while computing income under the head "PGBP"	No adjustment required	No adjustment required, since it is already debited to profit and loss A/c
45(3)(a)(ii)	Notified approved research association/university/ college/other institution for research in social science or statistical research				To be deducted while computing income under the head "PGBP"
45(3)(b)	Approved notified company for scientific research				
45(3)(c)	Approved National Laboratory/ University/ IIT/specified person to be used for scientific research undertaken under an approved programme				



3.1 STRUCTURED SECTIONAL LEARNING

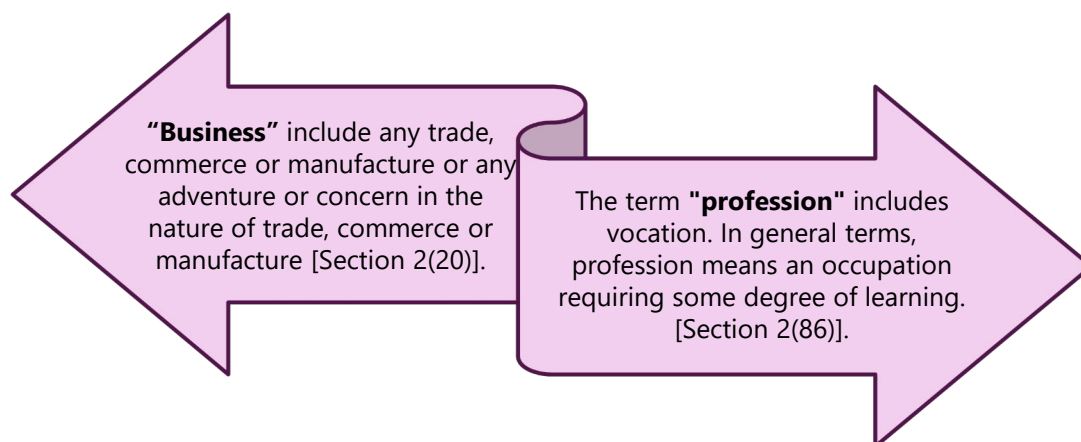
Section	Particulars
2(17)	Meaning of block of assets
2(20)	Meaning of business
2(59)	Meaning of interest
2(86)	Meaning of profession
2(94)	Meaning of relative
2(105)	Meaning of stamp duty value
26	Income under head "Profits and gains of business or profession"
27	Manner of computing profits and gains of business or profession
28	Rent, rates, taxes, repairs and insurance
29	Deductions related to employee welfare
30	Deduction on certain premium
31	Deduction for bad debt and provision for bad and doubtful debt
32	Other deductions
33	Deduction for depreciation
34	General conditions for allowable deductions
35	Amounts not deductible in certain circumstances
36	Expenses or payments not deductible in certain circumstances
37	Certain deductions allowed on actual payment basis only
38	Certain sums deemed as profits and gains of business or profession
39	Computation of actual cost
41	Written down value of depreciable asset
42	Capitalising impact of foreign exchange fluctuation
44	Amortisation of certain preliminary expenses
45	Expenditure on scientific research
46	Capital expenditure of specified business
52	Amortisation of expenditure for scheme of voluntary retirement
53	Full value of consideration for transfer of assets other than capital assets in certain cases

58	Special provision for computing profits and gains of business or profession on presumptive basis in case of certain residents
62	Maintenance of books of account
63	Tax audit
66	Interpretation
276	Method of accounting
278	Taxability of certain income



3.2 MEANING OF 'BUSINESS' AND 'PROFESSION'

The income chargeable to tax under this head is in respect of the profits and gains of any business or profession, carried on by an assessee at any time during the tax year.



Particulars	Explanation
Examples of Profession	Painter, doctor, lawyer, architect, auditor, author, astrologer etc. are persons who can be said to be carrying on a profession and not business.
Meaning of Business	Business generally involves continuous exercise of an activity with a profit motive. Even a single trade venture may also be treated as business.
Tax treatment of business, profession and vocation	For income-tax purposes, it is generally immaterial whether a person carries on a business, profession or vocation, since profits from all are taxed under the same head "Profits and Gains of Business or

	Profession". However, differences exist in provisions relating to tax audit and presumptive taxation, where threshold limits and rates vary for business and profession.
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Meaning of 'Profits'

- (i) **Profits in cash or in kind:** 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.
- (ii) **Capital receipts:** Capital receipts are not generally to be taken into account while computing profits under this head.
- (iii) **Voluntary receipts:** 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) **Income from distinct businesses:** 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 businesses carried on by the assessee.
- (v) **Computation of profits:** 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. The charge is not on the gross receipts but on the profits and gains.
- (vi) **Legality of income:** 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. Thus, income tax is not restricted in its application to lawful business only.

However, expenditure incurred by an assessee for any purpose which is an offence or which is prohibited by law would not be allowable as deduction while computing profits of such business.

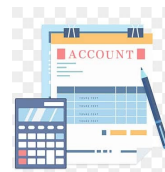


EXAMPLE Mr. X carries on an illegal betting business and earns a profit of ₹ 10,00,000 during the tax year. Even though the business is illegal, the income earned from such activity is still taxable under the head "Profits and Gains of Business or Profession".



3.3 METHOD OF ACCOUNTING

Under section 276(1), income chargeable under the heads "Profits and gains of business or profession" or "Income from other sources" shall be computed as per either the cash or mercantile system of accounting regularly employed by the assessee.



However, as per section 278, certain income would be taxable in the following manner:

- (i) **interest** received by an assessee **on compensation or on enhanced compensation**, shall be deemed to be the **income of the year in which it is received** [Such income is taxable under the head "Income from other sources"]
- (ii) income referred to in section 2(49)(w) i.e., **assistance in the form of a subsidy or grant** or cash incentive or duty drawback or waiver or concession or reimbursement, by whatever name called, by the Central Government or a State Government or any authority or body or agency in cash or kind to the assessee shall be deemed to be the **income of the tax year in which it is received**, if not charged to income tax for any earlier tax year.

Under section 276(2), the Central Government is empowered to notify in the Official Gazette from time to time, income computation and disclosure standards (ICDSs) to be followed by any class of assessee or in respect of any class of income. The Central Government had, vide Notification No. S.O.3079(E) dated 29.9.2016, notified ten ICDSs.

The notified ICDSs have to be followed by all assesseees (other than an individual or a Hindu undivided family who is not required to get his accounts of the tax year audited in accordance with the provisions of section 63) following the mercantile system of accounting, for the purposes of computation of income chargeable to income-tax under the head "Profits and gains of business or profession" or "Income from other sources".

The ten notified ICDSs are:

ICDS I	:	Accounting Policies
ICDS II	:	Valuation of Inventories
ICDS III	:	Construction Contracts
ICDS IV	:	Revenue Recognition
ICDS V	:	Tangible Fixed Assets
ICDS VI	:	The Effects of Changes in Foreign Exchange Rates
ICDS VII	:	Government Grants
ICDS VIII	:	Securities
ICDS IX	:	Borrowing Costs
ICDS X	:	Provisions, Contingent Liabilities and Contingent Assets

Note: ICDSs would be dealt with in detail at Final Level.



3.4 INCOME CHARGEABLE UNDER THIS HEAD [SECTION 26]

The income referred to in section 26(2) shall be chargeable to tax as income under the head 'profits and gains of business or profession'. These incomes are as under:

- (i) **Income from business or profession:** Income arising to any person by way of profits and gains from the business or profession carried on by him at any time during the tax year.

Exception

If an assessee is engaged in the business of letting out of residential houses, the income generated from letting out of a residential house or a part of it shall not be chargeable under the head "Profits and gains of business or profession" and would be chargeable under the head "Income from house property".

- (ii) **Any compensation or other payment due to or received by** any person, by whatever name called,
- (a) wholly or substantially managing the affairs -
 - (A) of an Indian company or
 - (B) in India, of any other company; or

(b) holding an agency in India for any part of the business activities of any other person; or

(c) for any contract relating to business,

in connection with the termination of his management, office, agency or contract, as the case may be, or modification of terms and conditions relating thereto.

(iii) Any compensation or payment due to or received by any person, for vesting of the management of any property or business, in the Government including any corporation owned or controlled by the Government under any law in force.

(iv) Income from specific services performed for its members by a trade, professional or business: 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 of mutuality 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 definitely or directly be related to these services.

(v) Incentives received or receivable by assessee carrying on export business: Following incentives received or receivable by an assessee:

- Profits on sale of import licence,
- Cash assistance against export,
- Duty drawback,
- Duty remission, or
- any other export incentive



(vi) Value of any benefit or perquisite: The value of any benefit or perquisite arising from business or the exercise of any profession, whether –

- convertible into money or not or
- in cash or in kind or partly in cash and partly in kind.



If a company provides rent free residential accommodation to a lawyer in consideration of professional services rendered by him to the company, the value of such accommodation would be assessable in the hands of the said lawyer as his income under the head "Profits and gains or business or profession".

- (vii) **Sum due to, or received by, a partner of a firm:** Any interest, salary, bonus, commission or remuneration, by whatever name called, which is due to or received by a partner of a firm from such firm will be deemed to be income from business. However, if any interest, salary, bonus, commission or remuneration by whatever name called, or any part thereof has not been allowed as deduction under section 35(e) in the computation of the income of the firm, the income to be taxed in the hands of partner shall be reduced to the extent of the amount disallowed in the hands of firm.



A firm pays interest to a partner at 20% p.a. simple interest. The allowable rate of interest is 12% p.a. Hence, the excess 8% paid will be disallowed in the hands of the firm. Since excess interest has suffered tax in the hands of the firm due to disallowance, the same will not be taxed in the hands of the partner. However, the interest allowed to the extent of 12% p.a. in the hands of firm will be taxed in the hands of partner.



Exemption of share income of a partner [Schedule III (Table: Sl. No. 2)]

Table: Sl.No.2 of Schedule III exempts from tax a partner's share in the total income of the firm. In other words, the partner's share in the total income of the firm determined in accordance with the profit-sharing ratio will be exempt from tax.

- (viii) **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 profession

However, the following sums received or receivable would not be chargeable to tax under the head "profits and gains from business or profession":

- (i) any sum, received on account of transfer of the right to manufacture, produce or process any article or thing or right to

carry on any business or profession, which is chargeable under the head "Capital gains".

- (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, as per the terms of agreement entered into with the Government of India.
- (b) for not sharing any know-how, patent, copyright, trade mark, licence, franchise or any other business or commercial right of similar nature or information or technique likely to assist in the manufacture or processing of goods or provision for services.
- (ix) **Any sum received under a Keyman insurance policy:** Any sum received by the assessee, as an employer, under a Keyman insurance policy including the sum allocated by way of bonus on such policy will be taxable as income from business.
- (x) **Fair market value of inventory on its conversion/treatment as capital asset:** Fair market value of inventory as on the date on which it is converted into or treated as a capital asset, determined in the prescribed manner, would be chargeable to tax as business income.

**Conversion of stock
in trade as capital
asset**
- (xi) **Sum received on account of capital asset referred under section 46:** Any sum which is received or receivable, in cash or kind, when -
 - (i) a capital asset other than land or goodwill or financial instrument, is demolished, destroyed, discarded or transferred and
 - (ii) the whole of the expenditure on it has been allowed as a deduction under section 46 of the Income-tax Act, 2025 or under section 35AD of the Income-tax Act, 1961.



3.5 SPECULATION BUSINESS

Section 26(3) 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 113 provides that losses

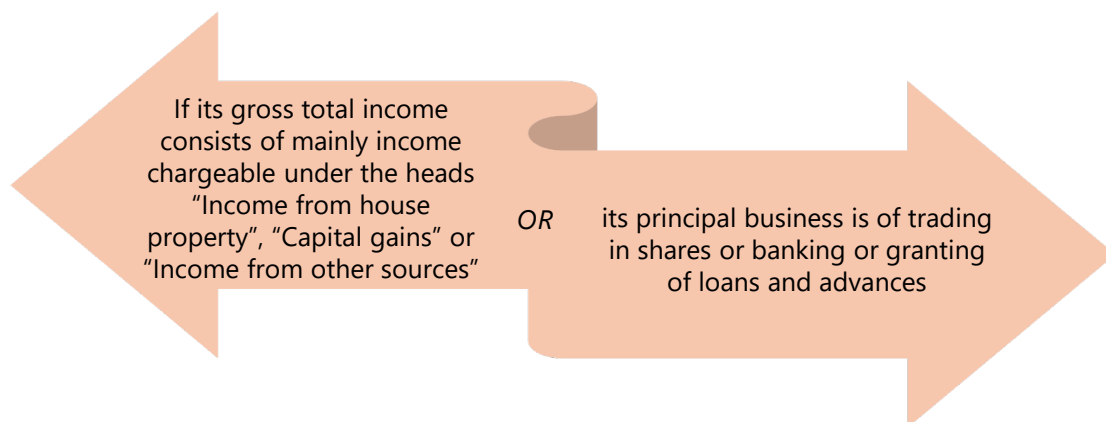


in speculation business unlike other businesses, cannot be set-off against the profits of any business other than a speculation business.

Likewise, a loss in speculation business carried forward to a subsequent year can be set-off only against the profit and gains of any speculation business in the subsequent year. Profits and losses resulting from speculative transactions must, therefore, be treated as separate and distinct from profits and gains of business and profession from any other business.

As per section 113(5), where any part of the business of a company consists of purchase and sale of the shares of other companies, then such company shall be deemed to be carrying on speculation business to the extent to which the business consists of the purchase and sale of such shares.

However, this deeming provision under section 113(5) does **not** apply to the following companies –



Accordingly, if these companies as mentioned above carry on the business of purchase and sale of shares of other companies, they would not be deemed to be carrying on speculation business [Section 113(6)].

Meaning of Speculative Transaction

"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 **other than the following transactions:**

(i) Hedging contract in respect of raw materials or

merchandise: 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.

**(ii) Hedging contract in respect of stocks and**

contract in respect of stocks and shares entered dealer or investor therein to guard against loss holdings of stocks and shares through price



shares: A into by a in his fluctuation.

(iii) Forward contract: 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.

Forward Contract

(iv) A specified derivative transaction: A specified derivative transaction means any transaction in respect of

- trading in derivatives or
- trading in commodity derivatives (other than agricultural commodity derivatives) which is chargeable to commodities transaction tax under Chapter VII of the Finance Act, 2013 or
- trading in agricultural commodity derivatives

if such transactions are carried out electronically on screen-based systems of a recognised stock exchange.

Accordingly, the above (i) to (iv) forms of transactions shall not be deemed to be speculative transactions.

Examples of speculative and non-speculative transactions

Examples of speculative transaction	Examples of non-speculative transaction
Buying and selling shares without taking physical delivery.	Purchases of raw materials through a forward contract and takes actual delivery of goods on maturity of the contract.
Commodity contract for gold and settles the contract by payment of price difference without actual delivery of gold.	Hedging contract entered into by a cotton mill to guard against loss from price fluctuations in raw cotton.



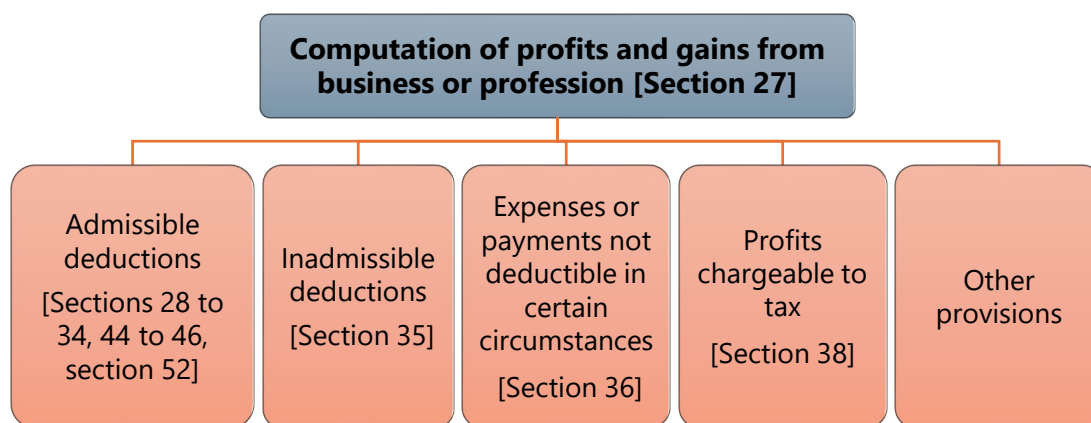
1.	<i>Income from letting out residential houses by a person engaged in such business is taxable under the head –</i>	
	(a)	<i>Income from Other Sources</i>
	(b)	<i>Capital Gains</i>
	(c)	<i>Income from House Property</i>
	(d)	<i>Profits and Gains of Business or Profession</i>
2.	<i>Salary, bonus, commission or remuneration due to or received by a working partner from the firm is taxable under the head</i>	
	(a)	<i>Income from Other Sources</i>
	(b)	<i>Capital Gains</i>
	(c)	<i>Income from House Property</i>
	(d)	<i>Profits and Gains of Business or Profession</i>
3.	<i>Loss from speculation business can be set off against –</i>	
	(a)	<i>Salary income only</i>
	(b)	<i>Any business income</i>
	(c)	<i>Capital gains only</i>
	(d)	<i>Profit from speculation business only</i>

4.	<i>Hedging contract entered into to guard against price fluctuations in raw materials is –</i>	
	(a)	<i>Speculative transaction</i>
	(b)	<i>Gambling transaction</i>
	(c)	<i>Non-speculative transaction</i>
	(d)	<i>Capital transaction</i>



3.6 MANNER OF COMPUTING PROFITS AND GAINS OF BUSINESS OR PROFESSION [SECTION 27]

According to section 27, the profits and gains of any business or profession are to be as per the provisions contained in sections 28 to 60, except section 58. It must, however, be remembered that in addition to the specific allowances and deductions stated in sections 28 to 33, the Act further permits allowance of items of expenses under the residuary section 34(1), which extends the allowance to items of business expenditure not covered by sections 28 to 33, where these are allowable according to accepted commercial practices.





3.7 ADMISSIBLE DEDUCTIONS [SECTIONS 28 TO 34, 44 TO 46 AND SECTION 52]

Rent, rates, taxes, repairs and insurance [Section 28]

Section 28 allows following deductions in respect of premises, machinery, plant or furniture used by the assessee for the purposes of his business or profession.

- ◆ **Insurance premium:** Any premium paid in respect of insurance against risk of damage or destruction thereof

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 endure to the benefit of someone other than the owner.

- ◆ **Land revenue, local rates or municipal taxes paid**
- ◆ **Rent paid, when the premises are occupied by the assessee as tenant**
- ◆ **Amount paid for repairs to the premises:**
 - **When the premises are occupied by the assessee otherwise than as a tenant** - Amount paid on account of current repairs to the premises
 - **When the premises are occupied by the assessee as a tenant** - Amount paid on account of cost of repairs, where he has undertaken to bear the cost of repairs to the premises
- ◆ **Amount paid for repairs to machinery, plant or furniture** - The amount paid on account of current repairs to machinery, plant or furniture

Note: *Cost of repairs and current repairs in the nature of capital expenditure is not allowed as deduction.*

- ◆ **Premises, building, machinery, plant or furniture used partly for business:** Where the premises, building, machinery, plant or furniture is partly used or not wholly and exclusively used for the purposes of the business or profession, then only a fair proportionate part of the expenses as determined

by the Assessing Officer, having regard to the usage for the purposes of the business or profession, will be allowed as a deduction [Section 28(2)].

Usage of the asset: 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 active as well as passive use.

Repairs exclude replacement or reconstruction: The term 'repairs' will include renewal or renovation of an asset but not its replacement or reconstruction.

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 34(1).

Deductions related to employee welfare [Section 29]

Section 29 allows following deductions in the case of an assessee, being an employer in relation to employee welfare:

(a) Contributions to provident fund and superannuation funds [Section 29(1)(a)]

Contribution to the employees' recognised provident fund or an approved superannuation fund is allowable subject to

- the limits laid down for recognizing the provident fund or approving superannuation fund and
- such specified conditions, for cases where the contributions are not made annually either as fixed amounts, or annual contributions fixed on some definite basis by reference to the income chargeable under the head "Salaries" or the contributions or to the number of members of the fund.

(b) Employer's contribution for an employee under a Pension Scheme referred to in section 124 [Section 29(1)(b)]

- (i) Section 29(1)(b) provides that the employer's contribution for an employee under a Pension Scheme as referred to in section 124 would be allowed as deduction while computing business income.
- (ii) However, deduction would be restricted to **14% of the salary** of the employee in the tax year.

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

ILLUSTRATION 1

X Ltd. contributes 20% of basic salary for each employee under a pension scheme referred to in section 124. Dearness Allowance is 40% of basic salary and it forms part of pay of the employees.

Compute the amount of deduction allowable under section 29(1)(b), if the basic salary of the employees aggregate to ₹ 10 lakhs.

SOLUTION

Computation of deduction u/s 29(1)(b)

Particulars	₹
Basic Salary	10,00,000
Dearness Allowance@40% of basic salary [DA forms part of pay]	4,00,000
Salary for the purpose of section 29(1)(b) (Basic Salary + DA)	14,00,000
Actual contribution (20% of basic salary i.e., 20% of ₹ 10 lakhs)	2,00,000
Permissible deduction under section 29(1)(b) [14% of (basic salary plus dearness pay) = 14% of ₹ 14,00,000 = ₹ 1,96,000]	1,96,000

(c) Contribution towards an approved gratuity fund and provision for payment of gratuity [Section 29(1)(c), 29(1)(d) and 29(2)]

Following deductions are available with respect to the contribution towards gratuity:

Contribution to an approved gratuity fund is allowable u/s 29(1)(c) subject to the condition that the gratuity fund should be for exclusive benefit of the employees under an irrevocable trust.

Any provision made for the purpose of making contribution towards approved gratuity fund or for the purpose of payment of any gratuity that has become payable during the tax year is allowable u/s 29(1)(d).

However, by virtue of section 29(2) –

- No deduction shall be allowed for any provision made for the payment of gratuity to the employees on their retirement or termination for any reason unless it is covered by section 29(1)(d); and
- In case deduction has been allowed for any provision made u/s 29(1)(d), then no deduction shall be allowed on actual payment made from such provision.

(d) Amount received by assessee-employer as contribution from his employees towards their welfare fund to be allowed only if such amount is credited on or before due date of filing of return of income

Section 29(1)(e) provides that deduction in respect of any sum received by the employer as contribution from his employees towards any welfare fund of such employees (including employee's contribution to Provident Fund, Superannuation Fund and ESIC Contribution) will be allowed as deduction only if such sum is credited by the employer assessee to the employee's account in the relevant fund on or before the due date of filing of return of income under section 263(1) for the tax year.

 NOTE

Any sum received by the employer assessee from his employees as contribution to any PF or superannuation fund or any fund for the welfare of such employees shall be treated as income under clause (o) of section 2(49). The same is allowed as deduction in the hands of employer assessee, if the amount is deposited in the respective fund on or before the "due date of filing of return of income u/s 263(1)".

No deduction will be allowed in respect of any sum paid by the assessee as an employer 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, for the purposes and to the extent provided in section 29(1)(a), 29(1)(b) or 29(1)(c), or as required by or under any other law in force, then deduction will not be denied.



5.	<i>Employees' contribution to PF received by employer is deductible only if deposited –</i>	
	(a)	<i>Before end of financial year</i>
	(b)	<i>Before audit completion</i>
	(c)	<i>On or before due date of filing return of income</i>
	(d)	<i>Before the due date as per PF Act</i>
6.	<i>X Ltd. contributes ₹ 3 lakh to pension scheme. Basic salary of employees is ₹ 12 lakh and DA forming part of pay is ₹ 3 lakh. Maximum deduction X Ltd. can claim for contribution to pension scheme is –</i>	
	(a)	<i>₹ 1,68,000</i>
	(b)	<i>₹ 2,10,000</i>
	(c)	<i>₹ 1,80,000</i>
	(d)	<i>₹ 3,00,000</i>

Deduction on certain premium [Section 30]

Following premiums paid by the assessee are allowed as deduction:

- (i) **Insurance premium for stock or stores [Section 30(a)]** - If insurance policy has been taken out against risk of damage or destruction of the stock or stores of the business or profession, the premium paid is deductible.
- (ii) **Premium paid by employer for health insurance of employees [Section 30(c)]** - This clause seeks to allow a deduction to an employer in respect of premium paid by him through 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
 - (a) the General Insurance Corporation of India and approved by the Central Government; or
 - (b) any other insurer and approved by the IRDA.

Deduction for bad and doubtful debts [Section 31]

- (i) **Deduction in respect of Bad Debts [Section 31(2)]** - Any amount of bad debt or part of it is allowed as deduction in the tax year in which such amount is written off as irrecoverable in the accounts of the assessee subject to the conditions that debt has been taken into account in computing the income of the assessee of the tax year in which such debt is written off, or of an earlier tax year, or should represent money lent by the assessee in the ordinary course of his business of banking or money lending carried on by the assessee.

Any bad debt written off as irrecoverable shall not include any provision for bad and doubtful debt, meaning thereby that for the purposes of section 31(2), the deduction for bad debts is available only when debt has been actually written off in the accounts and mere a provision for bad debts shall not be treated as actual write off of debt [Section 31(3)(a)].

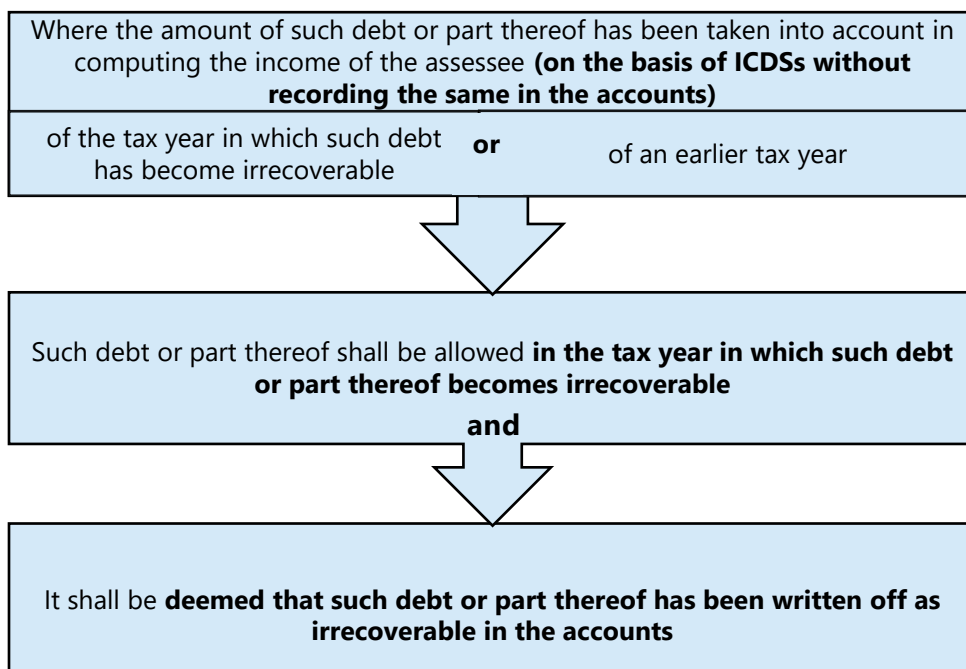
The CBDT has, clarified vide Circular no. 12/2016, dated 30-05-2016, that claim for any debt or part of it in any tax year, shall be admissible, if it is written off as irrecoverable in the books of accounts of the assessee for that tax year and it fulfils the stipulated conditions.

However, no such requirement is there in law that the assessee has to establish that the debt has, in fact, become irrecoverable.

- (ii) **Deduction of differential amount of debts due as bad debts in the year of recovery, to the extent of deficiency in recovery** - If the amount ultimately recovered on any such debt or part of debt is less than the difference between the debt or part and the amount so deducted, the deficiency can be claimed as deduction in the tax year in which the ultimate recovery is made.
- (iii) **Amount of debt taken into account in computing the income of the assessee on the basis of notified ICDSs¹ to be allowed as deduction in the tax year in which such debt or part thereof becomes irrecoverable [Section 31(3)]**
- (a) Under section 31(2), deduction is allowed in respect of the amount of any bad debt or part of it which is written off as irrecoverable in the accounts of the assessee for the tax year.
 - (b) Therefore, writing off in the books of account is an essential condition for claim of bad debts under section 31(2).
 - (c) In this regards, section 31(3)(b) provides that the amount of bad debt or part of it, which has been taken into account in computing the income of the assessee of the tax year in which such debt has become irrecoverable or of an earlier tax year on the basis of notified ICDSs without recording it in the accounts is to be allowed as deduction in the tax year in which such debt or part of it becomes irrecoverable and such bad debt or part of it shall be deemed to be written off as irrecoverable in the accounts for the purpose of section 31(2).
 - (d) If a debt, which has not been recognized in the books of account but has been taken into account in the computation of income as per the notified ICDSs, has become irrecoverable, it can still be claimed as bad debts under section 31(2) since **it shall be deemed that the debt has been written off as irrecoverable in the account**. This is because some ICDSs require recognition of income at an earlier point of time (prior to the point of time such income is recognised in the books of

¹ Income Computation Disclosure Standards (ICDSs) will be discussed at Final Level.

account). Consequently, if the whole or part of such income, recognised at an earlier point of time for tax purposes, becomes irrecoverable, it can be claimed as bad debts on account of section 31(3)(b).



