6. PROFITS & GAINS FROM BUSINESS OR PROFESSION

ASSIGNMENT SOLUTIONS

PROBLEM NO.1

Computation of depreciation allowance under section 32 for the A.Y. 2019-20

Particulars	Rs.	Plant & Machinery (15%) (Rs.)	Plant & Machinery (40%) (Rs.)
Opening WDV as on 01.04.2018		5,78,000	
Add: Plant and Machinery acquired during the year			
- Second hand machinery	2,00,000		
- Machinery Y	8,00,000		
- Air conditioner for office	3,00,000		
- Machinery Z	3,25,000	16,25,000	
- Air pollution control equipment		-	2,50,000
		22,03,000	2,50,000
Less: Asset sold during the year		3,10,000	Nil
Written down value before charging depreciation		18,93,000	2,50,000
Normal depreciation			
40% on air pollution control equipment		-	1,00,000
Depreciation on plant and machinery put to use for less than 180 days@ 7.5% (i.e., 50% of 15%)			
- Second hand machinery (Rs. 2,00,000 × 7.5%)	15,000		
- Machinery Z (Rs.3,25,000 x 7.5%)	24,375	39,375	
15% on the balance WDV being put to use for more than 180 days (Rs. 13,68,000 × 15%)		2,05,200	
Additional depreciation			
- Machinery Y (Rs. 8,00,000 × 20%)	1,60,000		
- Machinery Z (Rs. 3,25,000 × 10%)	32,500	1,92,500	Nil
- Air pollution control equipment (Rs. 2,50,000 × 20%)	50,000	Nil	50,000
Total depreciation		**4,37,075**	**1,50,000**

Notes:

1. Power generation equipments qualify for claiming additional depreciation in respect of new plant and machinery.
2. Additional depreciation is not allowed in respect of second hand machinery.
3. No additional depreciation is allowed in respect of office appliances. Hence, no depreciation is allowed in respect of air conditioner installed in office premises.

PROBLEM NO.2

Computation of deduction under section 35 for the A.Y.2019-20

Particulars	Rs.	Section	% of weighted deduction	Amount of deduction (Rs.)
Payment for scientific research				
Indian Institute of Science	1,00,000	35(1)(ii)	150%	1,50,000
IIT, Delhi	2,50,000	35(2AA)	150%	3,75,000
X Ltd.	4,00,000	35(1)(iia)	100%	4,00,000
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(1)(i)	100%	3,00,000
Capital expenditure (excluding cost of acquisition of land Rs. 5,00,000)	2,50,000	35(1)(iv)	100%	2,50,000
Deduction allowable under section 35				**14,75,000**

Note: Only company assessees are entitled to weighted deduction @ 150% under section 35(2AB) in respect of in-house research and development expenditure incurred. However, in this case, the assessee is an individual. Therefore, he would be entitled to deduction @ 100% of the revenue expenditure incurred under section 35(1)(i) and 100% of the capital expenditure incurred under section 35(1)(iv) read with section 35(2), assuming that such expenditure is laid out or expended on scientific research related to his business.

PROBLEM NO.3

Computation of deduction allowable under section 35

Particulars	Amount (Rs.in lakhs)	Section	% of weighted deduction	Amount of deduction (Rs.in lakhs)
Payment for scientific research				
Approved Agro Research Association	25	35(1)(ii)	150%	37.5
RR University, an approved University	15	35(1)(ii)	150%	22.5
XY College **[See Note 1]**	17	-	NIL	NIL
IIT Madras (under an approved programme for scientific research)	10	35 (2AA)	150%	15
In-house research [See Note 2]				
Capital expenditure - Purchase of Machinery	20	35 (1) (iv) / 35 (2)	100%	20
Revenue expenditure - Salaries to research staff engaged in in-house scientific research	14	35(1)(i)	100%	14
Deduction allowable under section 35				**109**

Notes:

1. **Payment to XY College:** Since the question clearly mentions that only Agro Research Association and RR University (mentioned in item (i) and (ii), respectively) are approved research institutions, it is logical to conclude that XY College mentioned in item (iii) is not an approved research institution. Therefore, payment to XY College would not qualify for deduction under section 35.

2. **Deduction for in-house research and development:** Only company assessees are entitled to weighted deduction @150% under section 35(2AB) in respect of expenditure on scientific research on in-house research and development facility. However, in this case, the assessee is an individual. Therefore, he would be entitled to deduction@100% of the revenue expenditure incurred under section 35(1)(i) and 100% of the capital expenditure incurred under section 35(1)(iv) read with section 35(2), assuming that such expenditure is laid out or expended on scientific research related to his business.

PROBLEM NO.4

1. The amount of deduction allowable to the amalgamating co-operative bank (i.e. Alpha Co-operative bank, in this case) under section 32 has to be determined in accordance with the following formula -

   $$A \times \frac{B}{C}$$

   A = the amount of deduction allowable to the predecessor co-operative bank (i.e. Alpha Co-operative bank, in this case) if the business reorganization had not taken place. In this case, the amount of deduction is Rs. 2,40,000.

   B = the number of days comprised in the period beginning with the 1st day of the financial year (i.e. 01.04.2018, in this case) and ending on the day immediately preceding the date of business reorganization (i.e. 30.11.2018, in this case); and

   C = the total number of days in the financial year in which the business reorganization has taken place (i.e. 365 days).

2. The amount of deduction allowable to the amalgamated co-operative bank (i.e. Beta Cooperative bank, in this case) under section 32 has to be determined in accordance with the formula: $A \times \frac{B}{C}$

   A = the amount of deduction allowable to the predecessor co-operative bank (i.e. Alpha Co-operative bank, in this case) if the business reorganization had not taken place. In this case, the amount of deduction is Rs. 2,40,000.