- (iv) **Recovery of a bad debt subsequently [Section 38(1)(d)]** - If a deduction has been allowed in respect of a bad debt under section 31(2), and subsequently the amount recovered in respect of such debt exceeds than the difference between such debt and the amount allowed, the excess shall be deemed to be the profits and gains of business or profession and will be chargeable to income-tax in the tax year in which recovery is made.

It does not matter whether the business or profession in respect of which deduction has been made is in existence in that year or not.



For T.Y. 2025-26, bad debts of ₹ 40,000 was allowed by the Assessing Officer out of total bad debts of ₹ 75,000. Subsequently, ₹ 44,000 is recovered during T.Y. 2026-27.

Since Bad debt recovered i.e., ₹ 44,000 exceeds ₹ 35,000, being the difference between debt and debt allowed, the excess ₹ 9,000 would be deemed to be the profits and gains of business or profession of T.Y. 2026-27 and will be chargeable to income-tax in the T.Y. 2026-27 in which it is recovered.

Other deductions [Section 32]

This section authorises deduction of certain specific expenses. The items of expenditure and the conditions under which such expenditures are deductible are:

- (i) **Bonus and Commission [Section 32(a)]** - 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.

- (ii) **Interest on borrowed capital [Section 32(b)]** - 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".

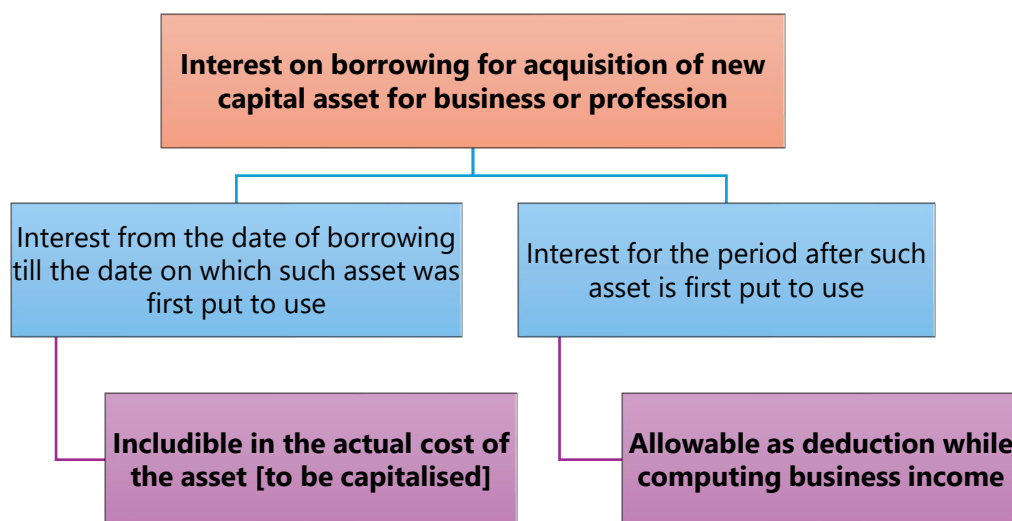
Capital may be borrowed for several purposes like for acquiring a capital asset, or to pay off a trading debt or loss etc. The scope of the expression 'for the purposes of business' is very wide. Capital may be borrowed in the course of the existing business as well as for acquiring assets for extension of existing business.

However as per section 32(b)(i), deduction in respect of any amount of interest, in respect of capital borrowed for acquisition of an asset, 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 shall not be allowed.

Meaning of interest [Section 2(59)]: "Interest" means interest payable in any manner for moneys borrowed or debt incurred (including a deposit, claim or other similar right or obligation) and includes service fee or any other charges for the moneys borrowed or debt incurred or for any credit facility that has not been utilized.

Section 39(4) (Table: SI No. 13) provides 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, therefore, be capitalised.



- (iii) **Discount on Zero Coupon Bonds (ZCBs) [Section 32(d)]** – Section 32(d) 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 where -

Term	Meaning
Discount	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.
Period of life of the bond	The period commencing from the date of issue of the bond and ending on the date of the maturity or redemption.

- (iv) **Expenses on family planning by a company [Section 32(i)]** - 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 tax year in which it was incurred and the balance in each of the four immediately succeeding tax years.

- This deduction is **allowable only to companies** and not to other assessees.
- The assessee 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.



An individual carrying on business or profession will not be allowed deduction of expenses incurred on promoting family planning amongst its employees.

- (v) **Amount of securities transaction tax and commodities transaction tax paid [Section 32(k)]** – The amount of securities transaction tax and commodities transaction tax paid by the assessee during the year is allowed as deduction if
- the taxable securities transactions or taxable commodities transactions are entered into the course of the business during the tax year; and
 - the income arising from such taxable securities transactions or taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession".

Taxable commodities transaction

A 'taxable commodities transaction' means a transaction of sale of commodity derivatives or sale of commodity derivatives based on prices or indices of prices of commodity derivatives or option on commodity derivatives or option in goods in respect of commodities, other than agricultural commodities, traded in recognised stock exchange.

A "commodity derivative" means –

- A contract for delivery of goods which is not a ready delivery contract
- 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
- (c) with reference to weather and similar events and activities having a bearing on the commodity sector.



7.	Premium paid by an employer for health insurance of employees is deductible only if it is paid –
(a)	in cash
(b)	through bearer cheque
(c)	through any mode other than cash
(d)	through post office
8.	S Ltd. borrowed capital for purchase of machinery on 1st July 2026. Machinery was first put to use on 1st January 2027. Interest for July to December 2026 shall –
(a)	be allowed as revenue expenditure
(b)	be capitalized
(c)	be ignored
(d)	be treated as bad debt
9.	During T.Y. 2025-26, an assessee claimed bad debt deduction of ₹ 1,20,000. However, the Assessing Officer allowed only ₹ 80,000 as deduction for bad debt. In T.Y. 2026-27, ₹ 1,00,000 was recovered by the assessee from the debtor. Amount taxable as business income in year of recovery is –
(a)	₹ 60,000
(b)	₹ 80,000
(c)	₹ 1,00,000
(d)	Nil

Depreciation [Section 33]

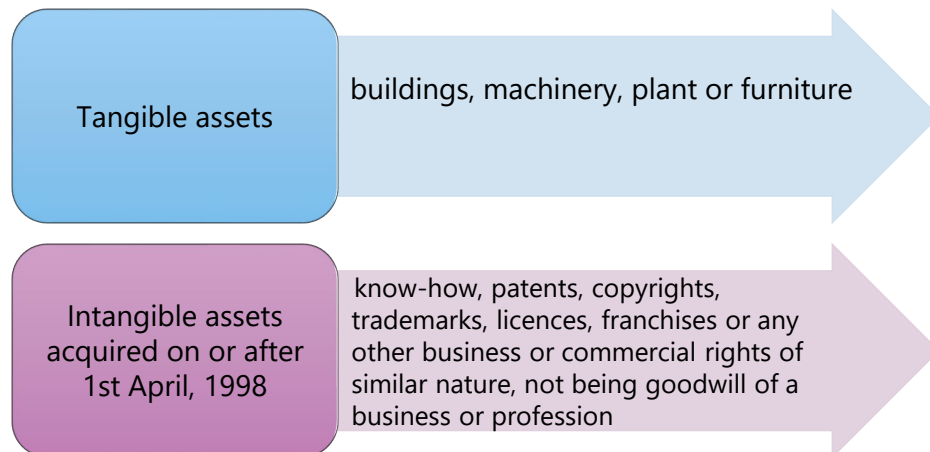
- (1) **Charge of depreciation mandatory:** Section 33 allows a deduction in respect of depreciation resulting from the diminution or exhaustion in the value of certain capital assets.

**Depreciation
is mandatory**

Section 33(7) 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) **Conditions to be satisfied for allowance of depreciation:** The allowance of depreciation which is regulated by Rule 25 of the Income-tax Rules, 2026, 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 –**



- 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.
- **Know-how [Section 33(12)(b)]** - '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,

oil-well or other sources of mineral deposits (including searching for discovery or testing of deposits for the winning of access thereto)

- The term 'plant' as defined in section 66(17) includes ships, books, vehicles, scientific apparatus and surgical equipment used for the purposes of the business or profession but does not include tea bushes or livestock or buildings or furniture and fittings.
- 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.
- The expression 'plant' includes part of a plant (e.g., the engine of a vehicle); machinery includes part of machinery and building includes a part of the building.
- Similarly, the term 'buildings' includes within its scope roads, bridges, culverts, wells and tubewells.

- (b) **The assets should be actually used by the assessee wholly and exclusively for purposes of his business or profession during the tax year** - The asset must be put to use at any time during the tax year. The amount of depreciation allowance is not proportionate to the period of use during the tax year. If the asset is acquired during the tax year and is not put to use in the same year, then the depreciation shall not be allowed for such asset but the cost of such asset would be added to the block of asset.

Depreciation in case of lease or license

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 93(1)(c).

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".

Use includes both active use and passive use

Depreciation is allowed when asset is actually put to use and not ready to use. However, in certain circumstances, Courts have held that, an asset can be said to be in use even when it is "kept ready for use".

EXAMPLE

Stand by equipment and fire extinguishers can be capitalized if they are 'ready for use'.

Likewise, machinery spares which can be used only in connection with an item of tangible fixed asset and their use is expected to be irregular, has to be capitalised. Hence, in such cases, the term "use" embraces both active use and passive use. However, such passive use should also be for business purposes.

- (c) **The assessee must own the assets, wholly or partly** - Depreciation is allowed only to the owner of the asset. If the assessee has taken an asset on lease, he, being the lessee, cannot avail depreciation in respect of such asset. On the other hand, the lessor will be entitled to depreciation on such asset as he is the owner.



In this connection, students may note that section 33(6) 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) **Computation of Depreciation Allowance** - Depreciation allowance will be calculated on the following basis:

- (i) **Power generation undertakings [Section 33(2)]:** 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 25(3).



Rule 25(3) - As per this rule, the depreciation on the above-mentioned assets shall be calculated at the percentage of the actual cost at rates specified in Table in Appendix II of these rules. **However, the aggregate depreciation allowed in respect of any asset for different tax 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 263(1)(c) for the tax 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 tax years.

- (ii) **Block of assets:** 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 25(1).

Block of Assets: A "block of assets" is defined in section 2(17), 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, not being goodwill of a business or profession,

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

Block of asset simply means "same class of assets with same rate of depreciation".

When any building, machinery, plant or furniture is partly or not wholly and exclusively used for the business or profession of the assessee, the depreciation allowable would be restricted to a fair proportionate part thereof as determined by the Assessing Officer, having regard to the usage of such asset for the purpose of the business or profession [Section 33(3)(b)].

- (iii) **Asset used for less than 180 days [Section 33(4)]** - The deduction for depreciation under section 33(2) and 33(3) would be restricted to 50% of the prescribed rate, if such asset is
- acquired by the assessee during the tax year; and
 - is put to use for the purposes of business or profession for less than 180 days in that tax year.

 NOTE

This restriction applies only to the year of acquisition and not for subsequent years.

- (iv) **Additional depreciation on Plant or Machinery acquired [Section 33(8) and 33(9)]**: Apart from normal depreciation under section 33(3), an additional depreciation is also allowed to the assessee if the following conditions are satisfied:

Additional depreciation

- ◆ the assessee is engaged in the business of manufacture or production of any article or thing or in the business of generation or transmission or distribution of power.
- ◆ the assessee acquires and installs new machinery or plant
- ◆ the new machinery or plant is first put to use by the assessee for the purpose of business and
- ◆ the new machinery or plant (not being a ship or an aircraft)
 - was not used either within or outside India by any other person before its installation by the assessee

- is not installed in any office premises or any residential accommodation, including accommodation in the nature of a guest house
- is not in the nature of any office appliances or road transport vehicles
- is not an asset on which 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 tax year.

Rate of additional depreciation - Additional depreciation is allowed

- @20% of the actual cost of new machinery or plant in the tax year when it is acquired and put to use in that tax year.
- @10% of the actual cost, if the new machinery or plant is acquired at any time during the tax year and put to use for less than 180 days in the relevant tax year, and balance 10% of the actual cost shall be allowed in the immediately succeeding tax year.

**10%, if put to use
for < 180 days**

NOTES

- (1) Additional Depreciation is available only when assessee claims normal depreciation under section 33(3) i.e., in respect of Block of Assets. It is not available in case of assessee claiming normal depreciation based on actual cost of asset under section 33(2).
- (2) In case of an individual, HUF, AoP (other than a co-operative society) or BoI or an artificial juridical person, additional depreciation is not allowable under the default tax regime under section 202(1). Additional depreciation would be allowable only if such person has exercised the option under section 202(4) of shifting out of the default tax regime and pays tax as per the optional tax regime under the regular provisions of the Act.

Eligibility for grant of additional depreciation in the case of an assessee engaged in printing or printing and publishing [Circular No. 15/2016, dated 19-5-2016]

An assessee, engaged in the business of manufacture or production of an article or thing, is eligible to claim additional depreciation under section 33(8) in addition to the normal depreciation under section 33(3).

The CBDT has, vide this Circular, clarified that **the business of printing or printing and publishing amounts to manufacture or production** of an article or thing and is, therefore, eligible for additional depreciation.

- (v) **Terminal depreciation [Section 33(10)]:** In case of any tangible asset of power concern as covered under section 33(2) above, the difference between the WDV and the moneys payable including the scrap value, if any, shall be allowed as deduction if –

- such asset is sold, discarded, demolished or destroyed in the tax year (other than the tax year in which it is first put into use),
- the moneys payable together with the amount of scrap value, if any, is less than the WDV and
- such deficiency is actually written off in the books of the assessee.



Mahapower Ltd. purchased an asset on 20.7.2022. The actual cost of the asset was ₹100 lakhs. Mahapower Ltd. claimed depreciation @5% on the actual cost of the asset. WDV of the asset as on 1.4.2026 is ₹80 lakhs. On 15.5.2026, Mahapower Ltd. sold the asset for ₹55 lakhs. Deduction allowed as terminal depreciation u/s 33(10) for T.Y. 2026-27 is ₹25 lakhs (₹80 lakhs - ₹55 lakhs) if the deficiency of ₹25 lakhs is actually written off in the books of Mahapower Ltd.

Meaning of the term “Moneys payable”

Meaning
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.

- (4) **Rates of depreciation** – All assets have been divided into four main categories and rates of depreciation as prescribed by Rule 25(1) read with Appendix I of the Income-tax Rules, 2026 are given below:

PART A TANGIBLE ASSETS		
I	Buildings	
Block 1.	Buildings which are used mainly for residential purposes except hotels and boarding houses	5%
Block 2.	Buildings which are not used mainly for residential purposes and not covered by Block (1) above and (3) below	10%
Block 3.	Buildings 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	40%
Block 4.	Purely temporary erections such as wooden structures	40%
II	Furniture and Fittings	
Block 1.	Furniture and fittings including electrical fittings ["Electrical fittings" include electrical wiring, switches, sockets, other fittings and fans, etc.]	10%
III	Plant & Machinery	
Block 1.	Motor cars other than those used in a business of running them on hire, acquired on or after 23.8.2019 but before 1.4.2020 and put to use before 1.4.2020	30%
Block 2.	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 [Other than motor cars mentioned in Block 1 above]	15%
Block 3.	Motor buses, motor lorries and motor taxis used in a business of running them on hire, acquired on or after 23.8.2019 but before 1.4.2020 and put to use before 1.4.2020	45%
Block 4.	Motors buses, motor lorries, motor taxis used in the business of running them on hire [Other than motor cars mentioned in Block 3 above]	30%

Block 5.	Moulds used in rubber and plastic goods factories	30%
Block 6.	Aeroplanes, Aeroengines	40%
Block 7.	Specified air pollution control equipments, water pollution control equipments, solid waste control equipment and solid waste recycling and resource recovery systems	40%
Block 8.	Plant & Machinery used in semi-conductor industry covering all Integrated Circuits (ICs) (other than mentioned in Block 7 Above)	30%
Block 9.	Life saving medical equipments	40%
Block 10.	Machinery and plant, acquired and installed on or after 1.9.2002 in a water supply project or a water treatment system and which is put to use for the purpose of business of providing infrastructure facility	40%
Block 11.	Containers made of glass or plastic used as re-fills	40%
Block 12.	Energy Saving Devices (as specified)	40%
Block 13.	Renewable Energy Saving Devices (as specified) including the devices specified in (i) to (iii) below	40%
	(i) Electrically operated vehicles including battery powered or fuel-cell powered vehicles	40%
	(ii) Windmills and any specially designed devices which run on windmills installed on or after 1.4.2014	40%
	(iii) Any special devices including electric generators and pumps running on wind energy installed on or after 1.4.2014	40%
Block 14.	Windmills and any specially designed devices running on windmills installed on or before 31.3.2014 and any special devices including electric generators and pumps running on wind energy installed on or before 31.3.2014	15%
Block 15.	Computers including computer software (See Note below)	40%

Block 16.	Books (annual publications or other than annual publications) owned by assessee carrying on a profession	40%
Block 17.	Books owned by assessee carrying on business in running lending libraries	40%
Block 18.	Plant & machinery (General rate)	15%
IV	Ships	
Block 1.	Ocean-going ships	20%
Block 2.	Vessels ordinarily operating on inland waters not covered by Block 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, not being goodwill of a business or profession	25%

Note: Students should refer to Income-tax Rules, 2026 for the detailed classification of assets under Rule 25 and the rates applicable thereto.

		
10.	A company acquired machinery during the tax year 2026-27 but did not put it to use till 31.3.2027. Depreciation for the tax year 2026-27 shall be –	
	(a)	Fully allowed
	(b)	Allowed at 50%
	(c)	Not allowed
	(d)	Allowed proportionately
11.	Additional depreciation is not allowable on –	
	(a)	New manufacturing machinery
	(b)	Office appliances
	(c)	New plant installed in factory
	(d)	New machinery for power generation

ILLUSTRATION 2

Mr. X, a proprietor engaged in manufacturing business, furnishes the following particulars:

	Particulars	₹
(1)	Opening balance of plant and machinery as on 1.4.2026 (i.e., WDV as on 31.3.2026 after reducing depreciation for T.Y. 2025-26)	30,00,000
(2)	New plant and machinery purchased and put to use on 8.06.2026	20,00,000
(3)	New plant and machinery acquired and put to use on 15.12.2026	8,00,000
(4)	Computer acquired and installed in the office premises on 2.1.2027	3,00,000

Compute the amount of depreciation and additional depreciation for the T.Y. 2026-27, if Mr. X has exercised the option of shifting out of the default tax regime. Assume that all the assets were purchased by way of account payee cheque.

SOLUTION**Computation of depreciation and additional depreciation for T.Y. 2026-27**

Particulars	Plant & Machinery (15%)	Computer (40%)
Normal depreciation		
@15% on ₹ 50,00,000 [See Working Notes 1 & 2]	7,50,000	-
@7.5% (50% of 15%, since put to use for less than 180 days) on ₹ 8,00,000	60,000	-
@20% (50% of 40%, since put to use for less than 180 days) on ₹ 3,00,000	-	60,000
Additional Depreciation		
@20% on ₹ 20,00,000 (new plant and machinery put to use for more than 180 days)	4,00,000	-
@10% (50% of 20%, since put to use for less than 180 days) on ₹ 8,00,000	80,000	-
Total depreciation	12,90,000	60,000

Working Notes:**(1) Computation of written down value of Plant & Machinery**

Particulars	Plant & Machinery (₹)	Computer (₹)
Opening balance as on 1.4.2026	30,00,000	-
Add: Plant & Machinery purchased on 08.6.2026	20,00,000	-
Add: Plant & Machinery acquired on 15.12.2026	8,00,000	-
Computer acquired and installed in the office premises	-	3,00,000
Written down value as on 31.03.2027	58,00,000	3,00,000

(2) Composition of plant and machinery included in the WDV

Particulars	Plant & Machinery (₹)	Computer (₹)
Plant and machinery put to use for 180 days or more [₹ 30,00,000 (WDV) + ₹ 20,00,000 (purchased on 8.6.2026)]	50,00,000	-
Plant and machinery put to use for < 180 days	8,00,000	-
Computers put to use for < 180 days	-	3,00,000
	58,00,000	3,00,000

Notes:

- (1) Where an asset acquired during the tax year is put to use for less than 180 days in that tax year, the amount of deduction allowable as normal depreciation and additional depreciation would be restricted to 50% of amount computed in accordance with the prescribed percentage.

Therefore, normal depreciation on plant and machinery acquired and put to use on 15.12.2026 and computer acquired and installed on 02.01.2027, is restricted to 50% of 15% and 40%, respectively. The additional depreciation on the said plant and machinery is restricted to ₹ 80,000, being 10% (i.e., 50% of 20%) of ₹ 8 lakhs.

Mr. X is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime.

- (2) As per section 33(9)(b), the balance additional depreciation of ₹ 80,000 being 50% of ₹ 1,60,000 (20% of ₹ 8,00,000) would be allowed as deduction in the T.Y. 2027-28.
- (3) As per section 33(8), additional depreciation is allowable in the case of any new machinery or plant acquired by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, @20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant installed in office premises, residential accommodation or in any guest house.

Accordingly, additional depreciation is not allowable on computer installed in the office premises.

(5) **Actual Cost [Section 39]**

- (a) **Actual cost of an asset:** The actual cost of an asset used for the purposes of the business or profession means the actual cost to the assessee, as reduced by the following amounts:

part of cost of asset, if any, met by any other person or authority, directly or indirectly

GST paid in respect of which credit of input tax has been claimed and allowed under the relevant law

excise duty or additional duty leviable u/s 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

subsidy, grant or reimbursement, by whatever name called, if any, relating to the acquisition of the asset, received, directly or indirectly, by the assessee from

- the Central Government
- a State Government
- any authority established under any law or
- any other person

- (b) **Proportionate amount if the subsidy, grant or reimbursement is not directly related to the asset acquired:** In a case where the subsidy, grant or reimbursement referred in above diagram is not directly related to the asset acquired, the amount of reduction shall be:

$$A \times \left(\frac{B}{C} \right)$$

where,

A = total amount of subsidy, grant or reimbursement not directly relatable to the asset;

B = cost of the asset acquired for which actual cost is to be determined;

C = cost of all the assets in respect of or in reference to which the subsidy or grant or reimbursement is so received.

- (c) **Payment exceeding ₹ 10,000 made in a day otherwise than by specified banking or online mode not included actual cost:** The payment or aggregate of payment exceeding ₹ 10,000 in a day for acquisition of an asset or part thereof, made to a person in a mode otherwise than by specified banking or online mode, shall be excluded from the actual cost of that asset.

Meaning of “Specified Banking or Online Mode” [Section 66(32)] - Specified Banking or Online Mode mean transaction by

- an account payee cheque or
- an account payee bank draft or
- use of electronic clearing system through a bank account or
- through such other electronic mode, as may be prescribed.

As per Rule 48 of the Income-tax Rules, 2026, “other electronic modes of payment” are the following:

- Credit Card;
- Debit Card;
- Net Banking;
- IMPS (Immediate Payment Service);
- UPI (Unified Payment Interface);
- RTGS (Real Time Gross Settlement);
- NEFT (National Electronic Funds Transfer);
- BHIM (Bharat Interface for Money) Aadhaar Pay, and
- Tier-III: Full KYC Central Bank Digital Currency wallets, P-CBDC, Wholesale/Cross-border CBDC.

(d) Actual cost in certain special situations [Section 39(4)]

S. No.	Specified circumstances	Actual cost to the assessee
1.	Where inventory is converted or treated as a capital asset	Fair market value of such inventory as on the date of its conversion into capital asset, as determined in the prescribed manner
2.	Where asset is acquired by the assessee by way of gift or inheritance	Actual cost to the previous owner minus depreciation allowable as if such asset was the only asset in the relevant block of assets. Further, any expenditure incurred by the assessee such as expenditure on freight, installation etc. of such asset would also be includible in the actual cost.
3.	Where a building being the property of the assessee, is put to use for the purpose of business or profession during the tax year	Actual cost of the building as reduced by the depreciation – ◆ that would have been allowable had the building been used for the purpose of business or profession from the date of acquisition and ◆ calculated at the rates in force on the date on which such asset was put to use for the purpose of business or profession.
4.	Where an asset, which previously belonged to the assessee and had been used by him for the purposes of his business or profession, is re-acquired by the assessee	(a) actual cost of the asset in the hands of assessee, when it was first acquired minus depreciation allowable to the assessee as if asset was the only asset in the relevant block of assets; or (b) the actual price for which such asset is re-acquired by the assessee, whichever is lower

5.	Where an asset is acquired by the assessee from previous owner and subsequently asset is given back to the previous owner by way of lease, hire or otherwise and the asset was being used for the purpose of business or profession by the previous owner and depreciation has been claimed by the previous owner	Actual cost of the asset shall be the written down value of the said asset in the hands of the previous owner at the time of transfer by the previous owner.
6.	Where an asset is used in business after it ceases to be used for scientific research related to that business and a deduction is allowable u/s 33(3).	Actual cost of the asset as reduced by deduction allowed for the capital asset u/s 45(1)(a)(i) of the Income-tax Act, 2025 or u/s 35(1)(iv) of the Income-tax Act, 1961. Note - Actual cost of such asset would be Nil as already 100% deduction would have been claimed under above mentioned sections 45(1)(a)(i) /35(1)(iv)
7.	Where the assessee had acquired an asset outside India, as a non-resident, and the asset is brought by him to India and put to use in his business or profession in India.	Actual cost of the asset as reduced by the depreciation ♦ that would have been allowable had the asset been used for the purpose of business or profession in India since the date of its acquisition and ♦ calculated at the rate in force
8.	Where deduction u/s 46 (capital expenditure of specified business)	Actual cost shall be deemed to be nil.

was allowed or allowable in respect of the capital asset (i) to the assessee; or (ii) to any person and the assessee acquires or receives such asset through <u>special modes of acquisition</u> from such person.	
As per section 39(7), special modes of acquisition mean acquisition: (a) by way of a gift or will or an irrevocable trust or (b) upon distribution on the liquidation of a company or (c) by way of distribution of capital assets on total or partial partition of a HUF or (d) by way of any transfer of a capital asset by a holding company to its 100% subsidiary company, being an Indian company or (e) by way of any transfer of a capital asset by a subsidiary company to its 100% holding company, being an Indian company or (f) by way of 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 or (g) by way of 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 or (h) by way of 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 (fulfilling the conditions prescribed) or (i) by way of any transfer of a capital asset or intangible asset by a private company or unlisted public company to a LLP as a result of conversion of the company into LLP (fulfilling the conditions prescribed) or	

	(j) by way of 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).	
9.	Where deduction allowed u/s 46 in respect of a capital asset becomes deemed income as per section 46(9)(b) [on account of being used for a purpose other than specified business u/s 46].	Actual cost of the asset as reduced by the depreciation, ◆ that would have been allowable had the asset been used for the purpose of business since date of acquisition; and ◆ calculated at the rate in force
10.	Where any amount is paid or payable as interest in connection with the acquisition of an asset.	Actual cost shall not include so much of interest as is relatable to any period after such asset is first put to use.

(e) Acquisition of assets with the main purpose to reduce tax liability [Section 39(5) and 39(6)]

Where the asset is acquired by the assessee and before such acquisition, the asset was used by any other person for the purposes of his business and the Assessing Officer is satisfied that the main purpose of the transfer of the asset, directly or indirectly, was to reduce tax liability (by claiming depreciation with reference to an enhanced cost), the actual cost of such asset shall be such an amount as may be determined by the Assessing Officer, having regard to all the circumstances of the case.

The determination of actual cost by the Assessing Officer shall be made with prior approval of the Joint Commissioner.

Provisions of this section shall apply irrespective of anything contained in the circumstances discussed above in section 39(4), except the case discussed at Sl. No. 5.

ILLUSTRATION 3

A car purchased by Dr. Soman on 10.08.2022 for ₹ 5,25,000 for personal use is brought into professional use on 1.07.2026 by him, when its market value was ₹ 2,50,000.

Compute the actual cost of the car and the amount of depreciation for the T.Y. 2026-27 assuming the rate of depreciation to be 15%.

SOLUTION

As per section 39(4), the expression "actual cost" would mean the actual cost of asset to the assessee.

The purchase price of ₹ 5,25,000 is, therefore, the actual cost of the car to Dr. Soman. Market value (i.e. ₹ 2,50,000) on the date when the asset is brought into professional use is not relevant.

Therefore, amount of depreciation on car as per section 33 for the T.Y.2026-27 would be ₹ 78,750, being ₹ 5,25,000 x 15%.

Note: Section 39(4) (Table Sl. No. 3) providing for reduction of notional depreciation from the date of acquisition of asset for personal use to determine actual cost of the asset is applicable only in case of building which is initially acquired for personal use and later brought into professional use. It is not applicable in respect of other assets.

(6) Written down value [Section 41]

For the purposes of computation of income under the head "Profits and gains of business or profession", written down value means the following –

Situation	Amount of WDV
If the asset is acquired in the tax year	the actual cost to the assessee
If the asset is acquired before the tax year	Actual cost to the assessee less depreciation actually allowed under Income-tax Act 2025 or under Income-tax Act, 1961. Any depreciation carried forward u/s 33(11) is deemed to be depreciation actually allowed [Section 41(8)].

In case of block of assets	The written down value of block of assets shall be: [(A-D) + B – C] - E		
	(A)	W.D.V. of the block of assets in the immediately preceding tax year (T.Y. 2025-26)	xxx
	(D)	Less: Depreciation actually allowed in respect of that block of assets in relation to the said immediately preceding tax year (i.e., in T.Y. 2025-26)	xxx
	Opening balance as on 1st April of the current T.Y. (i.e., on 1.4.2026)		xxx
	Increased by		
	(B)	Actual cost of any asset falling within that block, acquired during the tax year (i.e., T.Y. 2026-27)	xxx
	Reduced by		
	(C)	Money payable together with scrap value, if any, in respect of any asset falling within the block which is sold, transferred, demolished, destroyed or discarded during the tax year. However, such amount cannot exceed the amount in (A-D) + B.	xxx
	(E)	In case of slump sale , actual cost of the asset (-) depreciation allowable under the Income-tax Act, 2025 or under the Income-tax Act, 1961 as if such asset was the only asset in the relevant block of asset.	xxx
	W.D.V at the end of the year (i.e., as on 31.3.2027) on which depreciation is allowable		xxx

Depreciation provided in the books of account deemed to be depreciation actually allowed: Section 33 provides that depreciation shall be allowed at the prescribed percentage on the written down value (WDV) of any block of assets. Section 41 provides that written down value in the case of assets acquired before the tax year means the actual cost to the assessee less all

depreciation actually allowed to him under the Income-tax Act, 2025 or 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 in respect of assets acquired during the years when the person was exempt from tax.

Accordingly, section 41(9) provides that where an assessee was not required to compute his total income for the purposes of this Act for any tax year or tax years preceding the tax year under consideration,-

- (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 tax year or years preceding the tax year under consideration shall be deemed to be the depreciation actually allowed under the Act and
- (c) the depreciation actually allowed as above has to be adjusted by the amount of depreciation attributable to such revaluation of the asset.

Composite Income: Section 41(10) provides that where the income of an assessee is derived, in part from agriculture and in part from business chargeable to income-tax under the head "Profits and gains of business or profession", for computing the written down value of assets acquired before the tax year, the total amount of depreciation shall be computed as if the entire income is derived from the business of the assessee under the head "Profits and gains of business or profession" and the depreciation so computed shall be deemed to be the depreciation actually allowed under the Income-tax Act, 2025 or under the Income-tax Act, 1961.

Rule 271 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.

EXAMPLE

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). In this case, ₹ 1 lakh, being the amount of depreciation would be deemed to have been actually allowed.

Accordingly, the WDV is required to be computed by deducting the full depreciation attributable to composite income i.e., ₹ 1 lakh.

(7) Carry forward and set off of depreciation [Section 33(11)]

Section 33(11) provides for carry forward of unabsorbed depreciation. Where the profits and gains chargeable for the tax year before allowing depreciation is less than such allowable depreciation, then

- if such profits and gains is not a loss, the deduction for depreciation shall be allowed to the extent of the available profits and gains
- if such profits and gains is a loss, no deduction for depreciation shall be allowed.

The depreciation which has not been allowed, i.e., the unabsorbed depreciation shall be added to the allowable depreciation for the succeeding tax year and total amount shall be deemed to be eligible for deduction in that year and so on for succeeding tax years. The effect of this provision is that the unabsorbed depreciation shall be carried forward indefinitely till it is fully set off.

EXAMPLE

Profits and gains from business or profession of Mr. X for T.Y. 2026-27, before charging depreciation of ₹ 20 lakhs, was ₹ 16 lakhs. In such a case, after setting off the depreciation, the unabsorbed depreciation of T.Y. 2026-27 would be ₹ 4 lakhs. If profits and gains of business or profession for T.Y. 2027-28 before depreciation is ₹ 11 lakhs and depreciation allowance u/s 33 for the said tax year is ₹ 5 lakhs, then, the unabsorbed depreciation of ₹ 4 lakhs for the T.Y. 2026-27 would be added to the depreciation allowance of ₹ 5 lakhs. Consequently, ₹ 9 lakhs would be allowed to be set off against the profits of ₹ 11 lakhs and the taxable profits for T.Y. 2027-28 would be ₹ 2 lakhs.

Order of set-off

However, in the order of set-off of losses under different heads of income, effect shall first be given to current year depreciation then brought forward business losses (including loss from speculation business) and only then to unabsorbed depreciation.

The provisions in effect are as follows:

- ◆ Since the unabsorbed depreciation forms part of the current year's depreciation, it can be set off against any other head of income except "Salaries".
- ◆ The unabsorbed depreciation can be carried forward for indefinite number of tax 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.

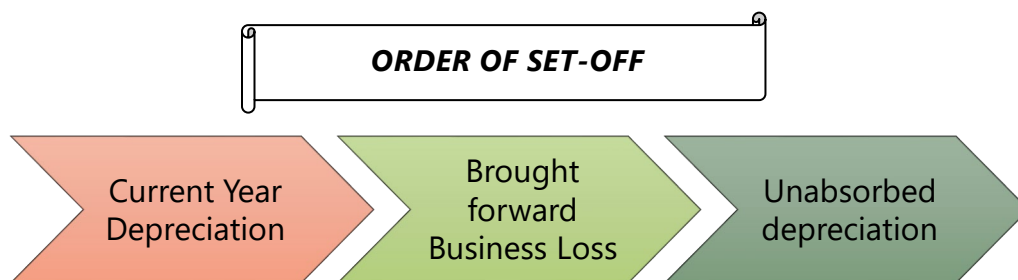


ILLUSTRATION 4

A newly qualified Chartered Accountant, Mr. Dhaval commenced practice and has acquired the following assets in his office during T.Y. 2026-27 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for T.Y.2026-27. Assume that all the assets were purchased by way of account payee cheque.

Sl. No.	Description	Date of acquisition	Date when put to use	Amount ₹
1.	Computer including computer software	27 Sept., 26	1 Oct., 26	35,000
2.	Computer UPS	2 Oct., 26	8 Oct., 26	8,500
3.	Computer printer	1 Oct., 26	1 Oct., 26	12,500

4.	Books (other than annual publications are of ₹ 12,000)	1 Apr., 26	1 Apr., 26	13,000
5.	Office furniture (Acquired from a practicing C.A.)	1 Apr., 26	1 Apr., 26	3,00,000
6.	Laptop	26 Sep., 26	8 Oct., 26	43,000

SOLUTION**Computation of depreciation allowable for T.Y.2026-27**

Asset		Rate	Depreciation (₹)
Block 1	Furniture [See working note below]	10%	30,000
Block 2	Plant (Computer including computer software, Computer UPS, Laptop, Printers and Books) [See working note below]	40%	34,500
Total depreciation allowable			64,500

Working Note:**Computation of depreciation**

Block of Assets	₹
Block 1: Furniture – [Rate of depreciation - 10%]	
Put to use for more than 180 days [₹ 3,00,000@10%]	30,000
Block 2: Plant [Rate of depreciation- 40%]	
(a) Computer including computer software (put to use for more than 180 days) [₹ 35,000 @ 40%]	14,000
(b) Computer UPS (put to use for less than 180 days) [₹ 8,500 @20%] [See note below]	1,700
(c) Computer Printer (put to use for more than 180 days) [₹ 12,500 @40%]	5,000
(d) Laptop (put to use for less than 180 days) [₹ 43,000 @20%] [See note below]	8,600
(e) Books (being annual publications or other than annual publications) (Put to use for more than 180 days) [₹ 13,000 @40%]	5,200
	34,500

Note - Where an asset is acquired by the assessee during the tax 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 T.Y. 2026-27 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 UPS.

ILLUSTRATION 5

Mr. Gamma, a proprietor started a business of manufacture of tyres and tubes for motor vehicles on 1.1.2026. The manufacturing unit was set up on 1.5.2026. He commenced his manufacturing operations on 1.6.2026. 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.

Compute the amount of depreciation allowable under section 33 of the Income-tax Act, 2025 in respect of the tax year 2026-27. Assume that all the assets were purchased by way of account payee cheque and Mr. Gamma has exercised the option under section 202(4) of shifting out of the default tax regime.

SOLUTION

Computation of depreciation allowable for the T.Y. 2026-27 in the hands of Mr. Gamma

Particulars	₹ in crore	
Total cost of plant and machinery	120.00	15.75
Less: Used for Scientific Research (Note 1)	15.00	
	105.00	
Normal Depreciation at 15% on ₹ 105 crore		15.75
Additional Depreciation:		
Cost of plant and machinery	120.00	
Less: Second-hand plant and machinery (Note 2)	20.00	
Plant and machinery used for scientific research, the whole of the actual cost of which is allowable as deduction u/s 45(1)(a)(i) (Note 2)	15.00	
	35.00	
	85.00	17.00
Additional Depreciation at 20%		
Depreciation allowable for T.Y.2026-27		32.75

Notes:

1. As per section 45(6), 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 45 in respect of such capital expenditure.
2. Mr. Gamma is entitled to additional depreciation since he has exercised the option under section 202(4) of shifting out of the default tax regime. As per section 33(8), additional depreciation is allowable in the case of any new machinery or plant acquired 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 tax 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 45(1)(a)(i) read with section 45(6).

(8) Balancing Charge

Section 38(1)(b) read with section 38(2)(b) provides for the manner of calculation of the amount which shall be chargeable to income-tax as income of the business of the tax year in which the moneys payable for the tangible asset on which depreciation has been claimed and allowed under section 33(2), i.e., in the case of power undertakings, becomes due.

The balancing charge will be computed where any tangible asset which is owned by the assessee is sold, discarded, demolished or destroyed and the

moneys payable for such asset, together with the scrap value exceeds the written down value of such assets. The balancing charge amount will be –

- moneys payable for such asset together with the scrap value - WDV of such assets, where the moneys payable for such asset together with the scrap value < the actual cost of such asset
- Actual cost of such asset – WDV of such asset, in any other case.

Section 38(5) makes it clear that the provisions of section 38(1)(b) shall apply in a tax year even if the business is no longer in existence.

	
12.	XYZ Power Ltd. sold a power generation asset for ₹ 18 lakh. The written down value (WDV) of the asset was ₹ 12 lakh and actual cost was ₹ 20 lakh. The balancing charge taxable under section 38(1)(b) shall be –
(a)	₹ 20 lakh
(b)	₹ 18 lakh
(c)	₹ 6 lakh
(d)	₹ 8 lakh
13.	Mahashakti Power Ltd. sold machinery of a power undertaking for ₹ 55 lakh. Actual cost of the asset was ₹ 50 lakh and WDV was ₹ 30 lakh. The balancing charge taxable under section 38(1)(b) shall be –
(a)	₹ 25 lakh
(b)	₹ 20 lakh
(c)	₹ 30 lakh
(d)	₹ 50 lakh



EXAMPLE Mahapower Ltd. purchased an asset on 20.7.2022. The actual cost of the asset was ₹ 100 lakhs. Mahapower Ltd. claimed depreciation @5% on the actual cost of the asset. WDV of the asset as on 1.4.2026 is ₹ 80 lakhs. On 15.5.2026, Mahapower Ltd. sold the asset

for ₹ 90 lakhs. The balancing charge of ₹ 10 lakhs (₹ 90 lakhs - ₹ 80 lakhs) would be taxable as income u/s 38(1)(b).

Suppose, on 15.5.2026, Mahapower Ltd. sold the asset for ₹ 120 lakhs instead of ₹ 90 lakhs. The balancing charge of ₹ 20 lakhs (₹ 100 lakhs - ₹ 80 lakhs) would be taxable as income u/s 38(1)(b).

Amortisation of Preliminary Expenses [Section 44]

- (1) **Nature of expenditure:** Section 44 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) **Applicable:** This section applies
 - (a) only to Indian companies and resident non-corporate assesseees;
 - (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,
 - (d) in the case of the setting up of a new unit - expenses incurred till the new unit commences production or operation.
- (3) **Amount eligible for deduction:** 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 tax years beginning with the tax year in which the business commences or, the tax 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;

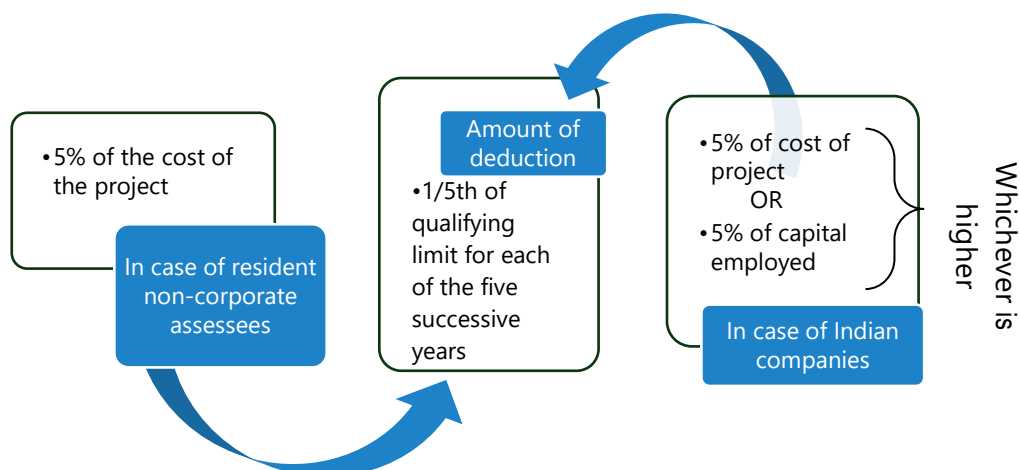
The assessee has to furnish a statement containing the particulars of above expenditure within one month prior to the due date for furnishing the return of income as specified under section 263 in the prescribed form and manner for each tax year [Rule 27].

- (ii) 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.
 - (iii) **Where the assessee is a company**, in addition to the above, expenditure incurred –
 - (a) by way of legal charges for drafting and printing of the Memorandum and Articles of Association of the company
 - (b) by way of fees for registering the company under the Companies Act; 2013,
 - (c) 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, typing, printing and advertisement of the prospectus; and
 - (iv) 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.
- (5) **Overall Limits** - The maximum aggregate amount of the qualifying expenses that can be amortised is

In case of resident non-corporate assessee - 5% of the cost of the project

In the case of an Indian company – 5% of the cost of the project or 5% of the capital employed in the business of the company, at the option of the company.

The excess, if any, of the qualifying expenses shall be ignored.



(6) **Meaning of certain terms:**

Terms	Meaning
Cost of the project	The actual 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) (i) In case of expenses incurred before the commencement of business: The actual cost as shown in the books of the assessee as on the last day of the tax year in which the business of the assessee commences (ii) In case of expenses incurred for extension of the business or setting up of a new unit: The actual cost as shown in the books of the assessee as on the last day of the tax year in which either the extension of the undertaking is completed or, as the case may be, in so far as such fixed assets have been acquired or developed in connection with the extension of the undertaking or the setting up of the new unit.
Capital employed in the business of the company	(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 tax 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 tax year in which the extension of the

undertaking is completed or, as the case may be, the unit commences production or operation in so far 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.

(7) Audit of accounts: 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 an Accountant before the date specified in section 63 i.e., one month prior to the due date for furnishing the return of income u/s 263(1); and
- the assessee has furnished for the first year in which the deduction is claimed, the report of such audit by such date in the prescribed form duly signed and verified by such accountant and setting forth such other particulars as may be prescribed.

Particulars	Due date of filing of return	Specified Date
Assesseees (other than a company) subject to tax audit	31 st October of the financial year succeeding the relevant T.Y.	30 th September of the financial year succeeding the relevant T.Y.
	For T.Y.2026-27, on or before 31 st October, 2027	For T.Y.2026-27, on or before 30 th September, 2027.

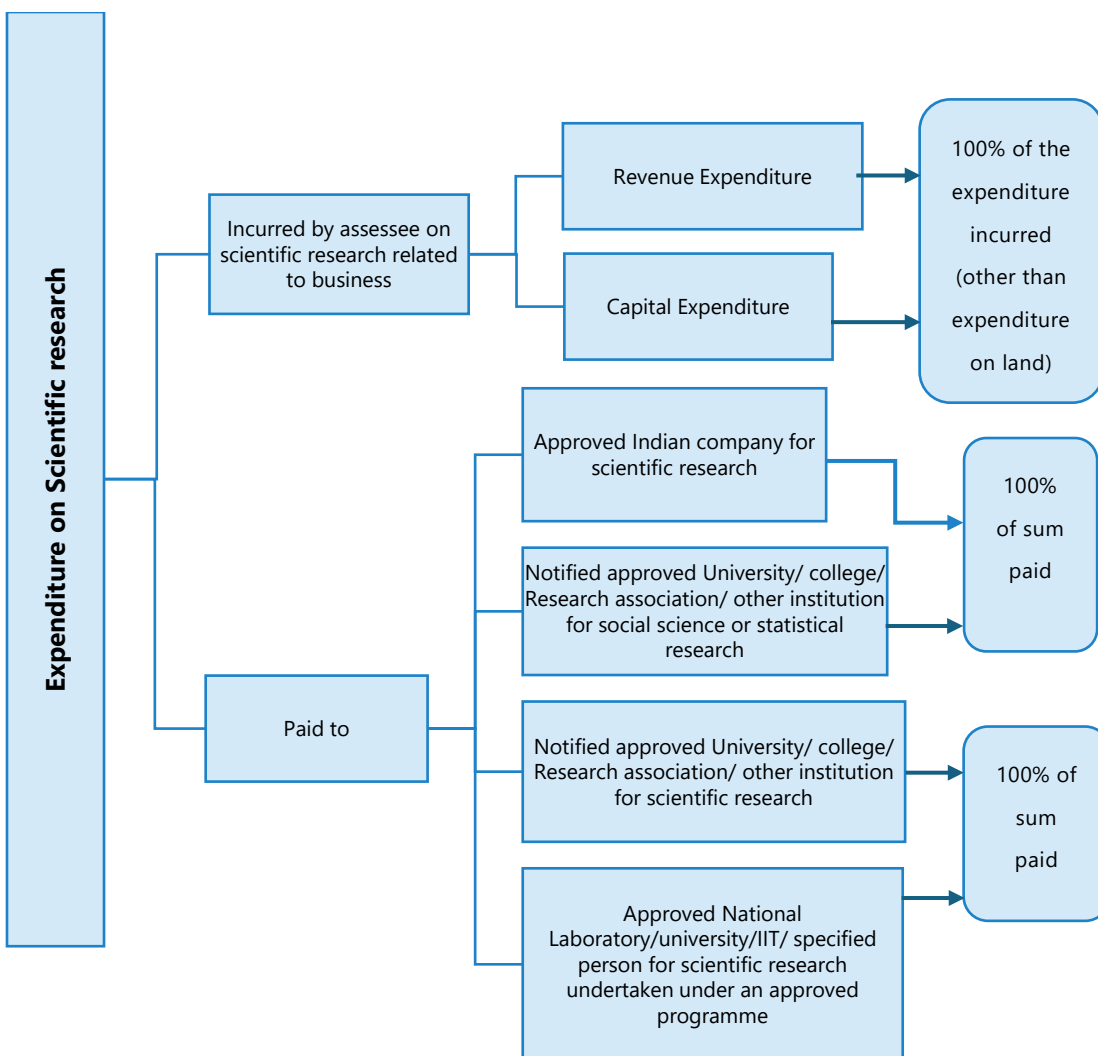
(8) No other deduction under any provision of the Act: It has been clarified that in case where a deduction under this section is claimed and allowed for any tax year in respect of any item of expenditure, the expenditure in respect of which deduction is so allowed shall not qualify for deduction under any other provision of the Act for the same or any other tax year.

Expenditure on Scientific Research [Section 45]

This section allows a deduction in respect of any expenditure on scientific research (activities for extension of knowledge in the fields of natural or applied science, including agriculture, animal husbandry or fisheries) incurred in relation to the business of the assessee or contribution by the assessee for scientific research or

social science or statistical research. However, it does include expenditure incurred in acquisition of rights in or arising out of scientific research.

The deduction allowable under this section is depicted in the diagram below:



(I) Incurred by assessee related to his business [Section 45(1)]:

(i) **Revenue and capital expenditure:** A deduction would be allowed for any expenditure, being in the nature of

- capital expenditure, but not on acquisition of land which is acquired as such or part of any property or
- revenue expenditure,

incurred on scientific research **related to the business of the assessee.**

- (ii) **Expenditure incurred on salary to research personnel and purchase of material prior to commencement of business:** A deduction would also be allowed in the tax year in which the business is commenced in respect of the aggregate of expenditure (not being in the nature of capital expenditure), related to business, incurred on –
- ◆ salary to an employee engaged in such scientific research or
 - ◆ purchase of materials used in such scientific research,
- where such expenditure is incurred within three years immediately preceding the commencement of business. The deduction will be limited to the extent certified by the prescribed authority as incurred on such research.
- (iii) **Capital Expenditure prior to commencement of business:** 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 tax year in which the business is commenced and will rank for deduction as expenditure for scientific research incurred during the tax year.
- (iv) **Carry forward of deficiency:** Capital expenditure incurred on scientific research which cannot be absorbed by the business profits of the relevant tax year shall be treated in the same manner as unabsorbed depreciation u/s 33(11) i.e., it can be carried forward to the immediately succeeding tax 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 tax year against any head of income other than salaries [Section 45(7)].
- (v) **No depreciation:** Section 45(6) clarifies that no depreciation will be admissible on any expenditure represented wholly or partly by an asset which has been allowed as a deduction under section 45 whether in the year in which deduction under section 45 was allowed or in any other tax year.
- (vi) **Sale of asset representing expenditure of capital nature on scientific research:** Section 38(1)(c) seeks to tax the profits arising on

the sale of an asset representing expenditure of a capital nature on scientific research.

Where the asset representing expenditure of a capital nature on scientific research is sold **without having been used for other purposes**, and the sale proceeds together with the total deductions allowed under section 45(1)(a)(i) 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 tax year in which the asset was sold.

 **EXAMPLE** *If capital expenditure incurred on building for scientific research in T.Y. 2026-27 is ₹ 3 lakhs, then deduction u/s 45(1)(a)(i) would have been ₹ 3 lakhs in that T.Y. If the asset is sold for ₹ 4 lakhs in T.Y. 2027-28, ₹ 3 lakhs, being lower of sale proceeds of ₹ 4 lakhs together with total deduction of ₹ 3 lakhs – amount of capital expenditure of ₹ 3 lakhs and deduction u/s 45(1)(a)(i) of ₹ 3 lakhs, would be charged to tax u/s 38(1)(c) in the T.Y. 2027-28, being the year of sale.*

 NOTE

Deduction u/s 45(1) would be available to an assessee under the default tax regime u/s 202(1) as well as under the optional tax regime.

(II) Amount contributed or paid to [Section 45(3)]:

(i) Amount contributed or paid to research association, university, college or other institution: Under section 45(3)(a), a deduction is allowed in respect of any sum paid to -

- ◆ a research association having the object of undertaking scientific research or to a university, college or institution to be used for scientific research
- ◆ a research association having the object of undertaking research in social science or statistical research or to a university, college or institution to be used for research in any social science or statistical research.

The above association university, college or other institution must be approved for this purpose and notified by the Central Government [Section 45(4)(b)].

- (ii) **Amount contributed or paid to approved Indian company for scientific research:** A deduction is allowed in respect of any sum paid to a company.

Such deduction would be available only if

- ◆ the company is registered in India having the main object of scientific research and development and
- ◆ approved by the prescribed authority and should fulfill the other prescribed conditions [Section 45(3)(b)].

- (iii) **Amount contributed or paid to National Laboratory, etc.:** A deduction is allowed under section 45(3)(c) in respect of any sum paid to a National Laboratory or University or Indian Institute of Technology or a specified person with a specific direction that the said sum shall be used for scientific research undertaken under a programme approved in this behalf by the prescribed authority.

Specified Person means a person who is approved by the prescribed authority.

No other deduction under the Act: No deduction will be allowed in respect of the sum under any other provision of the Income-tax Act, 2025.

Notes:

- ✓ *The expenditure under section 45(3) shall be allowed subject to such conditions and on furnishing of documents, as may be prescribed.*
- ✓ *Section 45(5) clarifies that the deduction to which an assessee (i.e. donor) is entitled on account of payment of any sum as above 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 or the programme undertaken by entities as mentioned has been withdrawn.*

 NOTE

Deduction u/s 45(3) would be available to an individual, HUF, AoP (other than a co-operative society) or BoI or an artificial juridical person only if they exercise the option of shifting out of the default tax regime and pay tax as per the optional tax regime of the Act.

ILLUSTRATION 6

Mr. A furnishes the following particulars for T.Y.2026-27. Compute the deduction allowable under section 45 for T.Y.2026-27, while computing his income under the head "Profits and gains of business or profession", if.

- (i) he is paying tax under default tax regime under section 202(1)
- (ii) he has exercised the option under section 202(4) of shifting out of the default tax regime.

	Particulars	₹
1.	Amount paid to notified approved Indian Institute of Science, Bengaluru, for scientific research	1,00,000
2.	Amount paid to IIT, Delhi for an approved scientific research programme	2,50,000
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	4,00,000
4.	Expenditure incurred on in-house scientific research and development facility as approved by the prescribed authority related to his business	
	(a) Revenue expenditure on scientific research	3,00,000
	(b) Capital expenditure (including cost of acquisition of land ₹ 5,00,000) on scientific research	7,50,000

SOLUTION

(i) If Mr. A is paying tax under default tax regime under section 202(1)

Computation of deduction under section 45 for the T.Y.2026-27

Particulars	(₹)	Section	Allowability	Amount of deduction (₹)
Payment for scientific research				
Indian Institute of Science, Bengaluru	1,00,000	45(3)(a)	Not allowable under default tax regime	Nil
IIT, Delhi	2,50,000	45(3)(c)		Nil
X Ltd.	4,00,000	45(3)(b)		Nil
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	45(1)	Allowable under default tax regime	3,00,000
Capital expenditure (excluding cost of acquisition of land ` 5,00,000)	2,50,000	45(1)		2,50,000
Deduction allowable under section 45				5,50,000

(ii) If Mr. A has exercised the option under section 202(4) of shifting out of the default tax regime

Computation of deduction under section 45 for the T.Y.2026-27

Particulars	(₹)	Section	% of deduction	Amount of deduction (₹)
Payment for scientific research				
Indian Institute of Science	1,00,000	45(3)(a)	100%	1,00,000
IIT, Delhi	2,50,000	45(3)(c)	100%	2,50,000
X Ltd.	4,00,000	45(3)(b)	100%	4,00,000

Expenditure incurred on in-house research and development facility					
Revenue expenditure		3,00,000	45(1)	100%	3,00,000
Capital expenditure (excluding cost of acquisition of land ₹ 5,00,000)		2,50,000	45(1)	100%	2,50,000
Deduction allowable under section 45					13,00,000

“Investment-linked tax incentives” for specified businesses [Section 46]

Section 46 provides deduction for the capital expenditure incurred, wholly and exclusively, for the purposes of such specified business carried on by him.

- (1) Deduction for Capital Expenditure:** 100% of the capital expenditure incurred, wholly and exclusively, for the specified business carried on the assessee would be allowed as deduction to the assessee, at his option, during the tax year in which such expenditure is incurred.

NOTE

Capital expenditure shall not include any expenditure

- for which the payment or aggregate of payments made to a person in a day exceeds ₹ 10,000 is not through specified banking or online mode
- incurred on the acquisition of any land, goodwill or financial instrument.

Meaning of “Specified Banking or Online Mode” [Section 66(32)] - Specified Banking or Online Mode mean transaction by

- an account payee cheque or
- an account payee bank draft or
- use of electronic clearing system through a bank account or
- through such other electronic mode, as may be prescribed.

As per Rule 48 of the Income-tax Rules, 2026, "other electronic modes of payment" are the following:

- Credit Card;
- Debit Card;
- Net Banking;
- IMPS (Immediate Payment Service);
- UPI (Unified Payment Interface);
- RTGS (Real Time Gross Settlement);
- NEFT (National Electronic Funds Transfer);
- BHIM (Bharat Interface for Money) Aadhaar Pay, and
- Tier-III: Full KYC Central Bank Digital Currency wallets, P-CBDC, Wholesale/Cross-border CBDC.

 NOTE

In case of an individual/HUF/AoP/BoI carrying on specified business, deduction u/s 46 would be available only if such person exercises the option of shifting out of the default tax regime. If such person is paying concessional rates of tax under the default tax regime u/s 202(1), deduction u/s 46 would not be available.

- (2) **Expenditure prior to commencement of operation:** Where the expenditure is incurred, wholly and exclusively, for the purpose of specified business prior to commencement of its operation and such expenditure is capitalised in the books of account as on the date of commencement of its operations, deduction would be allowed during the tax year in which the such business is commenced.
- (3) **List of specified businesses:** Specified businesses, for which deduction of capital expenditure is allowed under this section, are as follows:
- 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 notified scheme for slum redevelopment or rehabilitation framed by the Central Government or a State Government.
- developing and building a housing project under a notified scheme for affordable housing framed by the Central Government or State Government;
- 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;
- setting up and operating a warehousing facility for storage of sugar;
- laying and operating a slurry pipeline for the transportation of iron ore;
- setting up and operating a semiconductor wafer fabrication manufacturing unit, if such unit is notified by the Board in accordance with the prescribed guidelines;
- developing or maintaining and operating or developing, maintaining and operating a new infrastructure facility.

(4) Conditions to be fulfilled: For claiming deduction under section 46, the specified business should fulfill the following conditions –

(i)	it should not be set up by splitting up, or the reconstruction, of a business already in existence;
(ii)	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 such specified 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, at any time prior to the date of its installation by the assessee, used in India;
- (b) the plant or machinery was imported into India from a foreign Country; and
- (c) no deduction on account of depreciation in respect of such plant or machinery has been allowed to any person at any time prior to the date of installation by the assessee.

(5) No deduction under section Chapter VIII-C: Where a deduction under this section is claimed and allowed in respect of the specified business for any tax year, no deduction under the provisions of Chapter VIII-C is permissible in relation to such specified business for the same or any other tax year.

(6) No deduction allowable under the Act in respect of expenditure for which deduction allowed under this section: The assessee cannot claim deduction in respect of such expenditure incurred for specified business under any other section in any tax year or under this section in any other tax year, if the deduction has been claimed and allowed to him under section 46.

(7) Date of Commencement of specified businesses:

S. No.	Specified business	Date of commencement of operations
1.	Laying and operating a cross country natural gas pipeline network for distribution, including storage facilities being an integral part of such network	on or after 1 st April, 2007
2.	(a) building and operating anywhere in India, a hotel of two-star or above	on or after 1 st April, 2010

	category as specified by the Central Government (b) building and operating a hospital with at least 100 beds for patients (c) notified scheme for slum redevelopment or rehabilitation housing projects	
3.	(a) notified scheme for affordable housing projects and (b) production of fertilizer in a new plant or in a newly installed capacity in an existing plant	on or after 1 st April, 2011
4.	(a) setting up and operating an inland container depot or a container freight station notified or approved under the Customs Act, 1962, (b) bee-keeping and production of honey and beeswax and (c) setting up and operating a warehousing facility for storage of sugar	on or after 1 st April, 2012
5.	(a) laying and operating a slurry pipeline for the transportation of iron ore or (b) setting up and operating a semiconductor wafer fabrication manufacturing unit	on or after 1 st April, 2014
6.	developing or operating and maintaining or developing, operating and maintaining, any infrastructure facility	on or after 1 st April, 2017
7.	In any other case, namely, setting and operating- (a) "cold-chain" facilities for specified products or (b) warehousing facilities for storing agricultural produce	on or after 1 st April, 2009

(8) Meaning of certain terms

Term	Meaning
Cold chain facility	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.
Associated person	In relation to the assessee means a person— (i) who participates directly or indirectly or through one or more intermediaries in the management or control or capital of the assessee; (ii) who holds, directly or indirectly, shares carrying not less than 26% of the voting power in the capital of the assessee; (iii) 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 (iv) who guarantees not less than 10% of the total borrowings of the assessee.
Infrastructure facility	(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. (iv) A port, airport, inland waterway, inland port or navigational channel in the sea.

(9) Set-off or carry forward and set-off of loss from specified business:

As per section 114, the loss of an assessee claiming deduction under section 46 in respect of a specified business can be set-off against the profit of another specified business, irrespective of whether the latter is eligible for deduction under section 46.

Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business but the assessee has to file return of income on or before the due date of filling return of income under section 263 for carry forward of losses from specified business.



A 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 section 46, against the profits of the existing business of operating a hospital (with atleast 100 beds for patients) or a hotel (of two-star or above category) started before 1st April, 2010, even if the latter is not eligible for deduction under section 46.

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 1.4.2026. He incurred capital expenditure of ₹ 80 lakh, ₹ 60 lakh and ₹ 50 lakh, respectively, on purchase of land and building during the period January, 2026 to March, 2026 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2026. The cost of land included in the above figures is ₹ 50 lakh, ₹ 40 lakh and ₹ 30 lakh, respectively. During T.Y. 2026-27, he 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.

The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction under section 46 and section 33) for the T.Y. 2026-27 is ₹ 16 lakhs, ₹ 14 lakhs and ₹ 31 lakhs, respectively. Also, assuming in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.

Compute the income under the head "Profits and gains of business or profession" for the T.Y.2026-27 and the loss to be carried forward, assuming that Mr. A is exercising the option under section 202(4) of shifting out of the default tax regime and has fulfilled all the conditions specified for claim of deduction under section 46 and wants to claim deduction under section 46 and has not claimed any deduction under Chapter VIII-C.

SOLUTION**Computation of profits and gains of business or profession for T.Y.2026-27**

Particulars	₹ (in lakhs)
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 33)	31
Less: Depreciation under section 33	
10% of ₹ 30 lakh, being (₹ 50 lakh – ₹ 30 lakh + ₹ 10 lakh)	3
Income chargeable under “Profits and gains from business or profession”	28

Computation of income/loss from specified business under section 46

Particulars		Food Grains	Sugar	Total
		₹ (in lakhs)		
(A)	Profits from the specified business of setting up a warehousing facility (before providing deduction u/s 46)	16	14	30
	Less: Deduction under section 46			
(B)	Capital expenditure incurred prior to 1.4.2026 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2026 (excluding the expenditure incurred on acquisition of land) = ₹ 30 lakh (₹ 80 lakh – ₹ 50 lakh) and ₹ 20 lakh (₹ 60 lakh – ₹ 40 lakh)	30	20	50
(C)	Capital expenditure incurred during the T.Y. 2026-27	20	15	35
(D)	Total capital expenditure (B + C)	50	35	85
(E)	Deduction under section 46			
	100% of capital expenditure (food grains/ sugar)	50	35	85
	Total deduction u/s 46 for T.Y.2026-27	50	35	85

(F)	Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 46) to be carried forward as per section 114 (A-E)	(34)	(21)	(55)
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Notes:

- (i) Deduction of 100% of the capital expenditure is available under section 46 for T.Y.2026-27 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 01.04.2012 or on or after 01.04.2009, respectively.
- (ii) 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 46 in respect of capital expenditure incurred in respect of such business.
- (iii) Mr. A can, however, claim depreciation@10% under section 33 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 T.Y. 2026-27.
- (iv) Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of ₹ 55 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 provided Mr. A file his return of income on or before the due date as specified u/s 263(1).

ILLUSTRATION 8

Mr. Suraj, a proprietor, commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2026. He incurred capital expenditure

of ₹ 50 lakh during the period January, 2026 to March, 2026 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2026. Further, during the T.Y. 2026-27, he 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 T.Y.2026-27, assuming that he has fulfilled all the conditions specified under section 46 and opted for claiming deduction under section 46; and has not claimed any deduction under Chapter VIII-C. He has exercised the option under section 202(4) of shifting out of the default tax regime.

The profits from the business of running this hotel (before claiming deduction under section 46) for the T.Y.2026-27 is ₹ 25 lakhs. Assume that he also has another existing business of running a four-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are ₹ 120 lakhs for the T.Y. 2026-27. Also, assume that payments for capital expenditure were made by net banking.

SOLUTION

Computation of profits and gains of business or profession for T.Y. 2026-27

Particulars	₹
Profits from the specified business of new hotel in Madurai (before providing deduction under section 46)	25 lakhs
Less: Deduction under section 46	
Capital expenditure incurred during the T.Y.2026-27 (excluding the expenditure incurred on acquisition of land) = ₹ 200 lakh – ₹ 150 lakh	50 lakhs
Capital expenditure incurred prior to 1.4.2026 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2026	50 lakhs
Total deduction under section 46 for T.Y.2026-27	100 lakhs
Loss from the specified business of new hotel in Madurai	(75 lakhs)

Profit from the existing business of running a hotel in Coimbatore	120 lakhs
Net profit from business after set-off of loss of specified business against profits of another specified business under section 114	45 lakhs

(10) Other conditions contained under section 46

S. No.	Particulars	Condition
1.	Audit of accounts	The deduction shall be allowed to the assessee only if the accounts of the assessee for the relevant tax year have been audited by an accountant before the specified date referred to in section 63 and the assessee furnishes by that date the audit report in the prescribed form duly signed and verified by such accountant.
2.	Asset to be used for specified business for eight years	Section 46A(9)(a) provides that any asset in respect of which a deduction is claimed and allowed u/s 46 shall be used only for the specified business for a period of eight years beginning with the tax year in which such asset is acquired or constructed.
3.	Asset is used for any other business other than specified business during 8 years	Section 46(9)(b) provides that if any asset for which a deduction is claimed and allowed under section 46 is used for any purpose other than the specified business during 8 years beginning with the tax year in which such asset is acquired or constructed, the total amount of deduction so claimed and allowed in any tax year(s), as reduced by the amount of depreciation allowable under section 33, as if no deduction had been allowed under section 46, <u>shall be deemed to be income</u> of the assessee chargeable under the head "Profits and gains of business or profession" of the tax year in which the asset is so used.

		In such a case, as per provisions of section 39(4) [Table Sl. No. 12(b)], the actual cost of such asset for the assessee shall be the actual cost as reduced by the depreciation calculated at the rate in force that would have been allowable had the asset been used for the purpose of business since the date of its acquisition.
4.	Asset demolished, destroyed, discarded or transferred for which a deduction has been allowed	If any asset on which a deduction under section 46² has been allowed, is demolished, destroyed, discarded or transferred, the sum received or receivable for the same is chargeable to tax under clause (k) of section 26(2). This does not take into account a case where asset on which deduction under section 46 has been allowed is used for any purpose other than the specified business by way of a mode other than the specified ones.

ILLUSTRATION 9

Mr. Arnav is a proprietor having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil.

Unit A commenced operations on 1.4.2025 and it claimed deduction of ₹ 100 lakhs incurred on purchase of two buildings for ₹ 50 lakhs each (for operating a warehousing facility for storage of sugar) for T.Y.2025-26. However, in February, 2027, Unit A transferred one of its buildings to Unit B.

Examine the tax implications of such transfer in the hands of Mr. Arnav.

SOLUTION

Since the capital asset, in respect of which deduction of ₹ 50 lakhs was claimed, has been transferred by Unit A carrying on specified business to Unit B carrying on non-

² or section 35AD of the Income-tax Act, 1961

specified business in the T.Y.2026-27, the deeming provision u/s 46(9)(b) is attracted during the T.Y.2026-27.

Particulars	₹
Deduction allowed u/s 46 ³ for T.Y.2025-26	50,00,000
Less: Depreciation allowable for T.Y.2025-26 [10% of ₹ 50 lakhs]	5,00,000
Deemed income under section 46	45,00,000

Mr. Arnav, however, can claim depreciation u/s 33 on the building in Unit B for T.Y.2026-27. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	₹
Actual cost to the assessee	50,00,000
Less: Depreciation allowable for T.Y.2025-26 [10% of ₹ 50 lakhs]	5,00,000
Actual cost in the hands of Mr. Arnav in respect of building in its Unit B	45,00,000

Amortisation of expenditure incurred under voluntary retirement scheme [Section 52]

- (1) **Nature of expenditure:** This section applies to an assessee who incurred during the tax year any expenditure in the form of payment to any employee in connection with his voluntary retirement, as per any scheme of voluntary retirement.
- (2) **Amount of deduction:** The amount of **deduction allowable is one-fifth of the amount paid** for that tax year, and the balance in four equal installments in the four immediately succeeding tax years. The deduction would start from the tax year in which sum payment is made.
- (3) **No deduction under any other provision of the Act:** No deduction shall be allowed in respect of the above expenditure under any other provision of the Act.

³ Erstwhile section 35AD

General conditions for allowable deductions [Section 34]

- (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. 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:** By virtue of section 34(1), 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 specified in **sections 28 to 33, 44 to 46 and 52**.
 - (b) It should **not** be in the nature of **any personal expenses** of the assessee.
 - (c) It should have been laid out or expended wholly and exclusively for the purposes of such business or profession.
 - (d) It should **not** be in the nature of **capital expenditure**.
- (3) **Following expenditure are not considered as "laid out or expended wholly and exclusively for business or profession of the assessee" and accordingly are not allowed as deduction u/s 34(1):**
 - (a) an expenditure incurred for any purpose which is an offence or is prohibited by law; or
 - (b) an expenditure incurred on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013; or
 - (c) an expenditure incurred on advertisement in any souvenir, brochure, tract, pamphlet or the like, published by a political party.

An expenditure incurred for any purpose which is an offence or is prohibited by law, as mentioned in (a) above, shall include expenditure incurred for -

- (i) any purpose which is an offence under, or is prohibited by, any law in force in or outside India; or
- (ii) providing a benefit or perquisite in any form to a person, who may or may not be carrying on a business or exercising a profession, when its acceptance by the person is in violation of any law or rule or regulation or guideline governing the conduct of that person; or

- (iii) compounding an offence under any law in force in or outside India; or
- (iv) settling proceedings initiated in relation to contravention under any law notified by the Central Government in this behalf.

The Central Government has, vide notification no. 38/2025 dated 23.4.2025, notified that any expenditure incurred to settle proceedings initiated in relation to contravention or defaults under the following laws shall not be deemed to have been incurred for the purpose of business or profession and no deduction or allowance shall be made in respect of such expenditure –

- (a) the Securities and Exchange Board of India Act, 1992;
- (b) the Securities Contracts (Regulation) Act, 1956;
- (c) the Depositories Act, 1996;
- (d) the Competition Act, 2002.

 **EXAMPLE** *Expenses incurred in providing freebies to medical practitioner by pharmaceutical and allied health sector industry are in violation of the provisions of Indian Medical Council (Professional Conduct, Etiquette and Ethics) Regulations. Hence, such expenditure is considered to be expenses prohibited by the law and not allowed in the hands of such pharmaceutical or allied health sector industry or other assessee which has provided aforesaid freebies.*

- (4) **Expenditure incurred on Keyman insurance policy:** CBDT Circular no. 762/1998 dated 18.02.1998 clarifies that the premium paid on the Keyman Insurance Policy is allowable as business expenditure.

The Punjab and Haryana High Court held that, "the Keyman Insurance Policy when obtained to secure the life of a partner to safeguard the firm against a disruption of the business is equally for the benefit of the partnership business which may be effected as a result of premature death of a partner. Thus, the premium on the Keyman Insurance Policy of partner of the firm is wholly and exclusively for the purpose of business and is allowable as business expenditure".

The CBDT accepted the view of the High Court, accordingly, vide Circular no. 38/2016 has clarified that, in case of a firm, premium paid by the firm on the

Keyman Insurance Policy of a partner, to safeguard the firm against a disruption of the business, is an admissible expenditure under section 34.



14.	<i>XYZ Ltd. paid ₹ 25 lakh to employees under a voluntary retirement scheme during T.Y. 2026-27. Deduction allowable for T.Y. 2026-27 shall be –</i>
(a)	₹ 25 lakh
(b)	₹ 12.5 lakh
(c)	₹ 5 lakh
(d)	Nil
15.	<i>Which of the following is an essential condition for deduction under section 34(1)?</i>
(a)	<i>Expenditure must be capital in nature</i>
(b)	<i>Expenditure should be wholly and exclusively for business purposes</i>
(c)	<i>Expenditure should create enduring benefit</i>
(d)	<i>Expenditure must relate to personal use</i>



3.8 AMOUNTS NOT DEDUCTIBLE IN CERTAIN CIRCUMSTANCES [SECTION 35]

Section 35 provides for disallowance of certain expenses as follows:

Amounts are not deductible in the case of all assessees

(i) Taxes on income [Section 35(a)]

Section 35(a) provides for disallowance of following amounts:-

- (a) tax paid on income,

- (b) tax paid by employer referred to in Schedule III (Table: Sl. No. 10) i.e., tax on non-monetary perquisites of employees, paid by the employer

Any surcharge or cess on such tax are treated as includible in tax and accordingly they are also not allowed as deduction.

Note: Tax paid on non-monetary perquisites on behalf of employees - 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.

Section 35(a)(ii) provides that, such payment of tax is not allowed as deduction from the income of the employer. Thus, the payment of tax on non-monetary 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) Sum payable to a resident where there is a default of deduction of tax at source [Section 35(b)(i)]

Section 35(b)(i) provides that **30% of any sum payable to a resident**, on which tax is deductible at source under Chapter XIX-B, shall be disallowed if –

- (i) such tax has not been deducted during the tax year; or
- (ii) such tax, after deduction during the tax year, has not been paid upto the due date specified in section 263(1).

Where in respect of such sum, tax is deducted in any subsequent year or is deducted during the tax year but paid after the due date specified in section 263(1), 30% of such sum shall be allowed as deduction in computing the income of the tax year in which such tax has been paid.

Where the assessee is required to and fails to deduct the whole or any part of tax on any such sum but is not deemed as assessee in default under section 398(2) by reason that such payee –

- (i) has furnished his return of income under section 263;

- (ii) has taken into account such sum for computing income in that 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,

it would be deemed that the assessee has deducted and paid the tax on such sum on the date on which return of income has been furnished by the payee.

NOTE

Since the date of furnishing the return of income by the payee is taken to be the date on which the payer has deducted tax at source and paid the same, 30% of such expenditure/payment in respect of which the payer has failed to deduct tax at source shall be disallowed under section 35(b)(i) in the year in which the said expenditure is incurred. However, 30% of such expenditure will be allowed as deduction in the subsequent year in which the return of income is furnished by the payee, since tax is deemed to have been deducted and paid by the payer in that year.

EXAMPLE

Tax on royalty paid to Mr. A, a resident, has been deducted during the tax year 2026-27, the same has to be paid by 31st August/ 31st October 2027, as the case may be. Otherwise, 30% of royalty paid would be disallowed in computing the income for T.Y. 2026-27. If in respect of such royalty, tax deducted during T.Y. 2026-27 has been paid after 31st August/ 31st October, 2027, 30% of such royalty disallowed in T.Y. 2026-27, would be allowed as deduction in the year of payment, i.e. T.Y. 2027-28.

Note - Students are advised to read Chapter 7 on "Tax deduction or collection at source and advance tax" before solving this illustration.

ILLUSTRATION 10

Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2027 without deduction of tax at source. What would be the consequence of non-deduction of tax at source by Delta Ltd. on these amounts during the tax year 2026-27, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

	Particulars	Amount in ₹
(1)	Salary to its employee, Mr. X (credited and paid in March, 2027)	14,00,000
(2)	Directors' remuneration (credited in March, 2027 and paid in April, 2027)	28,000

Would your answer change if Delta Ltd. has deducted tax on directors' remuneration in April, 2027 at the time of payment and remitted the same in July, 2027?

SOLUTION

Non-deduction of tax at source on any sum payable to a resident on which tax is deductible at source as per the provisions of Chapter XIX-B would attract disallowance under section 35(b)(i).

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible under section 392 or any sum credited or paid by way of directors' remuneration on which tax is deductible under section 393(1) [Table: S.No.6(iii)(c)], would attract disallowance@30% under section 35(b)(i). Whereas in case of salary, tax has to be deducted at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier. Therefore, in both cases, i.e., salary and directors' remuneration, tax is deductible in the T.Y. 2026-27, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed under section 35(b)(i) while computing business income for T.Y.2026-27 is as follows –

	Particulars	Amount paid in ₹	Disallowance u/s 35(b)(i) @ 30% (₹)
(1)	Salary [tax is deductible under section 392]	14,00,000	4,20,000

(2)	Directors' remuneration [tax is deductible under section 393(1) [Table: S.No.6(iii)(c)], without any threshold limit]	28,000	8,400
Disallowance under section 35(b)(i)			4,28,400

If the tax is deducted on directors' remuneration in the next year i.e., T.Y.2027-28 at the time of payment and remitted to the Government, the amount of ₹ 8,400 would be allowed as deduction while computing the business income of T.Y. 2027-28.

Disallowance of any sum paid to a resident at any time during the tax year without deduction of tax under section 35(b)(i) [Circular No.10/2013, dated 16.12.2013]

There have been conflicting interpretations by judicial authorities regarding the applicability of provisions of section 35(b)(i), with regard to the amount not deductible in computing the income chargeable under the head 'Profits and gains of business or profession'. Some court rulings have held that the provisions of disallowance under section 35(b)(i) apply only to the amount which remained payable at the end of the relevant financial year and would not be invoked to disallow the amount which had actually been paid during the tax year without deduction of tax at source.

Departmental View: The CBDT's view is that the provisions of section 35(b)(i) would cover not only the amounts which are payable as on 31st March of a tax year but also amounts which are payable at any time during the year. The statutory provisions are amply clear and in the context of section 35(b)(i), the term "payable" would include "amounts which are paid during the tax year"

ILLUSTRATION 11

During the tax year 2026-27, the following payments/expenditure were made/ incurred by Mr. Raja, a resident individual (whose turnover during the year ended 31.3.2026 was ₹ 99 lakhs):

- (i) *Interest of ₹ 45,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;*
- (ii) *₹ 15,00,000 was paid as salary to a resident individual without deduction of tax at source;*

- (iii) Commission of ₹ 26,000 was paid to Mr. Vidyasagar, a resident, on 2.7.2026 without deduction of tax at source.

Briefly discuss whether any disallowance arises under the provisions of section 35(b)(i) assuming that the payees in all the cases mentioned above, have not paid the tax, if any, which was required to be deducted by Mr. Raja?

SOLUTION

Disallowance under section 35(b)(i) of the Income-tax Act, 2025 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.

- (i) The obligation to deduct tax at source from interest paid to a resident arises under section 393(1) [Table: S.No. 5(iii)] in the case of an individual, whose total turnover exceeds ₹ 1 crore during the tax year immediately preceding the tax year, i.e., T.Y.2025-26. Thus, in present case, since the turnover of the assessee is less than ₹ 100 lakhs in T.Y. 2025-26, he is not liable to deduct tax at source. Hence, disallowance under section 35(b)(i) is not attracted in this case.
- (ii) Under section 35(b)(i), disallowance of 30% of the sum payable would be attracted in respect of all sums on which tax is deductible under Chapter XIX-B. Section 392, which requires deduction of tax at source from salary paid, is covered under Chapter XIX-B. The obligation to deduct tax at source under section 392 arises, in the hands all assessee-employer even if the turnover does not exceed ₹ 1 crore during the tax year immediately preceding the tax year.

Therefore, in the present case, the disallowance under section 35(b)(i) is attracted for failure to deduct tax at source under section 392 from salary payment. However, only 30% of the amount of salary paid without deduction of tax at source would be disallowed i.e. ₹ 4,50,000 (₹ 15 lakhs × 30%).

- (iii) The obligation to deduct tax at source under section 393(1) [Table: S.No. 1(ii)] from commission paid in excess of ₹ 20,000 to a resident arises in the case of an individual, whose total turnover exceeds ₹ 1 crore during the tax year immediately preceding the tax year, i.e., T.Y.2025-26. Thus, in present case, since the turnover of the assessee is less than ₹ 1 crore in T.Y. 2025-26, he is not liable to deduct tax at source under section 393(1) [Table: S. No. 1(ii)]. Mr. Raja is not required to deduct tax at source u/s 393(1) [Table: S.No. 6(ii)(c)] also since the aggregate of such commission to Mr. Vidyasagar does not

exceed ₹ 50 lakhs during the T.Y. 2026-27. Therefore, disallowance under section 35(b)(i) is not attracted in this case.

(iii) Sum payable to a non-resident where there is a default of deduction of tax at source [Section 35(b)(ii)]

Section 35(b)(ii) provides for 100% disallowance of any interest, royalty, fees for technical services or other sum chargeable under this Act, which is payable,-

- (a) outside India or
- (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 XIX-B and such tax has not been deducted during the tax year or, after deduction during the tax year, has not been paid upto the due date specified in section 263(1).

It is also provided that where in respect of any such sum, tax is deducted in any subsequent year, or is deducted during the tax year but paid after the due date specified in section 263(1), such sum shall be allowed as a deduction in computing the income of the tax year in which such tax has been paid.

Where the assessee is required to and fails to deduct the whole or any part of tax on any such sum but is not deemed as assessee in default under section 398(2) by reason that such payee –

- (i) has furnished his return of income under section 263;
- (ii) has taken into account such sum for computing income in that 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,

it would be deemed that the assessee has deducted and paid the tax on such sum on the date on which return of income has been furnished by the payee.

NOTE

Since the date of furnishing the return of income by the payee is taken to be the date on which the payer has deducted tax at source and paid the same, such expenditure/payment in respect of which the payer has failed to deduct tax at source shall be disallowed under section 35(b)(ii) in the year in which the said expenditure is incurred. However, such expenditure will be allowed as deduction in the subsequent year in which the return of income is furnished by the payee, since tax is deemed to have been deducted and paid by the payer in that year.

(iv) Contribution to a provident fund or the fund established for the benefit of employees [Section 35(b)(iii)]

Section 35(b)(iii) provides for disallowance of 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'.

(v) Salaries payable outside India or to non-resident where there is a default of deduction of tax at source [Section 35(c)]

Section 35(c) provides for disallowance of any sum which is chargeable under the head 'Salaries' if it is payable outside India or to a non-resident on which tax is deductible at source under Chapter XIX-B and if such tax has not been deducted or after deduction has not been paid.



16.	<i>MNO Ltd. deducted tax at source from professional fees payable to a resident during T.Y. 2026-27 but deposited the tax after the due date specified under section 263(1). What would be the consequence?</i>
(a)	<i>Entire expenditure permanently disallowed</i>
(b)	<i>30% disallowed in T.Y. 2026-27 and allowed in the year of payment of TDS</i>
(c)	<i>No disallowance if TDS is ultimately paid</i>
(d)	<i>100% disallowance in T.Y. 2026-27 and allowed in the year of payment of TDS</i>

Amounts are not deductible in case of any firm assessable as such or a limited liability partnership (LLP)

- (1) **Remuneration to non-working partner** - 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) **Remuneration to a working partner and interest to any partner not authorized by deed or authorized by deed but relates to an earlier period** - Any expenditure on the remuneration to a working partner and interest to any partner would not be allowed as deduction if it is –
 - ◆ not authorised by the partnership deed applicable for the period for which such remuneration or interest is paid or
 - ◆ authorised by and is as per the terms of partnership deed but relates to the period prior to the date of such partnership deed, or which was not authorised by the earlier partnership deed

EXAMPLE

If a firm incorporates the clause relating to payment of remuneration to the working partners, by executing an appropriate deed, say, on July 1, 2026 but effective from April 1, 2026, the firm would get deduction for the remuneration paid to its working partners from July 1, 2026 onwards, but not for the period from April 1 to June 30. 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.

- (3) **Remuneration to a working partner in excess of prescribed limits** - Any remuneration paid to a working partner, authorised by a partnership deed and falling after the date of the deed in excess of the following limits:

Book Profit	Quantum of deduction
On the first ₹ 6 lakh of book profit or in case of loss	₹ 3,00,000 or 90% of book profit, whichever is higher
On the balance of book profit	60% of book profit

Meaning of certain terms:

Term	Meaning
Book Profit	The net profit as shown in the profit and loss account for the relevant tax year computed as per the provisions for computing income from profits and gains. The above amount should be increased by the aggregate remuneration to all the partners of the firm if such amount has been deducted while computing the net profit.
Working partner	An individual who is actively engaged in conducting the affairs of the business or profession of the firm of which he is a partner.

ILLUSTRATION 12

A firm has paid ₹ 8,50,000 as remuneration to its partners for the T.Y.2026-27, in accordance with its partnership deed, and it has a book profit of ₹ 10 lakhs. What is the remuneration allowable as deduction?

SOLUTION

The allowable remuneration calculated as per the limits specified in section 35(e)(iii) would be –

Particulars	₹
On first ₹ 6 lakh of book profit [₹ 6,00,000 × 90%]	5,40,000
On balance ₹ 4 lakh of book profit [₹ 4,00,000 × 60%]	2,40,000
	7,80,000

The excess amount of ₹ 70,000 (i.e., ₹ 8,50,000 – ₹ 7,80,000) would be disallowed as per section 35(e)(iii).

- (4) Interest to any partner in excess of 12% p.a.-** Any interest to any partner as authorized by the partnership deed exceeding 12% simple interest p.a. would be disallowed.
- (5)** (i) Where an individual is a partner in a firm in a representative capacity:
- (a) 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 disallowance under this clause.

- (b) 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 disallowance under this clause.
- (ii) Where an individual is a partner in a firm otherwise than in a representative capacity, interest paid to him by the firm to such individual shall not be taken into account for the purposes of disallowance under this clause if he receives the same on behalf of or for the benefit of any other person.

EXAMPLE Mr. A is a partner in ABC & Co. on behalf of Shah HUF. Interest to its partners @15% is authorised by ABC & Co. ABC & Co. pays ₹ 7 lakhs as interest to Mr. A out of which ₹ 4 lakhs on the funds advanced by Mr. A in his individual capacity and ₹ 3 lakhs on the funds advanced by him in his representative capacity on behalf of Shah HUF. The interest of ₹ 4 lakhs paid to Mr. A in his individual capacity is allowed as deduction subject to section 36(2) and shall not be taken into account for purpose of section 35(e). Whereas the interest paid to Mr. A in his representative capacity would be allowed to the extent of ₹ 2.40 lakhs i.e., ₹ 3 lakhs/15% x 12%.

ILLUSTRATION 13

Rao & Jain, a partnership firm consisting of two partners, reports a net profit of ₹ 17,00,000 before deduction of the following items:

- (1) Salary of ₹ 40,000 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 33 (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 is ₹ 5,00,000.

Compute:

- (i) Book-profit of the firm under section 35(e) of the Income-tax Act, 2025.
- (ii) Allowable working partner salary for the T.Y. 2026-27 as per section 35(e).

SOLUTION

- (i) As per 35(e)(v), "book profit" shall mean the net profit as per the profit and loss account for the relevant tax year computed as per Chapter IV-D as increased

by the aggregate amount of the remuneration to all the partners of the firm if the such amount has been already deducted while computing the net profit.

In the present case, the net profit given is before deduction of depreciation on plant and machinery, interest on capital of partners and salary to the working partners. Therefore, the book profit shall be as follows:

Computation of Book Profit of the firm under section 35(e)

Particulars	₹	₹
Net Profit (before deduction of depreciation, salary and interest)		17,00,000
Less: Depreciation under section 33	1,50,000	
Interest @ 12% p.a. [being the maximum allowable as per section 35(e)] ($\text{₹ } 5,00,000 \times 12\%$)	60,000	2,10,000
Book Profit		14,90,000

- (ii) Salary actually paid to working partners = $\text{₹ } 40,000 \times 2 \times 12 = \text{₹ } 9,60,000$.

As per the provisions of section 35(e)(iii), the salary paid to the working partners is allowed subject to the following limits -

On the first ₹ 6,00,000 of book profit or in case of loss	₹ 3,00,000 or 90% of book profit, whichever is more
On the balance of book profit	60% of the balance book profit

Therefore, the maximum allowable working partners' salary for the T.Y. 2026-27 in this case would be:

Particulars	₹
On the first ₹ 6,00,000 of book profit [(₹ 3,00,000 or 90% of ₹ 6,00,000) whichever is more]	5,40,000
On the balance of book profit [60% of (₹ 14,90,000 - ₹ 6,00,000)]	5,34,000
Maximum allowable partners' salary	10,74,000

Hence, allowable working partners' salary for T.Y.2026-27 as per the provisions of section 35(e)(iii) is ₹ 9,60,000.



3.9 EXPENSES OR PAYMENT NOT DEDUCTIBLE IN CERTAIN CIRCUMSTANCES [SECTION 36]

Section 36 provides the circumstances in which expenses or payments are not deductible. The provisions of this section shall apply even if they conflict with any other provision of the Act relating to computation of income under the head "Profits and gains of business or profession".

(i) Payments to relatives and associates

Section 36(2) provides that if the assessee incurs any expenditure for which payment has been or is to be made to any specified person [See column (2) of Table below) which in the opinion of the Assessing Officer is excessive or unreasonable having regard to the:

- (a) fair market value of the goods, service of facilities; or
- (b) legitimate needs of the business or profession carried on by the assessee; or
- (c) benefit derived by or accruing to the assessee therefrom,

so much of the expenditure as considered excessive or unreasonable by the Assessing Officer shall not be allowed as deduction.

"Specified Person" for different categories of assessee has been defined in section 36(3) as follows:

Assessee	Specified Person
(1)	(2)
Individual	1. Any relative of the individual assessee 2. Any person who carries on a business or profession, if ◆ the individual assessee has a substantial interest in the business of that person or ◆ any relative of the individual assessee has a substantial interest in the business of that person
Company, Firm, HUF or AOP	1. Any director of the company, partner of the firm or member of the family or association or any relative of such director, partner or member or

	2. In case of a company assessee, any individual who has substantial interest in the business or profession of the company or any relative of such individual or 3. Any person who carries on a business or profession, in which the Company/ Firm/ HUF/ AOP or director of the company, partner of the firm or member of the family or association or any relative of such director, partner or member has substantial interest in the business of that person.	
All assessees	The following are specified persons:	
	Person who has substantial interest in the assessee's business	Other related persons of such person, who has a substantial interest in the assessee's business
	Company/ AOP/ Firm/ HUF	◆ Any director of such company, partner of such firm or the member of such family or association or ◆ any relative of such director, partner or member or ◆ Any other company carrying on business or profession in which the first mentioned company has a substantial interest
	a director, partner or member	◆ Company/ Firm/ AOP/ HUF of which he is a director, partner or member or ◆ Any other director/ partner/ member of the such Company/Firm/ AOP/ HUF or ◆ Any relative of such director, partner or member
Relative, in relation to an "individual", means the spouse, brother or sister or any lineal ascendant (maternal as well as paternal) or descendant of that individual [Section 2(94)].		

Substantial interest in a business or profession

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 tax 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 tax year, beneficially entitled to not less than 20% of the profits of such business or profession.

(ii) Payments in excess of ₹ 10,000 made otherwise than through specified banking or online mode

According to section 36(4), where in respect of any expenditure incurred by the assessee, any payment or aggregate of payments made in a day to a person exceeds ₹ 10,000 and is not made through specified banking or online mode, then the expenditure by way of such payments shall not be allowed as a deduction.

Meaning of “Specified Banking or Online Mode” [Section 66(32)] - Specified Banking or Online Mode mean transaction by

- ◆ an account payee cheque or
- ◆ an account payee bank draft or
- ◆ use of electronic clearing system through a bank account or
- ◆ through such other electronic mode, as may be prescribed

As per Rule 48 of the Income-tax Rules, 2026, “other electronic modes of payment” are the following:

- Credit Card;
- Debit Card;
- Net Banking;
- IMPS (Immediate Payment Service);
- UPI (Unified Payment Interface);
- RTGS (Real Time Gross Settlement);
- NEFT (National Electronic Funds Transfer);
- BHIM (Bharat Interface for Money) Aadhaar Pay, and
- Tier-III: Full KYC Central Bank Digital Currency wallets, P-CBDC, Wholesale/Cross-border CBDC.

The provision applies to all categories of expenditure involving payments for goods or services which are deductible in computing the taxable income.

EXAMPLE If, in respect of an expenditure of ₹ 32,000 incurred by X Ltd., 4 cash payments of ₹ 8,000 are made on a particular day to one 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 ₹ 32,000 would be disallowed under section 36(4), since the aggregate of cash payments made during a day to Mr. Y exceeds ₹ 10,000.

Payments in excess of ₹ 10,000 made otherwise than through prescribed modes deemed to be the income of the subsequent year, if expenditure has been allowed as deduction in any tax year on due basis [Section 36(5)]:

In case of an assessee following mercantile system of accounting,

- if an expenditure has been allowed as deduction in any tax year on due basis, and
- payment in respect of such expenditure is made during a subsequent year and
- payment or aggregate of payments made in a day to a person exceeds ₹ 10,000 and
- payment is not made through specified banking or online mode,

then, such payment shall be deemed to be the income under the head “Profits and gains of business or profession” in such subsequent tax year [Section 36(5)].

Increased limit of ₹ 35,000 applicable, where payment is made to transport operator:

The limit would be ₹ 35,000 in case of payment made to transport operators for plying, hiring or leasing goods carriages, otherwise than through prescribed modes. Therefore, payment or aggregate of payments up to ₹ 35,000 in a day can be made to a transport operator otherwise than through specified banking or online mode. In all other cases, the limit would continue to be ₹ 10,000 [Section 36(6)].



Bar on Plea Regarding Mode of Payment: No person is allowed to raise, in any suit or other proceeding, a plea based on the ground that the payment was not made or tendered in cash or in any other manner. This is irrespective of anything contained in any other law for the time being in force or in any contract [Section 36(8)].

Cases where disallowances would not be attracted:

- (i) **Loan transactions:** 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 ₹ 10,000 at a time are required to be made through specified banking or online mode as interest is a deductible expenditure.
- (ii) **Payment made by commission agents:** 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 through specified banking or online mode apply equally to payments made for goods purchased on credit.

Exceptions to section 36(4) and 36(5)- Cases and circumstances in which a payment or aggregate of payments exceeding ₹ 10,000 may be made to a person in a day, otherwise than by specified banking and online mode or through such other electronic mode as prescribed in Rule 48 [Rule 26]

As per this rule, no disallowance under section 36(4) shall be made and no payment shall be deemed to be the profits and gains of business or profession under section 36(5) where a payment or aggregate of payments made to a person in a day, otherwise through specified banking or online mode or through other electronic mode prescribed in Rule 48, exceeds ₹10,000 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;
- (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;
- (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 ₹ 50,000;

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



17.	<i>Mr. Raj, proprietor of a business, paid salary of ₹12,00,000 to his brother for administrative services during T.Y. 2026-27. The Assessing Officer determined that reasonable remuneration for such services would be ₹7,50,000. What amount would be disallowed under section 36(2)?</i>
(a)	Nil
(b)	₹ 12,00,000
(c)	₹ 4,50,000
(d)	₹ 7,50,000
18.	<i>PQR Ltd. paid freight charges of ₹ 34,000 in cash to a transport operator in one day. What would be the amount disallowed under section 36(4)?</i>
(a)	Nil
(b)	₹ 10,000

	(c)	₹ 24,000
	(d)	₹ 34,000
19.	<i>Mr. A, following mercantile system of accounting, claimed deduction for legal expenses of ₹ 45,000 in T.Y. 2025-26 on accrual basis. He made cash payment of ₹ 45,000 in T.Y. 2026-27 in a single day. What would be the tax consequence in T.Y. 2026-27?</i>	
	(a)	No consequence
	(b)	₹ 45,000 deemed as business income under section 36(5)
	(c)	Only ₹ 35,000 deemed as income
	(d)	30% of payment deemed as income



3.10 CERTAIN DEDUCTIONS ALLOWED ON ACTUAL PAYMENT BASIS ONLY [SECTION 37]

- ◆ The following sums payable, which are otherwise allowable as a deduction under the Act, are allowed as deduction only in that tax year in which such sum is actually paid i.e., on actual payment basis.
- ◆ This provision is applicable irrespective of:
 - (a) any provision to the contrary in the Act; or
 - (b) method of accounting regularly followed; or
 - (c) the tax year in which liability was incurred.
- ◆ The sums covered by the provisions of this section are as follows:
 - (a) **Tax, duty, cess, surcharge or fee**, by whatever name called, levied under any law in force, or
 - (b) **Contribution of the employer to a provident fund or superannuation fund or gratuity fund** or any other fund for the welfare of employees, or
 - (c) Amount payable by employer **in lieu of any leave at the credit of the employee**, or
 - (d) **Bonus or Commission** for services rendered payable to employees, or

- (e) **Interest on loans or advances or borrowings** from **specified financial entities** as per the terms and conditions of the agreement governing such loans or advances or borrowings, or
 - (f) Amount payable to the Indian Railways for use of Railway assets, or
 - (g) amount payable by the assessee to a micro or small enterprise beyond the time limit specified in section 15 of the Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act). (A brief discussion about section 15 of MSMED Act has been given in subsequent part of this chapter.)
- ◆ **If the amounts referred to above in clauses (a) to (f), are paid after the end of tax year** in which the liability was incurred **but on or before the due date of filing return of income under section 263(1)** for such tax year, the deduction towards such sum is allowed in such tax year [Section 37(3)]
 - ◆ **Meaning of “sum payable” for the purposes of clause (a) of section 37(2)**
Sum payable means a sum for which the assessee has incurred liability in the tax year even though such sum might not have been payable within that year under the relevant law



An assessee may collect GST from customers during the month of March, 2027. However, in respect of such collections he may have to discharge the liability only within say 20th April, 2027 under the GST 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.

- ◆ **Conversion of interest into a loan or borrowing or debenture or any other instrument**
If interest on loans or advances or borrowings referred to in clause (e) above is converted into a loan or advance or debenture or any other instrument by which the liability to pay is deferred to a future date, the interest so converted shall not be deemed to have been actually paid and hence, would not be allowed as deduction. The provision reiterates the rationale that conversion of interest into a loan or advance or debenture or any other instrument by which the liability to pay is deferred to a future date 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 tax year in which the converted interest is actually paid.

♦ **Meaning of specified financial entities:**

- (a) A public financial institution or
- (b) State Financial Corporation or
- (c) State Industrial Investment Corporation or
- (d) such class of non-banking financial companies as may be notified by the Central Government or
- (e) a scheduled bank or
- (f) a co-operative bank (other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank).

ILLUSTRATION 14

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 (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

		₹
(i)	Andhra Pradesh State Financial Corporation (T.Y. 2025-26 & 2026-27)	15,00,000
(ii)	Indian Bank (T.Y. 2026-27)	30,00,000
		45,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2026-27, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During the year ended 31.3.2027, Hari paid 5 installments to APSFC 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. Examine whether his claim is valid and if not, what is the amount of interest, if any, allowable.

SOLUTION

According to section 37, any interest payable on the loans or advances or borrowings to specified financial institutions (which include inter alia State Financial Corporation and 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 37. 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 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 tax year. Accordingly, the amount of interest eligible for deduction for the T.Y. 2026-27 shall be calculated as follows:

	Interest outstanding (₹)	Number of Instalments	Amount per instalment (₹)	Instalments paid	Interest allowable (₹)
APSFC	15 lakhs	60	25,000	5	1,25,000
Indian Bank	30 lakhs	60	50,000	3	1,50,000
Total amount eligible for deduction					2,75,000

◆ **Non-applicability of section 37 in respect of employee's Contribution to welfare funds [Section 37(6)]**

As per section 2(49)(o), any sum received by an assessee, being an employer from his employee as contribution to any provident fund or superannuation fund or any fund set up under Employee's State Insurance Act, 1948 or any other fund for the welfare of employees would be considered as the income of an employer.

The deduction in respect of above sum shall be allowed to the assessee under section 29(e) only if such sum is credited by the assessee to the employee's account in the relevant fund by the due date applicable in his case for filing return of income under section 263(1) in respect of that tax year.

As per section 37(1), the sums specified in section 37(2), which includes any sum payable as an employer by way of contribution to a provident fund or superannuation fund or gratuity fund or any fund for the welfare of employees, would be allowable during the tax year in which such sums are actually paid. This is subject to the provisions of section 37(3) that if these sums have been paid on or before the 'due date' applicable in his case for filing return of income under section 263(1) in respect of that tax year in which they are otherwise allowable as a deduction under this Act (original tax year), they shall be allowed as deduction in the original tax year.

The impact of above mechanism is that if the sums specified u/s 37(2) are paid after the due date of filing of return of income for the original tax year, they shall still be allowed in the year in which they have been actually paid.

Section 37(6) provides that the provisions of section 37 shall not apply to employee's contribution received by employer towards any welfare fund. It means that if this contribution is paid after the due date under section 263(1), this would never be eligible for deduction. The above provision can be summarized in the form of table given below:

Employee's contribution related to Tax Year X

If paid	Deduction
Upto the due date of filing of return of income for Tax Year X	Allowed in the tax year X
After the due date of filing of return of income for Tax Year X	Never allowed

Employer's contribution related to Tax Year X

If pd	Deduction
Upto the due date of filing of return of income for Tax Year X	Allowed in the tax year X
After the due date of filing of return of income for Tax Year X	Allowed in the tax year of actual payment

- ♦ If a deduction in respect of any sum payable has already been allowed in any tax year when such liability was incurred, it shall not be allowed again in any subsequent tax year when it is paid [Section 37(5)].

Clause (g) of Section 37(2)

Any sum payable by the assessee to a micro or small enterprise beyond the time-limit specified in section 15 of the Micro, Small and Medium Enterprises Development Act, 2006 would be allowed as deduction only in that tax year in which such sum is actually paid.

Section 15 of the of the Micro, Small and Medium Enterprises Development Act, 2006 mandates payment of goods or services to supplier, being a micro or small enterprises by the buyer on or before the date agreed upon between them in writing i.e., as per the written agreement, which cannot be more than 45 days from the day of acceptance or the day of deemed acceptance of any goods or services by a buyer from a supplier. If there is no such written agreement, the payment shall be made before the appointed day i.e., within 15 days.

If the sum payable by the assessee to a micro or small enterprise is paid as per written agreement (maximum within 45 days) or within 15 days in case of no agreement, the deduction can be claimed on accrual basis if mercantile method of accounting is followed by the assessee.

However, if the sum payable by the assessee to a micro or small enterprise is not paid as per written agreement or within 15 days in case of no agreement, the deduction would be allowed in the tax year in which it is actually paid.

 **EXAMPLE** *Mr. A has purchased goods of ₹ 10,000 from A & Co., a micro enterprise on 1.3.2027. As per the written agreement between them, the payment has to be made by 5.4.2027. Mr. A follows mercantile method of accounting.*

(i) If Mr. A paid the sum on 2.4.2027

Since Mr. A paid the sum on or before 5.4.2027, the deduction would be allowed in T.Y. 2026-27.

(ii) If Mr. A paid the sum on 20.4.2027

Since Mr. A paid the sum beyond the time limit, the deduction would not be allowed in the T.Y. 2026-27 but would be allowed in the year of actual payment i.e., in T.Y. 2027-28.

 **EXAMPLE** Suppose Mr. Raju has purchased goods of ₹ 10,000 from A & Co., a medium enterprise on 1.3.2027. As per the written agreement between them, the payment has to be made by 5.4.2027, however Mr. Raju paid the sum on 10.4.2027. Mr. Raju follows mercantile method of accounting.

In such case, since disallowance under section 37(2)(g) is not applicable on sum payable to medium enterprise, the deduction would be allowed in T.Y. 2026-27 on due basis.

Meaning of Micro and Small enterprise

S. No.	Meaning		
(1)	Micro Enterprise		
	Investment in Plant and Machinery or Equipment ≤ ₹ 2.5 crore	AND	Turnover ≤ ₹ 10 crore
(2)	Small Enterprise		
	Investment in Plant and Machinery or Equipment ≤ ₹ 25 crore	AND	Turnover ≤ ₹ 100 crore

3.11 CERTAIN SUMS DEEMED AS “PROFITS AND GAINS OF BUSINESS OR PROFESSION” [SECTION 38]

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) Remission or cessation of trading liability [Section 38(1)(a)]

- ◆ Suppose an allowance or deduction has been made in any tax 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 of 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 tax 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 tax year.

Successor in business [Section 38(6)(b)]:

- (i) Where there has been an amalgamation of a company with another company, the successor will be the amalgamated company.
- (ii) In case of a demerger, the successor will be the resulting company
- (iii) Where a firm carrying on a business or profession is succeeded by another firm, the successor will be the other firm.
- (iv) 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.

(ii) Balancing charge, Sale of capital asset used for scientific research and recovery of a bad debt subsequently [Section 38(1)(b),(1)(c) & (1)(d)]

The provisions of section 38(1)(b) relating to balancing charge, section 38(1)(c) relating to sale of capital assets acquired for scientific research and section 38(1)(d) dealing with recovery of bad debts have been dealt with earlier under the respective items

(iii) **Brought forward losses of defunct business [Section 38(3)]**

In cases where a receipt is deemed to be profit of a business under section 38 [except Balancing Charge covered u/s 38(1)(b)] relating to a business that had ceased to exist and there is an unabsorbed loss, not being a speculation loss, which arose in that business during the tax year in which it had ceased to exist and which has not been set off, it would be set off against income that is chargeable under this section even after the expiry of 8 years.

3.12 TREATMENT OF FOREIGN EXCHANGE FLUCTUATIONS [SECTION 42]

- (1) The section deals with the situation where **at the time of making payment** during the tax year, there is a **variation in liability** of an assessee as expressed in Indian currency in relation to an asset acquired for the purpose of business or profession from a country outside India due to change in rate of exchange.
- (2) The **variation in liability** shall be added or reduced from the following:
 - (i) the actual cost of the asset under section 39
 - (ii) the amount of capital expenditure incurred by a company for promoting family planning amongst its employees under section 32(i)
 - (iii) the amount of capital expenditure incurred on scientific research under section 45(1)(a)(i)
 - (iv) the cost of acquisition of a non-depreciable capital asset falling under section 72.
- (3) Liability shall exclude any part met directly or indirectly by any other person or authority and the **variation in liability** shall be

B - C

B = payment expressed in Indian currency at the time when it is made

- (a) towards the whole or part of the cost of asset; or
- (b) towards repayment of the whole or part of the moneys borrowed, directly or indirectly, along with interest in foreign currency, specifically for acquiring such asset;

C = liability, corresponding to the amount referred in B, in Indian currency at the time of acquisition of such asset.

- (4) Where the assessee has entered into a contract with authorised dealer⁴ 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.

									
20.	<i>Hari converted unpaid interest payable to Indian Bank into a funded interest term loan during T.Y. 2026-27. Which of the following is correct?</i> <table> <tr> <td>(a)</td><td><i>Conversion amounts to actual payment</i></td></tr> <tr> <td>(b)</td><td><i>Entire converted interest is deductible</i></td></tr> <tr> <td>(c)</td><td><i>Deduction is allowed only when converted loan is actually repaid</i></td></tr> <tr> <td>(d)</td><td><i>50% deduction is allowable on conversion</i></td></tr> </table>	(a)	<i>Conversion amounts to actual payment</i>	(b)	<i>Entire converted interest is deductible</i>	(c)	<i>Deduction is allowed only when converted loan is actually repaid</i>	(d)	<i>50% deduction is allowable on conversion</i>
(a)	<i>Conversion amounts to actual payment</i>								
(b)	<i>Entire converted interest is deductible</i>								
(c)	<i>Deduction is allowed only when converted loan is actually repaid</i>								
(d)	<i>50% deduction is allowable on conversion</i>								
21.	<i>A company acquired machinery from Germany for business purposes. Due to exchange fluctuation at the time of repayment of foreign currency loan, liability increased by ₹3,50,000. What would be the treatment under section 42?</i> <table> <tr> <td>(a)</td><td><i>Treated as revenue loss</i></td></tr> <tr> <td>(b)</td><td><i>Added to actual cost of machinery</i></td></tr> <tr> <td>(c)</td><td><i>Deducted fully as business expenditure</i></td></tr> <tr> <td>(d)</td><td><i>Ignored for tax purposes</i></td></tr> </table>	(a)	<i>Treated as revenue loss</i>	(b)	<i>Added to actual cost of machinery</i>	(c)	<i>Deducted fully as business expenditure</i>	(d)	<i>Ignored for tax purposes</i>
(a)	<i>Treated as revenue loss</i>								
(b)	<i>Added to actual cost of machinery</i>								
(c)	<i>Deducted fully as business expenditure</i>								
(d)	<i>Ignored for tax purposes</i>								

⁴ as defined in section 2 of the Foreign Exchange Management Act, 1999



3.13 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 [SECTION 53]

- (a) In case of transfer of an asset (other than a capital asset), being land or building or both, if the consideration received or accrued from such transfer is less than the stamp duty value, then such stamp duty value shall be deemed to be the full value of the consideration for computing profits and gains from such transfer.
- (b) If the stamp duty value does not exceed 110% of the consideration received or accruing then, the consideration received or accrued shall be deemed to be the full value of consideration.
- (c) Further, if the date of an agreement fixing the value of consideration for the transfer of asset and the date of registration for transfer of such asset are different, then the stamp duty value as on date of the agreement may be taken to be the full value of consideration. for transfer instead of on the date of registration for such transfer, if the amount of consideration or part thereof has been received by specified banking or online mode on or before the date of agreement for transfer of such asset.
- (d) The Assessing Officer may refer the valuation of the asset to a valuation officer in the following cases -
 - (1) Where the assessee claims that the stamp duty value exceeds the fair market value of the property as on the date of transfer and
 - (2) the stamp duty value has not been disputed in any appeal or revision or no reference has been made before any other authority, court or the High Court.
- (e) If the value determined by the Valuation on a reference made exceeds the stamp duty value, such stamp duty value shall be taken as the full value of the consideration.

- (f) **Meaning of stamp duty value:** It means the value adopted or assessed or assessable by any authority of the Central Government or State Government for the payment of stamp duty in respect of an immovable property, where the expression "assessable" shall mean the value which any authority of that Government would have adopted or assessed as if it were referred to such authority for the purposes of payment of stamp duty, irrespective of anything to the contrary contained in any other law in force.

The term "assessable" covers transfers executed through power of attorney.

Date of transfer of land/ building held as stock-in-trade	Actual consideration	Stamp duty value on the date of agreement	Stamp duty value (SDV) on the date of registration	Full value of consideration	Remark
	₹ in lakhs				
Example:					
1/9/2026	100 (₹ 10 lakhs received by A/c payee cheque on 1/7/2026)	120 (1/7/2026)	130 (1/9/2026)	120	As part of the consideration is received by A/c payee cheque on the date of agreement, Stamp duty value (SDV) on the date of agreement to be adopted as full value of consideration, since the SDV exceeds 110% of consideration i.e., ₹ 110 lakhs.
Example:					
1/9/2026	100 (₹ 10 lakhs received by cash on 1/7/2026)	109 (1/7/2026)	130 (1/9/2026)	130	SDV on the date of registration to be adopted as full value of consideration

					and such SDV exceeds 110% of consideration i.e., ₹ 110 lakhs. Since part of consideration is received by cash on the date of agreement, the SDV on the date of agreement cannot be considered vis-à-vis actual consideration.
Example:					
31/1/2027	100 (₹ 10 lakhs received by A/c payee cheque on 1/7/2026)	109 (1/7/2026)	130 (31/1/2027)	100	Actual sales consideration would be the full value of consideration, since SDV on the date of agreement does not exceed 110% of actual consideration. SDV on the date of agreement can be considered vis-à-vis actual consideration, since part of the consideration has been received by account payee cheque on the date of agreement.

Example:

31/3/2027	100 (Full amount received in cash on the date of registration)	120 (1/5/2026)	130 (31/3/2027)	130	SDV of the date of registration would be the full value of consideration since the SDV exceeds 110% of consideration i.e., ₹ 110 lakhs.
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3.14 MAINTENANCE OF BOOKS OF ACCOUNTS [SECTION 62]

(1) **Maintain the books of account and other documents [Section 62(1)]:**

Section 62(1) provides that the following persons are required to keep and maintain such **books of accounts and other documents to enable the Assessing Officer to compute his total income under the Act:**

- ◆ any person carrying on specified profession or
- ◆ any person carrying on business or any profession, not being a specified profession mentioned above, and satisfying the specified conditions.

Meaning of books or books of account [Section 2(19)]: It includes ledgers, day-books, cash books, account-books and other books, whether kept –

- (a) in written form; or
- (b) in electronic or any digital form, or on cloud-based storage, or on any electromagnetic data storage device, such as floppy, disc, tape, portable data storage device, external hard drives, or memory cards; or
- (c) as print-outs of data stored in electronic or digital form or on storage devices mentioned in sub-clause (b);

(2) **Meaning of specified profession [Section 62(4)]:** Legal, medical, engineering, architectural, accountancy, technical consultancy, interior decoration, information technology or company secretary or any other profession as notified by the CBDT.

(3) Conditions for any person carrying on business or profession [other than specified professions [Section 62(2)]:

Any person carrying on business or any profession, not being a specified profession mentioned above, is required to keep and maintain such books of accounts and other documents to enable the Assessing Officer to compute his total income under the Act if the person satisfies any of the following conditions:

◆ **In case of Individual or HUF:**

- (i) **In relation to existing business or profession:** Where the **income** from the existing business or profession **exceeds ₹ 2,50,000 or its total sales, turnover or gross receipts from such business or profession exceed ₹ 25,00,000 in any one of three years immediately preceding** the tax year; or
- (ii) **In relation to newly set up business or profession:** Where the business or profession is newly set up in the tax year, the **income** from business or profession **is likely to exceed ₹ 2,50,000 or its total sales, turnover or gross receipts from such business or profession are likely to exceed ₹ 25,00,000** during such tax year.

◆ **In case of person (other than individual or HUF):**

- (i) **In relation to existing business or profession:** Where the **income** from the existing business or profession **exceeds ₹ 1,20,000 or its total sales, turnover or gross receipts from such business or profession exceed ₹ 10,00,000 in any one of three years immediately preceding** the tax year; or
- (ii) **In relation to newly set up business or profession:** Where the business or profession is newly set up in the tax year, the **income** from business or profession **is likely to exceed ₹ 1,20,000 or its total sales, turnover or gross receipts from such business or profession are likely to exceed ₹ 10,00,000** during the tax year;

- ◆ **Showing lower income as compared to income computed on presumptive basis under section 58 or section 61⁵:** Where during the tax year, the assessee referred to in section 58(2) or section 61(2) (Table:

⁵Section 61 will be discussed at Final Level.

Sl. Nos. 4 and 5) has claimed that his income from business or profession is lower than the deemed profits as per section 58(2) or section 61(2).

(4) Power of the CBDT: The CBDT may prescribe

- the books of account and other documents (including inventories, wherever necessary) to be kept and maintained
- particulars to be contained therein
- the form, manner and place at which they shall be kept and maintained; and
- the period for which such books of account and other documents are to be retained

(5) Rules pertaining to maintenance of books of accounts & other documents: Rule 46 of the Income-tax Rules, 2026 contains details relating to the books of account and other documents to be maintained by certain professionals under section 62(1).

Books of Accounts to be maintained: As per Rule 46(1), every person required to keep and maintain books of account and other documents under section 62(1)(b) shall maintain such books of account and other documents that enable the Assessing Officer to compute his total income under the Act.

Prescribed class of persons: As per Rule 46(2), 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 Rule 46(4).

However, the provisions of Rule 46(2) are not applicable in the following cases:

- in relation to any tax year in the case of any person if his gross receipts in the profession do not exceed ₹ 1,50,000 in any one of the 3 years immediately preceding the tax year;
- where the profession has been newly set up in the tax year, his total gross receipts in the profession for that year **are not likely to exceed ₹ 1,50,000.**



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.

Prescribed books of accounts and other documents [Rule 46(4)]: 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) Copies of bills and receipts issued by the person, for sums equal to or exceeding ₹ 250;
- (i) Original bills and receipts in respect of expenditure equal to or exceeding ₹ 250 incurred by the person and issued to him,
- (vi) Payment vouchers prepared and signed by the person, where the expenditure incurred does not exceed ₹ 250, and the cash book maintained by the person does not contain adequate particulars in respect of such expenditure.

In case of a person carrying on medical profession, he will be required to maintain the following in addition to the list given above [Rule 46(6)]:

- (i) a daily case register in Form 25
- (ii) an inventory under broad heads, as on the first and last day of the tax year, of the stock of drugs, medicines and other consumable accessories used for his profession.

Place at which books to be kept and maintained: The books and documents shall be kept and maintained at the place where the person is carrying on the profession, or where the profession is carried on in more places than one, at the principal place of his profession. However, if the person keeps and maintains separate books of account in respect of each

place where the profession is carried on, such books of account and other documents may be kept and maintained at the respective places at which the profession is carried on.

Books of account maintained in electronic mode: The books of account and other documents maintained in electronic mode shall remain accessible in India at all times, and the back-up of such books of account and other documents maintained in electronic mode, shall be kept in servers physically located in India, and shall be updated on a daily basis. [Rule 46(8)]

Period for which the books of account and other documents are required to be kept and maintained: The above books of account and documents shall be kept and maintained for a period of 7 tax years from the end of the relevant tax year.

ILLUSTRATION 15

Vinod is a person carrying on profession as film artist. His gross receipts from profession are as under:

Particulars	₹
Financial year 2023-24	1,15,000
Financial year 2024-25	1,80,000
Financial year 2025-26	2,10,000

What is his obligation regarding maintenance of books of accounts for Tax Year 2026-27 under section 62 of Income-tax Act, 2025?

SOLUTION

Section 62(1) requires every person carrying on any specified profession to maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of the Income-tax Act, 2025.

As per Rule 46(2) read with Rule 46(3), a person carrying on a profession as film artist shall be required to maintain **specified books of accounts, only if:**

- (i) his gross receipts in the profession has exceeded ₹ 1,50,000 in all the three years immediately preceding the relevant tax year; or
- (ii) it is a new profession which is setup in the relevant tax year, it is likely to exceed ₹ 1,50,000 in that tax year.

In the present case, Vinod is a person carrying on profession as film artist. Since his gross receipts have not exceeded ₹ 1,50,000 in tax year 2023-24, the requirement under section 62 to compulsorily maintain the prescribed books of account is not applicable to him for T.Y. 2026-27.

Mr. Vinod, however, required to maintain such books of accounts as would enable the Assessing Officer to compute his total income.

(6) Penalty for failure to maintain books of account [Section 441]

If a person fails to keep and maintain any such books of account and other documents as required by section 62 or the rules made thereunder, in respect of any tax year or to retain such books of account and other documents for the specified period, the Assessing Officer or the Joint Commissioner (Appeals) or the Commissioner (Appeals) may direct a penalty of ₹ 25,000 under section 441.



22.	<i>Mr. Ravi, carrying on a newly set up consultancy profession (not being specified profession), estimates gross receipts of ₹ 28 lakhs during T.Y. 2026-27. What is his obligation to maintain books of account?</i>	
	(a)	<i>No requirement to maintain books of account</i>
	(b)	<i>Required to maintain books of account since receipts likely exceed ₹ 25 lakhs</i>
	(c)	<i>Books required only after completion of first year</i>
	(d)	<i>Books required only if income exceeds ₹ 10 lakhs</i>
23.	<i>For how many years are books of account and documents generally required to be retained?</i>	
	(a)	<i>3 tax years</i>
	(b)	<i>5 tax years</i>
	(c)	<i>7 tax years</i>
	(d)	<i>10 tax years</i>



3.15 TAX AUDIT [SECTION 63]

- (i) **Requirement of Tax Audit:** It is obligatory for the persons mentioned in column (2) of the table below, carrying on business or profession, to get his accounts audited before the “specified date” by a Chartered Accountant, if the conditions mentioned in the corresponding row of column (3) are satisfied

	Persons	When tax audit is required?
(1)	(2)	(3)
1	Every Person carrying on Business or Profession [other than that taxable on presumptive basis u/s 58(2)]	
(a)	In case of a person carrying on business - subject to provisions of clause (b)	If his total sales, turnover or gross receipts in business > ₹ 1 crore in the relevant tax year
(b)	If in case of such person carrying on business - (i) Aggregate of all amounts received in cash (including amount received for sales, turnover or gross receipts) during the tax year $\leq$ 5% of the said amount; and (ii) Aggregate of all payment made including amount incurred for expenditure in cash during the tax year $\leq$ 5% of the said payments	If his total sales, turnover or gross receipts in business > ₹ 10 crore in the relevant tax year
	Note – The payment or receipt, as the case may be, by a cheque drawn on a bank or by a bank draft, which is not account payee, would be deemed to be the payment or receipt, as the case may be, in cash.	
(c)	In case of a person carrying on profession	If his gross receipts in profession > ₹ 50 lakh in the tax year.
	Note – The requirement of tax audit u/s 63 does not apply to a person who declares profits and gains of business or profession for the tax year as per the presumptive basis u/s 58(2).	

2	In case of Business or Profession taxable on presumptive basis u/s 58(2)	
	In case of an assessee covered u/s 58(2)	If such assessee claims that the profits and gains from business or profession in the relevant T.Y. are lower than the deemed profits as per those sections

- (ii) **Audit Report:** The above mentioned persons have to furnish by the specified date, a report of such audit in the prescribed form, duly signed and verified by the accountant. For this purpose, the Board has prescribed under Rule 47, Form No. 26 containing form of audit report and particulars to be furnished therewith.
- (iii) **Accounts audited under other statutes are considered:** Where a person is required to get his accounts audited by or under any other law, it will be sufficient if such person gets the accounts audited of such business or profession under such law before the specified date and furnishes by that specified date the report of such audit along with the report of the accountant in the prescribed form.

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, 2013. The provision only requires that companies should get their accounts audited under the Companies Act, 2013 before the specified date and in addition to the report required to be given by the auditor under the Companies Act, 2013 furnish a report for tax purposes in the prescribed form.

- (iv) **Specified date:** The expression “**specified date**” in relation to the accounts of the tax year or years relevant to any tax year means the date one month prior to the due date for furnishing the return of income under section 263(1).

The due date for filing return of income in case of assesseees (other than companies) who are required to get their accounts audited is 31st October of the financial year succeeding the relevant tax year. **Hence, the specified date**

for tax audit would be 30th September of the financial year succeeding the relevant tax year.⁶

- (v) **Fees for failure:** If any person fails to get his accounts audited for any tax year or years and furnish the audit report as required under section 63, the person shall be liable to pay following fees under section 428(c):

For a delay upto 1 month for which such failure continues	₹ 75,000
Delay beyond 1 month	₹ 1,50,000



3.16 SPECIAL PROVISIONS FOR COMPUTING PROFITS AND GAINS OF BUSINESS OR PROFESSION ON PRESUMPTIVE BASIS IN CASE OF CERTAIN RESIDENTS [SECTION 58]

Section 58 provides for computation of profits of certain business or profession on presumptive basis where profits are to be calculated in a pre-determined manner.

1. Applicability of the provisions

Provisions of this section apply if the following conditions are fulfilled:

- (i) Assessee carries on any specified business or profession as mentioned in the Table below)
- (ii) Assessee is an eligible assessee as specified in the Table below
- (iii) Total turnover or gross receipts of business or profession during the tax year does not exceed the limit specified in the table below.

If the above mentioned conditions are fulfilled, the profits of the business or profession shall be computed by applying presumptive rate in the manner specified in the Table below and such profits shall be deemed to be the profits and gains of such business or profession chargeable to tax under the head “Profits and gains of business or profession” [Section 58(2)].

⁶ In case of a person whose due date for filing return of income is 30th November of the financial year succeeding the relevant tax year, the specified date for tax audit would be 31st October of the financial year succeeding the relevant tax year

S. No.	Specified business or profession	Assessee	Total turnover or gross receipts of business or profession during tax year	Manner of computation
A	B	C	D	E
1.	Any business other than the business specified in 2.	Eligible assessee	(a) $\leq$ ₹ 2 cores; or (b) $\leq$ ₹ 3 cores, where the amount or aggregate of amounts received, in cash , $\leq$ 5% of the total turnover or gross receipts.	(A) The aggregate of (i) 6% of total turnover or gross receipts which is received by specified banking or online mode during the tax year or before the due date specified in section 263(1) in respect of that tax year; (ii) 8% of total turnover or gross receipts as reduced by the turnover or gross receipts covered in (i); or (B) profit claimed to have been actually earned, whichever is higher.

Meaning of eligible assessee: Eligible Assessee means a resident individual, HUF or Partnership firm (but not LLP), and who

- (i) has not claimed deduction Chapter VIII Part "C – Deductions in respect of certain incomes", for the relevant tax year.
- (ii) does not carry on specified profession as defined in section 62(4).
- (iii) does not earn any income in the nature of commission or brokerage;
- (iv) does not carry on any agency business;

Note: The receipt of amount or aggregate of amounts by a cheque drawn on a bank or by a bank draft, which is not account payee, shall be deemed to be the receipt in cash.

2.	Business of plying, hiring or leasing goods carriage	An assessee, who owns ≤ 10 goods carriages at any time during the tax year.		(A) Aggregate of (i) For a heavy goods vehicle: ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, for each vehicle for every month or part of a month; (ii) For a vehicle, other than heavy goods vehicle: ₹ 7,500, for each goods carriage for every month
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				or part of a month during which the vehicle is owned by the assessee in the tax year or (B) Profit claimed to have been actually earned, whichever is higher.
	Allowability of salary and interest to partner in case of assessee is a firm - Where the assessee is a firm, the salary and interest paid to its partners shall be deducted from the income computed as per presumptive provisions subject to the conditions and limits specified in section 35(e).			
	Goods carriage treated as owned by the assessee - An assessee, who is in possession of a goods carriage, whether taken on hire purchase or on instalments and for which the whole or part of the amount payable is still due, shall be deemed to be the owner of such goods carriage.			
	Meaning of heavy goods vehicle - Any goods carriage, the gross vehicle weight of which exceeds 12,000 kilograms.			
	In respect of a tractor or a road-roller, where the gross vehicle weight is not applicable, and unladen weight exceeds 12,000 Kilograms, the profits and gains from each goods carriage shall be at the rate of ₹ 1,000 per ton of unladen weight for every month or part of the month [Clarification dated 14.8.2019].			
	Provisions of section 62 and 63 not to apply and for computing monetary limit of maintenance of accounts and tax audit, gross receipt from such business not to be included - The provisions of sections 62 and 63 shall not apply in so far as they relate to the above business of plying, hiring or leasing goods carriage and in computing the monetary limits under those sections, the gross receipts or, as the case may be, the income from the said business shall be excluded.			
3.	Specified profession as	Specified assessee	(a) ≤ ₹ 50 lakhs; or	50% of the gross receipts

referred to in section 62(4) namely legal, medical, engineering, architectural, accountancy, technical consultancy, interior decoration, information technology or company secretary or any other profession as notified by the CBDT		(b) ≤ ₹ 75 lakhs, where the amount or aggregate of amounts received, in cash , ≤ 5% of the total turnover or gross receipts.	<u>or</u> profit claimed to have been actually earned, whichever is higher.
Meaning of specified assessee: Specified assessee means an individual or a firm, other than an LLP, who is a resident in India. Note: The receipt of amount or aggregate of amounts by a cheque drawn on a bank or by a bank draft, which is not account payee, shall be deemed to be the receipt in cash.			

2. Meaning of Specified banking or online mode

Specified Banking or Online Mode mean transaction by

- an account payee cheque or
- an account payee bank draft or
- use of electronic clearing system through a bank account or
- through such other electronic mode, as may be prescribed.

As per Rule 48 of the Income-tax Rules, 2026, "other electronic modes of payment" are the following:

- Credit Card;
- Debit Card;
- Net Banking;

- IMPS (Immediate Payment Service);
- UPI (Unified Payment Interface);
- RTGS (Real Time Gross Settlement);
- NEFT (National Electronic Funds Transfer);
- BHIM (Bharat Interface for Money) Aadhaar Pay, and
- Tier-III: Full KYC Central Bank Digital Currency wallets, P-CBDC, Wholesale/Cross-border CBDC.

3. **Non-applicability of section 26 to 54**

The provisions of sections 26 to 54, to the extent contrary to this section, shall not apply to the manner of computation of profits and gains of the specified business or profession.

4. **Requirement of maintenance of books of account u/s 62 and audit u/s 63 [Section 58(3)]**

If the assessee referred to in above table **claims that**

- (a) **his profits and gains actually earned from the specified business or profession are lower** than the profits or gains computed by applying the presumptive provisions, and
- (b) **whose total income exceeds the basic exemption limit for that year**, such assessee has to
 - (i) keep and maintain such books of account and other documents as required under section 62 and
 - (ii) get the accounts audited and furnish a report of such audit as required under section 63.

5. **No deduction, loss or allowance allowed [Section 58(4)]**

Any loss, allowance or deduction allowable under the provisions of the Act, shall not be allowed against the income computed in the manner specified in above table.

6. **Written down value of asset [Section 58(6)]**

The WDV of any asset used for the purpose of specified business or profession shall be computed as if the assessee had claimed and was actually allowed

depreciation in respect of depreciation thereon for each of the relevant tax years.

7. Consequences if the eligible assessee referred to in Table: S. No. 1 who has once declared profits as per section 58(2) does not declare profits as per section 58(2) in the subsequent 5 tax years

Where an eligible assessee declares profit for any tax year as per the provisions of section 58(2) (Table: S. No. 1) and he declares profit for any of the five tax years succeeding such tax year in contravention of the provisions of section 58(1), then he shall not be eligible to claim the benefit of the provisions of this section **for five tax years subsequent to the tax year** in which the profit has not been declared as per the provisions of the said sub-section [Section 58(7)].

In such a case, the assessee would have to **maintain books of account and other documents as required under section 62** and get them **audited** and furnish report as required under section 63, **if his total income exceeds the basic exemption limit in those years** [Section 58(8)].



Let us consider the following particulars relating to a resident individual, Mr. A, being an eligible assessee carrying on retail trade business whose total turnover do not exceed ₹ 2 crore in any of the tax years 2026-27 to 2028-29-

Particulars	T.Y.2026-27	T.Y.2027-28	T.Y.2028-29
Total turnover (₹)	1,80,00,000	1,90,00,000	2,00,00,000
Amount received through prescribed electronic modes on or before 31 st August of the immediately succeeding T.Y.	1,60,00,000	1,45,00,000	1,80,00,000
Income offered for taxation (₹)	11,20,000	12,30,000	10,00,000
% of gross receipts	6% on ₹ 1.60 crore and 8% on ₹ 20 lakhs	6% on ₹ 1.45 crore and 8% on ₹ 45 lakhs	5% on ₹ 2 crore
Offered income as per presumptive taxation scheme u/s 58	Yes	Yes	No

In the above case, Mr. A, an eligible assessee, opts for presumptive taxation under section 58 for T.Y.2026-27 and T.Y.2027-28 and offers income of ₹ 11.20 lakh and ₹ 12.30 lakh on gross receipts of ₹ 1.80 crore and ₹ 1.90 crore, respectively.

However, for T.Y.2028-29, he offers income of only ₹ 10 lakh on turnover of ₹ 2 crore, which amounts to 5% of his gross receipts. As per section 58(3), he is required to maintain books of account under section 62 and get the same audited under section 63 for T.Y. 2028-29. Since he has offered income in contravention with the provisions of section 58(1) for T.Y. 2028-29, he will not be eligible to claim the benefit of section 58 for next five years subsequent to the tax year 2028-29 i.e., from T.Y.2029-30 to 2033-34.



24.	Mr. A carries on business with turnover of ₹ 3.80 crore during T.Y. 2026-27. The cash receipts are 3% of total receipts and cash payments are 4% of total payments. Whether he is required to get his accounts audited under section 63?
(a)	Yes, since turnover exceeds ₹ 1 crore during T.Y. 2026-27
(b)	No, since turnover does not exceed ₹ 10 crore during T.Y. 2026-27 and cash receipts and cash payments does not exceed 5% of total receipts and total payments
(c)	Yes, since turnover exceeds ₹ 50 lakhs during T.Y. 2026-27
(d)	No, because business income is below taxable limit
25.	Which of the following assessee is NOT eligible for presumptive taxation under section 58 for normal business?
(a)	Resident individual
(b)	Resident HUF
(c)	LLP
(d)	Resident partnership firm

26.	<i>A resident individual carrying on agency business wants to opt for presumptive taxation under section 58. Which of the following is correct?</i>	
	(a)	<i>Eligible for presumptive taxation if turnover does not exceed ₹ 2 crore</i>
	(b)	<i>Eligible only if cash receipts are below 5% of total receipts</i>
	(c)	<i>Not eligible for presumptive taxation</i>
	(d)	<i>Eligible only if profit exceeds 8% of gross receipts or turnover</i>

ILLUSTRATION 16

Mr. Praveen engaged in retail trade, reports a turnover of ₹ 2,98,50,000 for the tax year 2026-27. Amount received in cash during the T.Y. 2026-27 is ₹ 14,00,000 and balance through specified banking and online mode on or before 31st August 2027. His income from the said business as per books of account is ₹ 15,00,000 computed as per the provisions of Chapter IV-D "Profits and gains from business or Profession" of the Income-tax Act, 2025. Retail trade is the only source of income for Mr. Praveen. T.Y. 2025-26 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 58⁷.

- (i) *Is Mr. Praveen also eligible for presumptive determination of his income chargeable to tax for the tax year 2026-27?*
- (ii) *If so, determine his income from retail trade as per the applicable presumptive provision.*
- (iii) *In case Mr. Praveen wants to declare profits as per books of account from retail trade, what are his obligations under the Income-tax Act, 2025?*
- (iv) *What is the due date for filing his return of income under both the options?*

SOLUTION

- (i) Yes. Since his cash receipts during the T.Y. does not exceed 5% of the total turnover ($14,00,000/2,98,50,000 \times 100$) and his total turnover for the T.Y. 2026-27 is below ₹ 300 lakhs, he is eligible for presumptive taxation scheme under section 58 (Table: Sl. No. 1) in respect of his retail trade business.

⁷ Erstwhile section 44AD

- (ii) His income from retail trade, applying the presumptive tax provisions under section 58 (Table: Sl. No. 1), would be ₹ 18,19,000 (₹ 1,12,000, being 8% of ₹ 14,00,000 + ₹ 17,07,000, being 6% of ₹ 2,84,50,000).
- (iii) Mr. Praveen had declared profit for the tax year 2025-26 in accordance with the presumptive provisions and if he wants to declare profits as per books of account which is lower than the presumptive income for any of the five consecutive tax years i.e., T.Y. 2026-27 to T.Y. 2030-31, he would not be eligible to claim the benefit of presumptive taxation for five tax years subsequent to the tax year in which the profit has not been declared in accordance the presumptive provisions i.e. if he declares profits lower than the presumptive income in say T.Y. 2026-27, then he would not be eligible to claim the benefit of presumptive taxation for T.Y. 2027-28 to T.Y. 2031-32.
- Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 63, since his income exceeds the basic exemption limit.
- (iv) In case he declares presumptive income under section 58, the due date would be 31st August, 2027.

In case he declares profits as per books of account which is lower than the presumptive income, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2027.

ILLUSTRATION 17

Mr. X commenced the business of operating goods vehicles on 1.4.2026. He purchased the following vehicles during T.Y.2026-27. Compute his income under section 58 for T.Y. 2026-27.

	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04.2026
(2)	6,500	1	15.03.2027
(3)	10,000	3	16.07.2026
(4)	11,000	1	02.01.2027
(5)	15,000	2	29.08.2026
(6)	15,000	1	23.02.2027

Would your answer change if the goods vehicles purchased in April, 2026 were put to use only in July, 2026?

SOLUTION

Since Mr. X does not own more than 10 vehicles at any time during the tax year 2026-27, he is eligible to opt for presumptive taxation scheme under section 58. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1)	(2)	(3)	(4)
Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months × No. of vehicles [(1) × (3)]
For Heavy goods vehicles			
2	29.08.2026	8	16
1	23.02.2027	2	2
			18
For goods vehicles other than heavy goods vehicle			
2	10.4.2026	12	24
1	15.3.2027	1	1
3	16.7.2026	9	27
1	02.1.2027	3	3
			55

The presumptive income of Mr. X under section 58 for T.Y.2026-27 would be -

₹ 6,82,500, i.e., $55 \times ₹ 7,500$, being for other than heavy goods vehicle + $18 \times ₹ 1,000 \times 15$ ton being for heavy goods vehicle.

The answer would remain the same even if the two vehicles purchased in April, 2026 were put to use only in July, 2026, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.



3.17 COMPUTATION OF BUSINESS INCOME IN CASES WHERE INCOME IS PARTLY AGRICULTURAL AND PARTLY BUSINESS IN NATURE

Income from manufacture of rubber, coffee and tea [Rule 271]

- (1) In case of incomes specified in the table below, the income shall be computed as if it were income derived from business and a percentage of such incomes shall be deemed to be the income liable to tax.

S. No.	Nature of Income	% of such income deemed to be the income liable to tax
1	Income from sale of rubber products derived from rubber plant grown by the seller in India [Refer Note Below]	35%
2	Income derived from the sale of coffee grown and cured by the seller in India	25%
3	Income derived from the sale of coffee grown, cured, roasted, and grounded by the seller in India with or without mixing chicory or other flavouring ingredients	40%
4	Income derived from the sale of tea grown and manufactured by the seller in India	40%

Note - Income from sale of centrifuged latex or cenex or latex-based crepes (such as pale latex crepe) or brown crepes (such as estate brown crepe, remilled crepe, smoked blanket crepe or flat bark crepe) or technically specified block rubbers manufactured or processed from field latex or coagulum obtained from rubber plants grown by the seller in India.

- (2) In computing such income, an allowance shall be made in respect of the cost of planting rubber plants, coffee plants and tea bushes, in replacement of plants or bushes that have died or become permanently useless in an area already planted, if such area has not previously been abandoned.

- (3) 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 Schedule III (Table: S. No. 21), is not includible in the total income.

Note: The percentage of income as mentioned above is to be treated as taxable income and the balance shall be treated as agriculture income.

ILLUSTRATION 18

Miss Vivitha, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31-3-2027:

S. No.	Particulars	₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
(ii)	Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.	1,00,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded, in Colombo. Sale consideration was received at Chennai.	2,50,000
(iv)	Income from sale of tea grown and manufactured in Shimla.	4,00,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

You are required to compute the business income and agricultural income of Miss Vivitha for the T.Y. 2026-27.

SOLUTION

Computation of business income and agricultural income of Ms. Vivitha for the T.Y.2026-27

Sr. No.	Source of income	Gross (₹)	Business income		Agricultural income
			%	₹	₹
(i)	Sale of centrifuged latex from rubber plants grown in India.	3,00,000	35%	1,05,000	1,95,000
(ii)	Sale of coffee grown and cured in India.	1,00,000	25%	25,000	75,000

(iii)	Sale of coffee grown, cured, roasted and grounded outside India. (See Note 1 below)	2,50,000	100%	2,50,000	-
(iv)	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	2,40,000
(v)	Saplings and seedlings grown in nursery in India (See Note 2 below)	80,000		Nil	80,000
	Total			5,40,000	5,90,000

Notes:

- Where income is derived from sale of coffee grown, cured, roasted and grounded by the seller in India, 40% of such income is taken as business income and the balance as agricultural income. However, in this question, these operations are done in Colombo, Sri Lanka. Hence, there is no question of such apportionment and the whole income is taxable as business income. Receipt of sale proceeds in India does not make this agricultural income. In the case of an assessee, being a resident and ordinarily resident, the income arising outside India is also chargeable to tax.
- Section 2(5)(d) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land.



LET US RECAPITULATE

Method of Accounting [Section 276]

Income chargeable under this head shall be computed as per the method of accounting, either cash or mercantile basis, regularly and consistently employed by the assessee.

Income chargeable under this head [Section 26]

(i)	Income arising to any person by way of profits and gains from the business or profession carried on by him at any time during the tax year. However, any income from letting out of a residential house or a part of the house by the owner shall not be chargeable under the head "Profits and gains of business or profession" and would be chargeable under the head "Income from house property".		
(ii)	Any compensation or other payment due to or received by any person, by whatever name called (a) wholly or substantially managing the affairs - (A) of an Indian company or (B) in India, of any other company; or (b) holding an agency in India for any part of the business activities any other person; or (c) for any contract relating to business, in connection with the termination of his management, office, agency or contract, as the case may be, or modification of terms and conditions relating thereto.		
(iii)	Any compensation or payment due to or received by any person, for vesting of the management of any property or business, in the Government including any corporation owned or controlled by the Government under any law in force.		
(iv)	Income derived by a trade, professional or similar association from specific services performed for its members.		
(v)	In the case of an assessee carrying on export business, the following incentives – <table border="1" data-bbox="304 1684 1298 1731"> <tr> <td>(a)</td><td>Profit on sale of import entitlements;</td></tr> </table>	(a)	Profit on sale of import entitlements;
(a)	Profit on sale of import entitlements;		

	(b)	Cash assistance against exports;
	(c)	Duty drawback;
	(d)	Duty remission.
	(e)	any other export incentive
(vi)	The value of any benefit or perquisite arising from business or the exercise of profession, whether (a) convertible into money or not; or (b) in cash or in kind or partly in cash and partly in kind.	
(vii)	Any interest, salary, bonus, commission or remuneration due to, or received by, a partner of a firm from such firm (to the extent allowed as deduction in the hands of the firm). However, the partner's share in the total income of the firm or LLP is exempt from tax [Schedule III (Table: Sl. No. 2)].	
(viii)	Any sum, received or receivable, in cash or kind, under an agreement for –	
	(a)	not carrying out any activity in relation to any business or profession; or
	(b)	not sharing any know-how, patent, copyright, trademark, licence, franchise or any other business of commercial right of similar nature or information or technique likely to assist in the manufacture or processing of goods or provision of services.
(ix)	Any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy.	
(x)	Fair market value of inventory as on date on which it is converted into or treated as a capital asset.	
(xi)	Any sum, whether received or receivable, in cash or kind when a capital other than land or goodwill or financial instrument, is demolished, destroyed, discarded or transferred and the whole of the expenditure on it has been allowed as a deduction under section 46 of the Income-tax Act, 2025 or under section 35AD of the Income-tax Act, 1961.	
Manner of computation of income under the head "Profits and gains of business or profession"		

As per section 27, the income referred to in section 26 has to be computed in accordance with the provisions contained in sections 28 to 60, except section 58.

Admissible Deductions	
Section	Deduction
28	Amount paid on account of premium, rent, rates, taxes, repairs (not including expenditure in the nature of capital expenditure) in respect of <u>premises, machinery, plant or furniture used by the assessee for the purposes of his business or profession</u>. In case the premises are occupied by the assessee as a tenant, the amount of repairs would be allowed as deduction only if he has undertaken to bear the cost of repairs to the premises.
29	◆ Any sum paid by the assessee as an employer by way of contribution towards a recognized provident fund or approved superannuation fund [Section 29(1)(a)]. ◆ Any sum paid by the assessee as an employer by way of contribution towards a pension scheme referred to in section 124, to the extent of 14% of salary of any employee in the tax year. Salary includes dearness allowance, if the terms of employment so provide [Section 29(1)(b)]. ◆ Any sum paid by the assessee as an employer by way of contribution towards an approved gratuity fund created by him for the exclusive benefit of his employees under an irrevocable trust [Section 29(1)(c)]. ◆ Provision made for the purpose of making contribution towards approved gratuity fund or for the purpose of payment of any gratuity that has become payable during the tax year is allowable u/s 29(1)(d). ◆ Amount received by assessee-employer as contribution from his employees towards their welfare fund to be allowed as deduction only if such amount is credited by the assessee to the employee's account in the relevant fund on or before the due date of filing of return of income under section 263(1) for the tax year. Amount credited after the said due date would not be eligible for deduction.
30	◆ Insurance premium paid for policy against risk of damage or destruction of the stock or stores [Section 30(a)]. ◆ Premium paid by employer for health insurance of employees [Section 30(c)].

31(2)	Any bad debts written off as irrecoverable in the accounts of the assessee for the tax year, provided the debt has been taken into account in computing the income of the tax year or any earlier tax year. Amount of debt taken into account in computing the income of the assessee on the basis of notified ICDSs to be allowed as deduction in the tax year in which such debt or part thereof becomes irrecoverable. If a debt, which has not been recognized in the books of account as per the requirement of the accounting standards but has been taken into account in the computation of income as per the notified ICDSs, has become irrecoverable, it can still be claimed as bad debts under section 31(2) since it shall be deemed that the debt has been written off as irrecoverable in the books of account by virtue of the section 31(3)(b). This is because some ICDSs require recognition of income at an earlier point of time (prior to the point of time such income is recognised in the books of account). Consequently, if the whole or part of such income recognised at an earlier point of time for tax purposes becomes irrecoverable, it can be claimed as bad debts on account of the second proviso to section 31(3)(b).
32	♦ Bonus and commission 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 [Section 32(a)]. ♦ Interest paid in respect of capital borrowed for the purposes of business or profession. However, any interest paid for acquisition of an asset (whether capitalized 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, shall not be allowed as deduction. Such amount of interest would be added to the actual cost of asset [Section 32(b)]. ♦ Discount on ZCBs – Allowed on pro rata basis having regard to the period of life of the bond [Section 32(d)] ♦ Expenses on family planning by a company - Any bona fide expenditure incurred by a company for the purpose of promoting family planning amongst its employees. In case the expenditure or part thereof is of capital nature, one-fifth of such expenditure shall be deducted for the tax

	year in which it was incurred; and the balance in four equal installments in four succeeding tax years. Family planning expenses, whether revenue or capital, is <u>not</u> allowable as deduction for non-corporate assessee, like individuals, HUFs, firms, LLPs. [Section 32(i)] ♦ Amount of securities transaction tax and commodities transaction tax paid - An amount of securities transaction tax (STT) or commodities transaction tax (CTT) paid by the assessee in respect of taxable securities transactions or taxable commodities transactions entered into in the course of his business during the tax year, if the income arising from such taxable securities transactions is included in the income computed under the head "Profits and gains of business or profession" [Section 32(k)].
33	Depreciation Depreciation is mandatorily allowable as deduction. Conditions for claiming depreciation ♦ Asset must be used for the purpose of business or profession at any time during the tax year. Note: If the asset is acquired during the tax year and is put to use for less than 180 days during that tax year then, only 50% of the depreciation calculated at the rates prescribed will be allowed. ♦ The asset should be owned (wholly or partly) by the assessee. ♦ The depreciation shall be allowed on the written down value of block of assets at the prescribed rates (except in the case of assets of power generating units, in respect of which depreciation has to be calculated as a percentage of actual cost). As per section 33(3), block of assets means a group of assets falling within a class of assets comprising: - tangible assets, being buildings, machinery, plant or furniture, - intangible assets, being know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature, not being goodwill of a business or profession; in respect of which, the same rate of depreciation is prescribed.

Written Down Value of Assets (W.D.V.) [Section 41]	
(1) W.D.V. of the block of assets in immediately preceding tax year	xxx
(2) Less: Depreciation actually allowed in respect of that block of assets in said preceding tax year	xxx
Opening balance as on 1st April of the current T.Y.	xxx
Increased by -	
(3) Actual cost of any asset falling within that block, acquired during the tax year	xxx
(4) Total (1) - (2) + (3)	xxx
Reduced by -	
(5) Money payable together with scrap value, if any, in respect of any asset falling within the block which is sold, transferred, demolished, destroyed or discarded during the tax year. However, such amount cannot exceed the amount in (4).	xxx
(6) In case of slump sale , actual cost of the asset (-) depreciation allowable under the Income-tax Act, 2025 or under the Income-tax Act, 1961 as if such asset was the only asset in the relevant block of asset. However, such amount of reduction cannot exceed the WDV.	xxx
(7) W.D.V at the end of the year (on which depreciation is allowable) [(4) – (5) – (6)]	xxx
(8) Depreciation at the prescribed rate (Rate of Depreciation × WDV arrived at in (7) above)	xxx
Note – If the actual cost includes cost of asset put to use for less than 180 days in the relevant T.Y. of acquisition, then, depreciation on such cost would be 50% of the prescribed rate.	
33(8)	In case of an assessee exercising the option under section 202(4) of shifting out of the default tax regime, additional depreciation at the rate of 20% of actual cost of plant or machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation, transmission or distribution of power, shall be allowed.

	If plant and machinery is acquired and put to use for the purpose of business or profession for less than 180 days during the tax year in which it is acquired, additional depreciation will get restricted to 10% of actual cost (i.e., 50% of 20%). The balance additional depreciation@10% of actual cost will be allowed in the immediately succeeding tax year if the assessee exercises the option of shifting out of the default tax regime in the immediately succeeding tax year. Additional depreciation is allowed to the assessee if the following conditions are satisfied: ◆ the assessee is engaged in the business of manufacture or production of any article or thing or in the business of generation or transmission or distribution of power. ◆ the assessee acquires and installs new machinery or plant ◆ the new machinery or plant is first put to use by the assessee for the purpose of business and ◆ the new machinery or plant (not being a ship or an aircraft) • was not used either within or outside India by any other person before its installation by the assessee • is not installed in any office premises or any residential accommodation, including accommodation in the nature of a guest house • is not in the nature of any office appliances or road transport vehicles • is not an asset on which 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 tax year.
44	Preliminary expenditure incurred by Indian companies and other resident non-corporate assesseees shall be allowed as deduction over a period of 5 years beginning with the tax year in which business commences or in which extension of the undertaking is completed or the new unit commences operation or production. Examples of Preliminary expenses – expenses on preparation of project report, feasibility report, market survey, engineering services, legal charges for drafting agreement.

	In case of a Company, preliminary expenses would include, in addition to the above, legal charges for drafting MOA, AOA, printing of MOA and AOA, fee for registration of Co., expenditure in connection with issue of shares or debentures of Co. (i.e. underwriting commission, brokerage and charges for drafting, typing, printing and advertisement of the prospectus) Qualifying amount - Maximum aggregate amount of the qualifying expenses that can be amortized is 5% of the cost of project (i.e., actual cost of fixed assets in the books of account on the last day of the T.Y.). In case of an Indian company, 5% of the cost of project or at its option, 5% of the capital employed by the company (aggregate of issued share capital, debentures, long-term borrowings as on the last day of the T.Y.), whichever is higher.
45	Expenditure on Scientific Research <u>Expenditure incurred by assessee [Allowable both under the default tax regime and the optional tax regime i.e., normal provisions of the Act]</u> ◆ Any revenue and capital expenditure (other than cost of acquisition of land) on scientific research for in-house research related to its business is allowable as deduction [Section 45(1)(a)]. ◆ Deduction is also allowed in respect of payment of salary or purchase of material inputs for such scientific research during 3 years immediately preceding the year of commencement of business. Such expenditure is deemed to have been incurred in the year of commencement of business and is, hence, allowed as deduction in that year [Section 45(2)(b)]. ◆ Capital expenditure incurred during 3 years immediately preceding the year of commencement of the business is also deemed to have been incurred in the year in which the business commences, and is hence, allowed as deduction in that year [Section 45(3)] ◆ Unabsorbed capital expenditure on scientific research can be carried forward indefinitely for set-off against any income of the assessee other than Salaries.

Contributions to Outsiders [Allowable only if the assessee exercises the option of shifting out of the default tax regime]

In case of an assessee exercises the option of shifting out of the default tax regime and paying tax as per the optional tax regime under the normal provisions of the Act, contributions made by any assessee to certain specified/ approved institutions shall be entitled to deduction of 100% of contribution made to:

Section	Association/University/Company/College/IIT
45(3)(a)(i)	Notified approved research association/university/ college/ other institution for scientific research
45(3)(a)(ii)	Notified approved research association/university/ college/ other institution for research in social science or statistical research
45(3)(b)	Approved notified Company for scientific research
45(3)(c)	Approved National Laboratory/ University/ IIT/ specified person to be used for scientific research undertaken under an approved programme

Note – Contribution to outsiders for scientific/ social science/ statistical research is not allowable under the default tax regime u/s 202(1).

46

This section provides for **investment-linked tax deduction** in respect of the following specified businesses commencing operations on or after the dates specified thereto, **if the assessee exercises the option under section 202(4) of shifting out of the default tax regime** -

- ◆ setting-up and operating 'cold chain' facilities for specified products (commencing operations on or after 1.4.2009);
- ◆ setting-up and operating warehousing facilities for storing agricultural produce (commencing operations on or after 1.4.2009);
- ◆ 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 (commencing operations on or after 1.4.2007);
- ◆ building and operating a hotel of two-star or above category, anywhere in India (commencing operations on or after 1.4.2010);

- ♦ building and operating a hospital, anywhere in India, with at least 100 beds for patients (commencing operations on or after 1.4.2010);
- ♦ developing and building a housing project under a notified scheme for slum redevelopment or rehabilitation framed by the Central Government or a State Government (commencing operations on or after 1.4.2010);
- ♦ developing and building a housing project under a notified scheme for affordable housing framed by the Central Government or State Government (commencing operations on or after 1.4.2011);
- ♦ production of fertilizer in India (commencing operations on or after 1.4.2011);
- ♦ setting up and operating an inland container depot or a container freight station notified or approved under the Customs Act, 1962 (commencing operations on or after 1.4.2012);
- ♦ bee-keeping and production of honey and beeswax (commencing operations on or after 1.4.2012);
- ♦ setting up and operating a warehousing facility for storage of sugar (commencing operations on or after 1.4.2012);
- ♦ laying and operating a slurry pipeline for transportation of iron-ore (commencing operations on or after 1.4.2014);
- ♦ setting up and operating a semiconductor wafer fabrication manufacturing unit, if such unit is notified by the Board in accordance with the prescribed guidelines (commencing operations on or after 1.4.2014).
- ♦ developing or maintaining and operating or developing, maintaining and operating a new infrastructure facility (commencing operations on or after 1.4.2017)

Quantum of deduction - 100% of the capital expenditure (other than expenditure on acquisition of any land, goodwill or financial instrument) incurred during the tax year, **wholly and exclusively for the above specified businesses** would be allowed as deduction from the business income of an assessee, if he has opted for the provisions of section 46.

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 tax year in which the assessee commences operation of his specified business,

	provided the amount incurred prior to commencement has been capitalized in the books of account of the assessee on the date of commencement of its operations. <u>Payment exceeding ₹ 10,000 to be made through specified banking or online mode to qualify for deduction u/s 46</u> - Any expenditure in respect of which payment or aggregate of payment made to a person of an amount exceeding ₹ 10,000 in a day otherwise than through specified banking or online mode would not be eligible for deduction. <u>Non-eligibility for deduction u/s VIII-C</u> - An assessee availing investment-linked tax deduction u/s 46 in respect of any specified business in any tax year, is not eligible for claiming profit-linked deduction under Chapter VIII-C for the same or any other T.Y. in respect of such specified business if the assessee has claimed or opted for section 46 and deduction thereunder has been allowed to him. <u>Asset to be used only for specified business for 8 years</u> - Any asset in respect of which a deduction is claimed and allowed under section 46 shall be used only for the specified business, for a period of 8 years beginning with the tax year in which such asset is acquired or constructed. If such asset is used for any purpose other than the specified business, the total amount of deduction so claimed and allowed u/s 46 in any tax year in respect of such asset, as reduced by the depreciation allowable under section 33 as if no deduction had been allowed under section 46, shall be deemed to be the business income of the assessee of the tax year in which the asset is so used. Note – This deduction is not allowable under the default tax regime u/s 202(1).
52	One-fifth of the expenditure incurred by an assessee-employer in any tax year in the form of payment to any employee in connection with his voluntary retirement in accordance with a scheme of voluntary retirement, shall be allowed as deduction in that tax year and the balance in four equal installments in the immediately four succeeding tax years.
General	
34	An expenditure shall be allowed under section 34, provided:

- ◆ it is **not** in the nature of expenditure described under **sections 28 to 33, 44 to 46 and 52;**
- ◆ it is **not** in the nature of **capital expenditure;**
- ◆ it is **not** a **personal expenditure** of the assessee;
- ◆ it is laid out and expended **wholly and exclusively for the purpose of business/profession;**

Following are not considered as “laid out or expended wholly and exclusively for business or profession of the assessee:

- ◆ it is **not** incurred for any purpose which is an **offence or which is prohibited by law;** and
- ◆ it is **not** an expenditure incurred by the assessee on **CSR activities referred to in section 135** of the Companies Act, 2013.
- ◆ It is not incurred for **advertisement in any souvenir, brochure, tract, pamphlet etc. published by a political party**

Expenditure incurred for any purpose which is an offence or which is prohibited by law” would include and would be deemed to have always included the expenditure incurred by an assessee, -

- (i) for any purpose which is an offence under any law for the time being in force, in India or outside India or which is prohibited by any law for the time being in force, in India or outside India; or
- (ii) to provide any benefit or perquisite to a person, whether or not carrying on a business or exercising a profession, and acceptance of such benefit or perquisite by such person is in violation of any law or rule or regulation or guidelines, as the case may be, for the time being in force, governing the conduct of such person; or
- (iii) to compound an offence under any law for the time being in force, in India or outside India; or
- (iv) to settle proceedings initiated in relation to contravention under such law as may be notified by the Central Government in this behalf.

Amounts not deductible

Section	Particulars
In the hands of any assessee	
35(a)(i)	Any sum paid on account of income-tax including surcharge or cess

35(a)(ii)	Tax paid by the employer on non-monetary perquisites provided to its employees, which is exempt under section Schedule III (Table: Sl. No. 10) in the hands of the employee.	
35(b)(i)	30% of any sum payable to a resident on which tax is deductible at source under Chapter XIX-B and such tax has not been deducted or, after deduction has not been paid on or before the due date for filing of return of income u/s 263(1). However, if such tax has been deducted in any subsequent year or has been deducted in the tax year but paid in the subsequent year after the due date specified under section 139(1), 30% of such sum shall be allowed as deduction in computing the income of the tax year in which such tax is paid.	
35(b)(ii)	Any interest, royalty, fees for technical services or other sum chargeable under the Act, which is payable outside India or in India to a non corporate non-resident or to a foreign company, on which tax deductible at source has not been deducted or after deduction has not been paid on or before the due date specified u/s 263(1). However, if such tax has been deducted in any subsequent year or has been deducted in the tax year but paid in the subsequent year after the due date specified under section 263(1), such sum shall be allowed as deduction in computing the income of the tax year in which such tax is paid.	
35(b)(iii)	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'.	
35(c)	Any payment chargeable under the head " Salaries ", if it is payable outside India or to a non-resident, if tax has not been paid thereon nor deducted therefrom	
In case of partnership firms or LLPs -		
35(e)	(i)	Salary, bonus, commission or remuneration, by whatever name called, paid to any partner who is not a working partner ;
	(ii)	Payment of remuneration to a working partner or interest to any partner, which is not – ♦ authorized by the partnership deed ; or ♦ in accordance with the terms of the partnership deed.

	(iii)	Payment of remuneration to a working partner or interest to any partner authorized by and in accordance with the terms of the partnership deed, but relates to a period falling prior to the date of such partnership and is not authorized by the earlier partnership deed.	
	(iv)	Payment of interest to any partner authorised by and in accordance with the terms of the partnership deed and falling after the date of the partnership deed to the extent of the excess of the amount calculated at 12% simple interest per annum .	
	(v)	Payment of remuneration to a working partner which is authorized by and in accordance with the partnership deed to the extent the aggregate of such payment to working partners exceed the following limits -	
	(a)	On the first ₹ 6,00,000 of the book-profit or in case of a loss	₹ 3,00,000 or 90% of the book-profit, whichever is more.
	(b)	On the balance of book-profit	60%
Meaning of Book profit: Book profit means the net profit as shown in the P & L A/c for the relevant tax year computed in accordance with the provisions for computing income from profits and gains. The above amount should be increased by the aggregate remuneration to all partners of the firm if the same has been deducted while computing net profit.			
Expenses or payments not deductible in certain circumstances			
Section	Particulars		
36(2)	Any expenditure incurred in respect of which a payment is made to a related person or entity , to the extent it is considered excessive or unreasonable by the Assessing Officer . Few examples of related persons are as under:		
	Assessee	Related Person	
	Individual	Any relative of the individual (husband or wife, brother or sister, any lineal ascendant or descendant of the individual)	

	Firm	Any partner of the firm or relative of such partner
	HUF or AOP	Any member of the AOP or HUF or any relative of such member
	Company	Director of the company or any relative of the director
	Any assessee	Any individual who has a substantial interest (20% or more voting power or beneficial entitlement to 20% of profits) in the business or profession of the assessee; or A relative of such individual.
36(4)	- Any expenditure, in respect of which a payment or aggregate of payments made in a single day to a person exceeds ₹ 10,000 and is not made through specified banking or online mode. - In case of payments made to transport operator for plying, hiring or leasing goods carriages, an enhanced limit of ₹ 35,000 shall apply. If the payment/payments exceed this limit, the entire expenditure would be disallowed. - However, disallowance would not be attracted if the cases and circumstances in which payment is not made through specified banking or online mode are covered in Rule 26. Few Examples of exceptions covered in Rule 26: Payment to RBI, SBI, Co-operative banks Payment made to Government, which according to its Rules, has to be made in legal tender Payment for purchase of agricultural produce, forest produce, fish and fish products, productions of horticulture or apiculture to the cultivator, grower or producer of such produce or products.	
36(5)	Where an expenditure has been allowed as deduction on accrual basis in any tax year, and payment is not made through specified banking or online mode in a subsequent tax year and such payment (or aggregate of payments made to a person in a day is made in a subsequent tax year) is in excess of the limits of ₹ 10,000/ ₹ 35,000 specified above, the payment/aggregate of payments so made shall be deemed as profits and gains of the business or profession and charged to tax as income of the subsequent tax year.	

	However, the deeming provisions will not apply in the cases and circumstances covered in Rule 26.
Profits chargeable to tax [Section 38]	
38(1)(a)	Where deduction was allowed in respect of loss, expenditure or trading liability for any tax year and subsequently, during any tax year, the assessee or successor of the business has obtained 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 or the value of benefit accrued shall be deemed to be income of the T.Y. in which such benefit was obtained.
38(1)(c)	Amount realized on transfer of an asset used for scientific research without being used for other purposes is taxable as business income in the year of sale to the extent of lower of deduction allowed under section 35(1)(iv) and sale proceeds
38(1)(d)	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.
Certain Deductions to be allowed only on Actual Payment [Section 37]	
In respect of the following sums payable by an assessee during the T.Y., deduction is allowable only if the sum is actually paid on or before the due date of filing of return u/s 263(1) for the said T.Y. Otherwise, the same would be allowed only in the year in which the sum is actually paid.	
(i)	Tax, duty, cess or fee , levied under any law in force; or
(ii)	Contribution of the employer to a provident fund or superannuation fund or gratuity fund or any other fund for the welfare of employees; or
(iii)	Amount payable by employer in lieu of any leave at the credit of the employee ; or
(iv)	Bonus or Commission for services rendered payable to employees; or
(v)	Interest on loans or advances or borrowings from specified financial entities as per the terms and conditions of the agreement governing such loans or advances or borrowings; or
(vi)	Amount payable to the Indian Railways for use of Railway assets.
However, any sum payable by the assessee to a micro or small enterprise beyond the time-limit specified in section 15 of the Micro, Small and Medium Enterprises Development Act, 2006 would be allowed as deduction only in the T.Y. in which the sum is actually paid.	

Section 15 of the of the Micro, Small and Medium Enterprises Development Act, 2006 mandates payment of goods or services to supplier, being a micro or small enterprises on or before the date as per the written agreement, which cannot be more than 45 days. If there is no such written agreement, the payment shall be made before the appointed day i.e., within 15 days.

If the sum is paid within the said period, deduction would be allowed in the year of accrual. If it is paid after the said period, then, deduction would be allowed only in the year of actual payment, even if it is paid on or before the due date of filing return of income u/s 263(1).

Other Provisions

Section	Particulars	
53	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 or profession". However, if the stamp duty value does not exceed 110% of the actual consideration received or accruing then, such consideration shall be deemed to be the full value of consideration for the purpose of computing profits and gains from transfer of such asset. 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 specified banking or online mode on or before the date of agreement for transfer of such asset.	
63	Mandatory audit of accounts of certain persons	
	Category of person	Condition for applicability of section 63
(1)	(2)	(3)
I	Every Person carrying on Business or Profession [other than that taxable on presumptive basis u/s 58(2)]	
(a)	In case of a person carrying on business – subject to provisions of clause (b)	If his total sales, turnover or gross receipts in business > ₹ 1 crore in the tax year
(b)	If in case of such person carrying on business -	If his total sales, turnover or gross receipts in business > ₹ 10 crore in the relevant TY

	(i) Aggregate of all amounts received in cash (including amount received for sales, turnover or gross receipts) during the tax year $\leq 5\%$ of the said amount; and (ii) Aggregate of all payment made including amount incurred for expenditure in cash during the tax year $\leq 5\%$ of the said payments	
	Note – For this purpose, the payment or receipt, as the case may be, by a cheque drawn on a bank or by a bank draft, which is not account payee, would be deemed to be the payment or receipt, as the case may be, in cash.	
(c)	In case of a person carrying on profession	If his gross receipts in profession > ₹ 50 lakh in the tax year.
Note – The requirement of tax audit u/s 63 does not apply to a person who declares profits and gains of business or profession for the tax year as per the presumptive basis u/s 58(2).		
2	In case of Business or Profession taxable on presumptive basis u/s 58(2)	
	In case of an assessee covered u/s 58(2)	If such assessee claims that the profits and gains from business or profession in the relevant T.Y. are lower than the deemed profits as per those sections
Presumptive Income provisions		
Section	Particulars	Deemed profits and gains
58	1. In case if any businesses other than referred to in 2 below. Turnover is	(A) The aggregate of (i) 6% of total turnover or gross receipts which is received by specified banking or online mode

	(a) $\leq ₹ 2$ cores; or (b) $\leq ₹ 3$ cores, where the amount or aggregate of amounts received, in cash, $\leq 5\%$ of the total turnover or gross receipts	during the tax year or before the due date specified in section 263(1) in respect of that tax year; (ii) 8% of total turnover or gross receipts as reduced by the turnover or gross receipts covered in (i); or (B) profit claimed to have been actually earned, whichever is higher.
	2. An assessee, who owns ≤ 10 goods carriages at any time during the tax year and is in the business of plying, hiring or leasing goods carriage	(A) The aggregate of (i) For a heavy goods vehicle, ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, for each vehicle for every month or part of a month; (ii) For a vehicle, other than heavy goods vehicle: ₹ 7,500, for each goods carriage for every month or part of a month during which the vehicle is owned by the assessee in the tax year or (B) Profit claimed to have been actually earned, whichever is higher.
	3. An assessee, being an individual or a partnership firm (other than LLP) resident in India, who is engaged in any profession referred to in section 62(4) such as legal, medical, engineering or	50% of the gross receipts <u>or</u> profit claimed to have been actually earned, whichever is higher.

	architectural profession or the profession of accountancy or technical consultancy or interior decoration or any other profession as is notified by the Board in the Official Gazette; and whose total gross receipts does not exceed ₹ 50 lakhs in a tax year. If aggregate cash receipts in the relevant PY $\leq$ 5% of total turnover or gross receipts of the assessee, a higher gross receipts threshold of ₹ 75 lakhs would be applicable.	
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Taxability in case of composite income

In case of incomes specified in the table below, the income shall be computed as if it were income derived from business and a percentage of such incomes shall be deemed to be the income liable to tax.

S. No.	Nature of Income	% of such income deemed to be the income liable to tax
1	Income from sale of rubber products derived from rubber plant grown by the seller in India [Refer Note Below]	35%
2	Income derived from the sale of coffee grown and cured by the seller in India	25%

3	Income derived from the sale of coffee grown, cured, roasted, and grounded by the seller in India with or without mixing chicory or other flavouring ingredients	40%
4	Income derived from the sale of tea grown and manufactured by the seller in India	40%
Note - Income from sale of centrifuged latex or cenex or latex-based crepes (such as pale latex crepe) or brown crepes (such as estate brown crepe, remilled crepe, smoked blanket crepe or flat bark crepe) or technically specified block rubbers manufactured or processed from field latex or coagulum obtained from rubber plants grown by the seller in India.		



TEST YOUR KNOWLEDGE

1. Mr. Venus., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2027:

	(₹ in lakhs)
WDV of Plant and Machinery on 31.3.2026	30.00
Depreciation including additional depreciation for T.Y. 2025-26	4.75
New machinery purchased on 1-9-2026	10.00
New machinery purchased on 1-12-2026	8.00
Computer purchased on 3-1-2027	4.00

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 1-12-2026 and computer have been installed in the office.
- During the year ended 31-3-2026, new machinery had been purchased on 31-10-2025, for ₹ 10 lakhs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.
- The assessee has no brought forward business loss or unabsorbed depreciation as on 1.4.2026.

Compute the depreciation available to the assessee as per the provisions of the Income-tax Act, 2025 and the WDV of different blocks of assets as on 31-3-2027 if -

- he exercises the option of shifting out of the default tax regime
- he pays tax under the default tax regime under section 202(1).

2. Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 2025 for the T.Y. 2026-27, assuming he has exercised the option of shifting out of the default tax regime:

	Particulars	(₹ in lakhs)
(i)	WDV of block as on 31.3.2026 (15% rate)	50.00
(ii)	Depreciation for T.Y. 2025-26	7.50
(iii)	New machinery purchased on 12-10-2026	10.00
(iv)	Machinery imported from Colombo on 12-4-2026 This machine had been used only in Colombo earlier and the assessee is the first user in India.	9.00
(v)	New computer installed in generation wing unit on 15-7-2026	2.00

All assets were purchased by A/c payee cheque.

3. Examine with reasons, the allowability of the following expenses incurred by Mr. Manav, a wholesale dealer of commodities, under the Income-tax Act, 2025 while computing profit and gains from business or profession for the T.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime -
- Construction of school building in compliance with CSR activities amounting to ₹ 5,60,000.
 - Purchase of building for the purpose of specified business of setting up and operating a warehousing facility for storage of food grains amounting to ₹ 4,50,000.
 - Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted. The sales for the T.Y. 2025-26 was ₹ 202 lakhs. Mr. X has not paid the tax, if any, on such interest.
 - Commodities transaction tax paid ₹ 20,000 on sale of bullion.
4. Examine with reasons, for the following sub-divisions, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 2025:

- (i) *For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.*
 - (ii) *Where a person follows mercantile system of accounting, an expenditure of ₹ 25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes the payment of ₹ 25,000 through a crossed cheque, ₹ 25,000 can be the profits and gains of business under section 36(5) in the year of payment.*
 - (iii) *It is mandatory to provide for depreciation under section 33 of the Income-tax Act, 2025, while computing income under the head “Profits and Gains from Business and Profession”.*
 - (iv) *The mediclaim premium paid to GIC by Mr. Lomesh for his employees, by an account payee cheque on 27.12.2026 is a deductible expenditure under section 30.*
 - (v) *Under section 52, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done.*
 - (vi) *An individual engaged in trading activities and exercising the option of shifting out of the default tax regime can claim additional depreciation under section 33(8) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%.*
5. *Examine, with reasons, the allowability of the following expenses under the Income-tax Act, 2025 while computing income from business or profession for the T.Y. 2026-27:*
- (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 ₹ 10,00,000 to Mr. X outside India by a company without deduction of tax assuming Mr. X has not paid tax on such salary income.*

- (vi) Payment made in cash ₹ 30,000 to a transporter in a day for carriage of goods.
6. Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 2025:
- (a) Payment made in respect of a business expenditure incurred on 16th February, 2027 for ₹ 25,000 through a crossed cheque is hit by the provisions of section 36(4).
- (b) (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 XIX, inter alia, from the amounts payable to a non-resident as rent or royalty, will result in disallowance while computing the business income where the non-resident payee has not paid the tax due on such income.
7. Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2027:

Trading and Profit and Loss Account for the year ended 31.03.2027

Particulars	₹	Particulars	₹
To Opening stock	90,000	By Sales	1,12,11,500
To Purchases	1,10,04,000	By Closing stock	1,86,100
To Gross Profit	3,03,600		-
	1,13,97,600		1,13,97,600
To Salary	60,000	By Gross profit b/d	3,03,600
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing & stationery	23,200		
To Postage & telegram	1,640		
To Loss on sale of shares (Short-term)	8,100		
To Other general expenses	7,060		
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:

- (i) It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:

Opening stock ₹ 9,000

Closing stock ₹ 18,000

- (ii) Salary includes ₹ 10,000 paid to his brother, which is unreasonable to the extent of ₹ 2,000.
- (iii) The whole amount of printing and stationery was paid in cash by way of one-time payment to Mr. Ramesh.
- (iv) The depreciation provided in the Profit and Loss Account ₹ 1,05,000 was based on the following information:

The opening balance of plant and machinery (i.e., the written down value as on 31.3.2026 minus depreciation for T.Y. 2025-26) is ₹ 4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2026 for ₹ 70,000. Two old plants were sold on 1.10.2026 for ₹ 50,000.

- (v) Rent and rates includes GST liability of ₹ 3,400 paid on 7.4.2027.
- (vi) Other general expenses include ₹ 2,000 paid as donation to a Public Charitable Trust.

You are required to compute the profits and gains of Mr. Sivam under presumptive taxation u/s 58 and profits and gains as per the regular provisions of the Act assuming he has exercised the option of shifting out of the default tax regime. Assume that the whole of the amount of turnover received through specified banking or online mode during the tax year.

8. Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2026, he owns 10 trucks (out of which 6 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 15,000 kg each). On 2nd May, 2026, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2026. This new vehicle could, however, be put to use only on 15th June, 2026.

Compute the total income of Mr. Sukhvinder for the T.Y. 2026-27, taking note of the following data:

Particulars	₹	₹
Freight charges collected		12,70,000
Less: Operational expenses	6,25,000	
Depreciation as per section 33	1,85,000	
Other office expenses	15,000	8,25,000
Net Profit		4,45,000
Other business and non-business income		70,000

9. Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2027:

**Manufacturing, Trading and Profit & Loss Account
for the year ended 31.03.2027**

Particulars	₹	Particulars	₹
To Opening Stock	71,000	By Sales	2,32,00,000
To Purchase of Raw Materials	2,16,99,000	By Closing stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross Profit	10,60,000		
	2,34,00,000		2,34,00,000
To Administrative charges	3,26,000	By Gross Profit	10,60,000
To SGST penalty	5,000	By Dividend from domestic companies	15,000
To GST paid	1,10,000	By Income from agriculture (net)	1,80,000
To General Expenses	54,000		
To Interest to Bank (On machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
	12,55,000		12,55,000

Following are the further information relating to the financial year 2026-27:

- (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 29.12.2026. 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 recorded in the books of account.
- (iv) Bank term loan interest actually paid upto 31.03.2027 was ₹ 20,000 and the balance was paid in November 2027.
- (v) Housing loan principal repaid during the year was ₹ 50,000 and it relates to residential property acquired by him in T.Y. 2025-26 for self-occupation. 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%)	₹
WDV as on 31.03.2026 minus Depreciation for T.Y. 2025-26	11,90,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Compute the total income of Mr. Raju for the T.Y. 2026-27 assuming he pays tax under default tax regime.

Note: Ignore application of section 14 for disallowance of expenditures in respect of any exempt income.

10. 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 31.3.2027 are given below:

Particulars	₹
Opening balance of car (only asset in the block) as on 1.4.2026 (i.e. WDV as on 31.3.2025 (-) depreciation for T.Y. 2026-27)	3,00,000
Opening balance of machinery as on 1.4.2026 (i.e., WDV as on 31.3.2026 (-) depreciation for T.Y. 2025-26)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

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 T.Y. 2026-27.

11. Mr. Prem has following assets used for business purposes as on 01.04.2026:
- (i) A machinery costing ₹ 4 lakh, which was used for scientific research related to business and deduction u/s 45 was allowed and claimed.
 - (ii) A laptop received as a gift from his friend costing ₹ 60,000. It was purchased on 01.04.2025 by his friend.
 - (iii) A temporary wooden structure costing ₹ 70,000 erected in December, 2026.

Compute the depreciation allowed on these assets for T.Y. 2026-27.

12. AB Light LLP consists of 2 working partners, Mr. Anand and Mr. Bheem with 60% and 40% share, respectively. As per the partnership deed, they are eligible for interest on capital @15% p.a. on their capital contribution of ₹ 15 lakhs each and remuneration of ₹ 50,000 p.m. to Anand and ₹ 40,000 p.m. to Bheem. The firm is engaged in manufacturing business. During the year ended 31.3.2027, the net profit as per profit and loss account was ₹ 25,86,000 before considering interest on capital and remuneration to partners as well as the following items:

		₹
(i)	Current year revenue expenditure on scientific research	2,40,000
(ii)	Unabsorbed capital expenditure on scientific research relating to T.Y. 2023-24	85,000
(iii)	Unabsorbed depreciation of T.Y. 2017-18	52,000
(iv)	Current year depreciation under section 33	4,70,000
(v)	Brought forward business loss of T.Y. 2021-22	49,000
(vi)	Current year capital expenditure on scientific research	3,45,000

You are required to compute the book profit and remuneration allowable in the hands of AB Light LLP for T.Y. 2026-27. Also, determine the amount of remuneration taxable in the hands of Mr. Anand and Mr. Bheem.

13. Mr. Piyush runs a sole proprietorship firm and owns four machines which was put in use for business in March, 2026. The depreciation on these machines is charged @15%. The written down value of these machines as on 1st April, 2026 was ₹ 7,70,000. Two of the old machines were sold on 15th July, 2026 for ₹ 10,00,000. A second hand plant was bought for ₹ 6,10,000 on 30th December, 2026.

Further, Mr. Piyush has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2027:

Sl. No.	Particulars	₹ (in lakhs)
(i)	Payment made to UV University, an approved University	15
(ii)	Payment made to Satywati College	17

Compute the following for Tax Year 2026-27

- Claim of depreciation
- Deduction available under section 45 if he has shifted out of the default tax regime

ANSWERS

1. **Computation of written down value of block of assets of Venus Ltd. as on 31.3.2027**

Particulars	Plant & Machinery (₹ in lakhs)	Computer (₹ in lakhs)
Written down value (as on 31.3.2026)	30.00	Nil
Less: Depreciation including additional depreciation for T.Y. 2025-26	4.75	-
Opening balance as on 1.4.2026	25.25	
Add: Actual cost of new assets acquired during the year		
New machinery purchased on 1.9.2026	10.00	-
New machinery purchased on 1.12.2026	8.00	-
Computer purchased on 3.1.2027	-	4.00
	43.25	4.00
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Written Down Value (as on 31.03.2027)	43.25	4.00

- (i) **If Mr. Venus exercises the option of shifting out of the default tax regime**

In this case, since his income would be computed under the optional tax regime as per the normal provisions of the Act, he would be entitled for normal depreciation and additional depreciation, subject to fulfilment of conditions.

Computation of depreciation for T.Y. 2026-27

	Particulars	Plant & Machinery (₹ in lakhs)	Computer (₹ in lakhs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	<u>Normal Depreciation</u>		
	- WDV of plant and machinery (₹ 25.25 lakhs x 15%)	3.79	-
	- New Machinery purchased on 1.9.2026 (₹ 10 lakhs x 15%)	1.50	-
	(A)	5.29	-
	<u>Additional Depreciation</u>		
	New Machinery purchased on 1.9.2026 (₹ 10 lakhs x 20%)	2.00	-
	Balance additional depreciation in respect of new machinery purchased on 31.10.2025 and put to use for less than 180 days in the T.Y. 2025-26 (₹ 10 lakhs x 20% x 50%)	1.00	-
	(B)	3.00	-
II.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any		
	<u>Normal Depreciation</u>		
	New machinery purchased on 1.12.2026 [₹ 8 lakhs x 7.5% (i.e., 50% of 15%)]	0.60	-

	Computer purchased on 3.1.2027 [₹ 4 lakhs x 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A+B+C)	8.89	0.80

Notes:

- (1) As per section 33(8), additional depreciation is allowable in the case of any new machinery or plant acquired and installed, by an assessee engaged, inter alia, in 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 office appliances or road transport vehicles;
- (ii) any machinery or plant installed in, inter alia, office premises.

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

- (i) Machinery purchased on 1.12.2026, installed in office and
 - (ii) Computer purchased on 3.1.2027, installed in office.
- (2) Balance additional depreciation@10% on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding tax year.

Hence, in this case, the balance additional depreciation@10% (i.e., ₹ 1 lakhs, being 10% of ₹ 10 lakhs) in respect of new machinery which had been purchased during the tax year 2025-26 and put to use for less than 180 days in that year can be claimed in T.Y. 2026-27 being immediately succeeding tax year.

(ii) If Mr. Venus pays tax under default tax regime under section 202(1)

In this case, under the default tax regime as per section 202(1), he would be entitled only for normal depreciation but not additional depreciation.

Computation of depreciation for T.Y. 2026-27

	Particulars	Plant & Machinery (₹ in lakhs)	Computer (₹ in lakhs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation <u>Normal Depreciation</u>		
	- WDV of plant and machinery (₹ 25.25 lakhs x 15%)	3.79	-
	- New Machinery purchased on 1.9.2026 (₹ 10 lakhs x 15%)	1.50	-
	(A)	5.29	-
II.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation <u>Normal Depreciation</u>		
	New machinery purchased on 1.12.2026 [₹ 8 lakhs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2027 [₹ 4 lakhs x 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A+B+C)	5.89	0.80

2. Computation of depreciation under section 33 for T.Y.2026-27

Particulars	₹	₹
Normal Depreciation		
Depreciation@15% on ₹ 51,50,000, being machinery put to use for more than 180 days [WDV as on 31.3.2026 of ₹ 50,00,000 – Depreciation for T.Y. 2025-26 of ₹ 7,50,000+ Purchase cost of imported machinery of ₹ 9,00,000]	7,72,500	

Depreciation@7.5% on ₹ 10,00,000, being new machinery put to use for less than 180 days	75,000	9,27,500
	8,47,500	
Depreciation@40% on computers purchased ₹ 2,00,000	80,000	1,40,000
Additional Depreciation (Refer Note below)		
Additional Depreciation@10% of ₹ 10,00,000 [being actual cost of new machinery purchased on 12-10-2026]	1,00,000	
Additional Depreciation@20% on new computer installed in generation wing of the unit [20% of ₹ 2,00,000]	40,000	
Depreciation on Plant and Machinery		10,67,500

Note:

Mr. Abhimanyu is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime. The benefit of additional depreciation is available to new plant and machinery acquired and installed in power sector undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, inter alia, in the business of generation, transmission or distribution of power, at the rate of 20% of the actual cost of such machinery or plant.

Therefore, new computer installed in generation wing units eligible for additional depreciation@20%.

Since the new machinery was purchased only on 12.10.2026, it was put to use for less than 180 days during the tax year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the T.Y.2026-27. The balance additional depreciation would be allowed in the next year.

However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person. Therefore, additional depreciation is not allowable in respect of imported machinery, since it was used in Colombo, before its installation by the assessee.

3. Allowability of the expenses incurred by Mr. Manav, a wholesale dealer in commodities, while computing profits and gains from business or profession

(i) Construction of school building in compliance with CSR activities

Under section 34, only expenditure not being in the nature of capital expenditure or personal expense and not covered under sections 30 sections 28 to 33, 44 to 46 and 52, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

Any expenditure laid out or expended wholly and exclusively for business or profession shall not include an expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 and hence, shall **not** be allowed as deduction under section 34.

Accordingly, the amount of ₹ 5,60,000 incurred by Mr. Manav, towards construction of school building in compliance with CSR activities shall **not** be allowed as deduction under section 34.

(ii) Purchase of building for setting up and operating a warehousing facility for storage of food grains

Mr. Manav, would be eligible for investment-linked tax deduction under section 46, since he has exercised the option of shifting out of the default tax regime. The deduction u/s 46 would be 100% of ₹ 4,50,000, being the amount invested in purchase of building for setting up and operating a warehousing facility for storage of food grains which commences operation on or after 1st April, 2009 (T.Y. 2026-27, in this case).

Therefore, the deduction under section 46 while computing business income of such specified business would be ₹ 4,50,000, if Mr. Manav opts for section 46.

(iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted

As per section 393(1) [Table: Sl. No. 5(iii)], Mr. Manav, being an individual is required to deduct tax at source on the amount of interest on loan paid to Mr. X, since his turnover during the tax year 2025-26 exceeds ₹ 100 lakhs.

Therefore, ₹ 15,000, being 30% of ₹ 50,000, would be disallowed under section 35(b)(i) while computing the business income of Mr. Manav for non-deduction of tax at source under section 393 on interest of ₹ 50,000 paid by it to Mr. X.

The balance ₹ 35,000 would be allowed as deduction under section 32(b), assuming that the amount was borrowed for the purposes of business.

(iv) Commodities transaction tax of ₹ 20,000 paid on sale of bullion

Commodities transaction tax paid in respect of taxable commodities transactions entered into in the course of business during the tax year is allowable as deduction, provided the income arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession".

Taking that income from this commodities transaction is included while computing the business income of Mr. Manav, the commodity transaction tax of ₹ 20,000 paid is allowable as deduction under section 32(k).

4. (i) **True:** Section 32(k) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the tax year as deduction from the business income of a dealer in shares and securities.
- (ii) **True:** As per section 36(5), in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any preceding tax year on due basis, and payment exceeding ₹ 10,000 has been made in the subsequent tax year and such payment is not made through specified banking or online mode, then, the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.
- (iii) **True:** According to the section 33(7), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business/ profession whether or not the assessee has claimed the same while computing his total income.

- (iv) **True:** Section 30(c) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 30(c).
- (v) **False:** Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which each payment is made to the employee.
- (vi) **False:** Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or transmission or distribution of power.

In this case, the individual is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, he will not be entitled to claim additional depreciation under section 33(8), even though he has exercised the option of shifting out of the default tax regime.

5. (i) **Not allowable as deduction:** As per section 29, no deduction is allowed in computing business income in respect of any provision made by the assessee in his books of account for the payment of gratuity to his employees on their retirement or termination for any reason except in the following two cases:
- (1) where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund; or
 - (2) where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the tax year.

Therefore, in the present case, the provision made on the basis of actuarial valuation for payment of gratuity has to be disallowed under section 29, since no payment has been actually made on account of gratuity.

Note: It is assumed that such provision is not for the purpose of contribution towards an approved gratuity fund.

- (ii) **Allowable as deduction:** As per Rule 26, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 36(4) is attracted even though the cash payment for the expense exceeds ₹ 10,000.

Therefore, in the given case, disallowance under section 36(4) is not attracted since cash payment for purchase of oil seeds is made directly to the farmer.

- (iii) **Not allowable as deduction:** Income-tax of ₹ 20,000 paid by the employer in respect of non-monetary perquisites provided to its employees is exempt in the hands of the employee under Schedule III (Table: Sl. No. 10).

As per section 35(a)(ii), such income-tax paid by the employer is not deductible while computing business income.

- (iv) **Allowable as deduction:** Payment for fire insurance is allowable as deduction under section 30. Since payment is made by credit card, which is specified banking or online mode, disallowance under section 36(4) is not attracted in this case.

- (v) **Not allowable as deduction:** Disallowance under section 35(c) is attracted in respect of salary payment of ₹ 10,00,000 outside India by a company without deduction of tax at source.

- (vi) **Allowable as deduction:** The limit for attracting disallowance under section 36(4) for payment not made through specified banking or online mode is ₹ 35,000 in case of payment made for plying, hiring or leasing goods carriage. Therefore, in the present case, disallowance under section 36(4) is not attracted for payment of ₹ 30,000 made in cash to a transporter for carriage of goods.

6. (a) **True:** In order to escape the disallowance specified in section 36(4), payment in respect of the business expenditure ought to have been made through specified banking or online mode. Payment through a crossed cheque will attract disallowance under section 36(4).

- (b) (i) **True:** It is mandatory to write off the amount due from a debtor as not receivable in the books of account, in order to claim the same as bad debt under section 31(2). However, where the debt has been taken into account in computing the income of the assessee on the basis of ICDSs notified under section 276(2),

without recording the same in the accounts, then, such debt shall be allowed in the tax year in which such debt becomes irrecoverable and it shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts for the said purpose.

- (ii) **True:** Section 35(b)(ii) provides that failure to deduct tax at source from, inter alia, rent or royalty payable to a non-resident, in accordance with the provisions of Chapter XIX, will result in disallowance of such expenditure, where the non-resident payee has not paid the tax due on such income.

7. Computation of business income of Mr. Sivam for the T.Y. 2026-27

Particulars	₹	₹
Net Profit as per profit and loss account		50,000
Add: Inadmissible expenses/ losses		
Under valuation of closing stock	18,000	
Salary paid to brother – unreasonable [Section 36(2)]	2,000	
Printing and stationery - whole amount of printing & stationery paid in cash would be disallowed, since such amount exceeds ₹ 10,000 [Section 36(4)]	23,200	
Depreciation (considered separately)	1,05,000	
Short term capital loss on shares	8,100	
Donation to public charitable trust	2,000	1,58,300
		2,08,300
Less: Items to be deducted:		
Under valuation of opening stock	9,000	
Income from UTI [Chargeable under the head "Income from Other Sources"]	2,400	11,400
Business income before depreciation		1,96,900
Less: Depreciation (See Note 1)		66,000
		1,30,900

Computation of business income as per section 58:

As per section 58(2) (Table: Sl. No. 1), where the amount of turnover is received by specified banking or online mode, the presumptive business income would be 6% of turnover, i.e., ₹ 1,12,11,500 x 6 /100 = ₹ 6,72,690

Notes:**1. Calculation of depreciation**

Particulars	₹
Opening balance of plant & machinery as on 1.4.2026 (i.e. WDV as on 31.3.2026 (-) depreciation for T.Y. 2025-26)	4,20,000
Add: Cost of new plant & machinery	70,000
	4,90,000
Less: Sale proceeds of assets sold	50,000
WDV of the block of plant & machinery as on 31.3.2027	4,40,000
Depreciation@15%	66,000
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article.	

2. Since GST liability has been paid before the due date of filing return of income under section 263(1), the same is deductible.

8. Section 58(2) (Table: Sl. No. 2) would apply in the case of Mr. Sukhvinder since he is engaged in the business of plying goods carriages and owns not more than ten goods carriages at any time during the tax year.

Section 58(2) (Table: Sl. No. 2) provides for computation of business income of such assessee on a presumptive basis. The income shall be deemed to be ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by the assessee in the tax year or such higher sum as declared by the assessee in his return of income.

Mr. Sukhvinder's business income calculated applying the provisions of section 58(2) (Table: Sl. No. 2) is ₹ 13,72,500 (**See Notes 1 & 2 below**) and his total income would be ₹ 14,42,500.

However, as per section 58(3), Mr. Sukhvinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 62

and gets the same audited and furnishes a report of such audit as required under section 63. If he does so, then his income for tax purposes from goods carriages would be ₹ 4,45,000 instead of ₹ 13,72,500 and his total income would be ₹ 5,15,000.

Notes:

1. Computation of total income of Mr. Sukhvinder for T.Y. 2026-27

Particulars	Presumptive income ₹	Where books are maintained ₹
Income from business of plying goods carriages [See Note 2 Below]	13,72,500	4,45,000
Other business and non-business income	70,000	70,000
Total Income	14,42,500	5,15,000

2. Calculation of presumptive income as per section 58(2) (Table: Sl. No. 2)

Type of carriage	No. of months	Rate per ton per month/ per month	Ton	Amount ₹
(1)	(2)		(3)	(4)
<u>Heavy goods vehicle</u>				
1 goods carriage upto 1 st May	2	1,000	15 (15,000/1,000)	30,000
5 goods carriage held throughout the year	12	1,000	15 (15,000/1,000)	9,00,000
<u>Goods vehicle other than heavy goods vehicle</u>				
1 goods carriage from 6 th May	11	7,500	-	82,500
4 goods carriage held throughout the year	12	7,500	-	3,60,000
Total				13,72,500

9. Computation of total income of Mr. Raju for the T.Y. 2026-27

Particulars	₹	₹
Profits and gains of business or profession		
Net profit as per profit and loss account		5,00,000
Add: Excess commission paid to brother disallowed under section 36(2)	10,000	
Disallowance under section 36(4) is not attracted since the limit for one time cash payment is ₹ 35,000 in respect of payment to transport operators. Therefore, amount of ₹ 33,000 paid in cash to a transport carrier is allowable as deduction.	Nil	
Bank term loan interest paid after the due date of filing of return under section 263(1) – disallowed as per section 37	40,000	
State GST penalty paid disallowed [See Note 2 below]	5,000	
Depreciation debited to profit and loss account	2,00,000	2,55,000
		7,55,000
Less: Dividend from domestic companies [Chargeable to tax under the head “Income from Other Sources”]	15,000	
Income from agriculture [Exempt under Schedule II (Table: Sl. No. 1)]	1,80,000	
Salary paid to staff not recorded in the books (Assumed it was an erroneous omission and that the assessee has offered satisfactory explanation for the same. In such a case, the same would be allowable as deduction while computing profits and gains of business and profession) [See Note 1 below]	48,000	
Depreciation under the Income-tax Act, 2025 (As per working note)	2,23,500	4,66,500
		2,88,500
Income from house property		
Annual value of self-occupied property	Nil	

Less: Deduction u/s 22(1)(b) – interest on housing loan [Not allowable, since Mr. Raju is paying tax as per default tax regime]	Nil	Nil
Income from Other Sources		
Dividend from domestic companies		15,000
Gross Total Income		3,03,500
Less: Deduction u/s 123 [Not allowable, since Mr. Raju is paying tax as per default tax regime]		Nil
Total Income		3,03,500

Working Note:**Computation of depreciation under the Income-tax Act, 2025**

Particulars	₹
Depreciation@15% on ₹ 13.90 lakhs (WDV as on 31.3.2026 less depreciation for T.Y. 2025-26 i.e., ₹ 11.90 lakh plus assets purchased during the year and used for more than 180 days ₹ 2 lakh)	2,08,500
Depreciation @7.5% on ₹ 2 lakh (Assets used for < 180 days)	15,000
	2,23,500

Since Mr. Raju is paying tax as per default tax regime, additional depreciation u/s 33(8) would not be available to him.

Notes (Alternate views):

1. It is also possible to take a view that the salary paid to staff not recorded in the books is in the nature of unexplained expenditure and hence, would be deemed to be income as per section 105 and would be taxable @ 30% under section 195. In such a case, no deduction allowable in respect of such expenditure.
2. Where the imposition of penalty is not for delay in payment of sales tax or VAT or GST but for contravention of provisions of the Sales Tax Act or VAT Act or GST Law, the levy is not compensatory and therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.

Since the question only mentions "GST penalty paid" and the reason for levy of penalty is not given, it has been assumed that the levy is not

compensatory and therefore, not deductible. It is, however, possible to assume that such levy is compensatory in nature and hence, allowable as deduction.

10. Where an assessee is engaged in the composite business of growing and curing of coffee, the income shall be computed as if it were income derived from business and a percentage of such incomes shall be deemed to be the income liable to tax, as per Rule 271 of the Income-tax Rules, 2026.

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.

Particulars	₹	₹
Sale value of cured coffee		22,00,000
Less: Expenses for growing coffee	3,10,000	
Car expenses (80% of ₹ 50,000)	40,000	
Depreciation on car (80% of 15% of ₹ 3,00,000) [See Computation below]	36,000	
Total cost of agricultural operations	3,86,000	
Expenditure on coffee curing operations	3,00,000	
Add: Depreciation on machinery (15% of ₹ 15,00,000) [See Computation below]	2,25,000	
Total cost of the curing operations	5,25,000	
Total cost of composite operations		9,11,000
Total profits from composite activities		12,89,000
Business income (25% of above)		3,22,250
Agricultural income (75% of above)		9,66,750

Computation of depreciation for T.Y. 2026-27

Particulars	₹	₹
Car		
Opening balance as on 1.4.2026 (i.e., WDV as on 31.3.2026 (-) depreciation for T.Y.2025-26)		3,00,000

Depreciation thereon at 15%	45,000	
Less: Disallowance @20% for personal use	9,000	
Depreciation actually allowed		36,000
Machinery		
Opening balance as on 1.4.2026 (i.e., WDV as on 31.3.2026 (-) depreciation for T.Y.2025-26)		15,00,000
Depreciation @ 15% for T.Y. 2026-27		2,25,000

Section 41(10) provides that in cases of 'composite income', for the purpose of computing written down value of assets acquired before the tax 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.

11. Computation of Depreciation to Mr. Prem for T.Y. 2026-27

Particulars	Amount (₹)
Depreciation on machinery used for scientific research – Actual cost is nil as ₹ 4,00,000, being actual cost – ₹ 4,00,000, being deduction allowed and claimed u/s 45]	Nil
Depreciation on laptop received as a gift @40% on ₹ 36,000 [₹ 60,000, being actual cost to previous owner – ₹ 24,000, being depreciation for T.Y. 2025-26 allowable to assessee if it was the only asset]	14,400
Depreciation on temporary wooden structure @40% x 50% on ₹ 70,000 [Since it is put to use for less than 180 days]	14,000
	28,400

12. Computation of book profit of AB Light LLP for the T.Y. 2026-27

Particulars	Amount (₹)	Amount (₹)
Net profit as per profit and loss account before interest on capital and remuneration to partners and other items		25,86,000

Less: Expenditure allowable from business income		
- Interest @ 12% p.a. [being the maximum allowable as per section 35(e)] ($\text{₹ } 15,00,000 \times 12\% \times 2$)	3,60,000	
- Current year revenue expenditure on scientific research under section 45	2,40,000	
- Current year depreciation under section 33	4,70,000	
- Current year capital expenditure on scientific research under section 45	3,45,000	
- Unabsorbed depreciation of T.Y. 2017-18	52,000	
- Unabsorbed capital expenditure on scientific research relating to T.Y. 2023-24	85,000	15,52,000
Book Profit		10,34,000

Note: Brought forward business loss of T.Y. 2021-22 is not allowed to be set off while computing book profit.

Remuneration actually paid or payable to working partners = $[\text{₹ } 50,000 \times 12 + \text{₹ } 40,000 \times 12] = \text{₹ } 10,80,000$

Partners' remuneration allowable under section 35(e)

On the first ₹ 6,00,000 of book profit [$\text{₹ } 6,00,000 \times 90\%$]	5,40,000
On the balance ₹ 4,34,000 [$\text{₹ } 4,34,000 \times 60\%$]	2,60,400
	8,00,400

Hence, allowable working partners salary in the hands of AB Light LLP for the T.Y. 2026-27 is ₹ 8,00,400

Remuneration taxable in the hands of Mr. Anand as business income = $\text{₹ } 8,00,400 \times 6,00,000/10,80,000 = \text{₹ } 4,44,667$

Remuneration taxable in the hands of Mr. Bheem as business income = $\text{₹ } 8,00,400 \times 4,80,000/10,80,000 = \text{₹ } 3,55,733$

13. (i) Computation of depreciation for T.Y.2026-27

Particulars	₹
W.D.V. of the block as on 1.4.2026	7,70,000
Add: Purchase of second hand plant during the year [in December, 2026]	6,10,000
	13,80,000

Less: Sale consideration of old machinery during the year [in July, 2026]	10,00,000
W.D.V of the block as on 31.03.2027	3,80,000
Depreciation @ 15% but restricted to 50% thereon. [Since the value of the block as on 31.3.2027 represents part of actual cost of second hand plant purchased in December, 2026, which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is ₹ 28,500 being 7½% of ₹ 3,80,000]	28,500

(ii) **Computation of deduction allowable under section 45**

Particulars	Amount (₹ in lakhs)	Section	% of weighted deduction	Amount of deduction (₹ in lakhs)
Payment for scientific research				
UV University, an approved University	15	45(3)(a)(i)	100%	15
Satyawati College [Since it is not mentioned as an approved University]	17	-	NIL	NIL
Deduction allowable under section 45				15



Q.NO.	ANSWERS	
1.	(c)	Income from House Property

2.	(d)	Profits and Gains of Business or Profession
3.	(d)	Profit from speculation business only
4.	(c)	Non-speculative transaction
5.	(c)	On or before due date of filing return of income
6.	(b)	₹ 2,10,000
7.	(c)	through any mode other than cash
8.	(b)	be capitalized
9.	(a)	₹ 60,000
10.	(c)	Not allowed
11.	(b)	Office appliances
12.	(c)	₹ 6 lakh
13.	(b)	₹ 20 lakh
14.	(c)	₹ 5 lakh
15.	(b)	Expenditure should be wholly and exclusively for business purposes
16.	(b)	30% disallowed in T.Y. 2026-27 and allowed in the year of payment of TDS
17.	(c)	₹ 4,50,000
18.	(a)	Nil
19.	(b)	₹ 45,000 deemed as business income under section 36(5)
20.	(c)	Deduction is allowed only when converted loan is actually repaid
21.	(b)	Added to actual cost of machinery
22.	(b)	Required to maintain books of account since receipts likely exceed ₹25 lakhs
23.	(c)	7 tax years
24.	(b)	No, since turnover does not exceed ₹ 10 crore during T.Y. 2026-27 and cash receipts and cash payments does not exceed 5% of total receipts and total payments
25.	(c)	LLP
26.	(c)	Not eligible for presumptive taxation