B = the number of days comprised in the period beginning with the date of business reorganization (i.e. 01.12.2018, in this case) and ending on the last day of the financial year (i.e. 31.03.2019); and

C = the total number of days in the financial year in which the business reorganization has taken place (i.e. 365 days).

3. In this case, the deduction that would have been allowable under section 32 to Alpha cooperative bank had the business reorganization had not taken place is Rs. 2,40,000 and the business re-organization took place on 01.12.2018. Therefore, the deduction allowable to Alpha co-operative bank under section 32 would be Rs. 1,60,438 i.e., Rs. 2,40,000 x 244/365. The deduction allowable to Beta co-operative bank would be Rs. 79,562 i.e., Rs. 2,40,000 x 121/365.

PROBLEM NO.5

Computation of written down value of Plant and Machinery of M/s. Dollar Ltd. As on 31-03-19

Particulars	Rs.
Opening written down value (as on 01.04.2018)	5,00,000
Add: Purchase of plant and machinery during the previous year	2,00,000
	7,00,000
Less: Sale proceeds of obsolete plant and machinery sold during the year	5,000
Closing Written Down Value (as on 31.03.2019)	**6,95,000**

Computation of Depreciation and Additional Depreciation for A.Y. 2019-20 as per section 32 of the Income-tax Act, 1961

Particulars	Rs.
Normal Depreciation (Rs. 6,95,000 x 15%)	1,04,250
Additional Depreciation (Refer Note 2) (Rs. 2,00,000 - Rs. 20,000 - Rs. 20,000) x 20%	32,000
Depreciation on Plant and Machinery	**1,36,250**

Notes:

1. Since the new plant and machinery was purchased and put to use before 1.10.2018, it was put to use for more than 180 days in the year. Hence, full depreciation is allowable for A.Y. 2019-20.

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

   a) Plant and machinery of Rs.20,000 used previously for the purpose of business by the seller.

   b) Plant and machinery of Rs.20,000, installed in office.

   Therefore, in the given case additional depreciation has to be provided only on Rs.1,60,000 (i.e., Rs.2,00,000 - Rs.40,000).

PROBLEM NO. 6

Tax treatment of depreciation and unabsorbed business loss of a private company on its conversion into a LLP:

1. **Depreciation:**

   The aggregate depreciation allowable to the Predecessor Company and successor LLP shall not exceed, in any previous year, the depreciation calculated at the prescribed rates as if the conversion had not taken place. Such depreciation shall be apportioned between the predecessor company and the successor LLP in the ratio of the number of days for which the assets were used by them [Fifth proviso to Section 32(1)]

   Therefore, depreciation has to be first calculated as if the conversion had not taken place and then apportioned between the company and the LLP in the ratio of the number of days for which the assets were used by them.

		Rs.		Rs.
Block I	Machinery	3,30,000	15%	49,500
Block II	Patents	3,00,000	25%	75,000
				1,24,500

Allocation of depreciation:

Depreciation on machinery and patents have to be apportioned between the company and the LLP in the ratio of the number of days for which the assets were used by them. Since patents were acquired only on

1.6.2018, it could have been used by the company for 214 days only. Therefore, the depreciation on assets has to be allocated between the company and LLP as follows -

Asset	Total depreciation for the year	Company		LLP	
		No. of days of usage	Depreciation	No. of days of usage	Depreciation
Machinery	49,500	275	44,485	31	5,015
Patents	75,000	214	65,510	31	9,490
	1,24,500		**1,09,995**		**14,505**

Therefore, depreciation to be allowed in the hands of the company is Rs.1,09,995 and depreciation to be allowed in the hands of the LLP is Rs.14,505.

2. **Unabsorbed business loss to be carried forward by the LLP**:

Particulars	Rs.
Profits of the company before depreciation	8,00,000
Less: Current year depreciation	1,09,995
Business income of the company after depreciation	6,90,005
Brought forward business loss	9,00,000
Unabsorbed business loss as on 31.12.2018 to be carried forward by the LLP	**2,09,995**

The LLP would be allowed to carry forward and set-off the unabsorbed business loss and unabsorbed depreciation of the predecessor company [Section 72A(6A)].

3. **Actual cost of assets to the LLP:**

a) The actual cost of the block of assets in case of the LLP shall be the WDV of the block of assets as in the case of the company on the date of conversion. The WDV as on 1.1.2019 for Machinery and Patents are Rs.2,85,515 and Rs.2,34,490, respectively, which would be the actual cost in the case of the LLP.

WDV of Machinery as on 1.1.2019 = Rs.3,30,000 - Rs.44,485 = Rs.2,85,515

WDV of Patents as on 1.1.2019 = Rs.3,00,000 - Rs.65,510 = Rs.2,34,490

b) Land is not a depreciable asset. The cost of acquisition of land to the LLP would be the cost for which the company acquired it, as increased by the cost of improvement.

c) In respect of the building, deduction had been allowed in the earlier year under section 35AD. Hence, there is no question of depreciation during the current year. The actual cost of the building to the LLP would be Nil. [Explanation 13 to Section 43(1)]

PROBLEM NO.7

Computation of depreciation in the case of transfer of business:

Depreciation is to be calculated as if there is no succession	Rs.
WDV as on 1st April	3,00,000
Add: Additions made before succession	1,20,000
	4,20,000
Less: Sale consideration of the asset sold	Nil
	4,20,000
Depreciation @ 15%	63,000

Allocation of depreciation between sole proprietary concern and the successor company:

The depreciation of Rs. 63,000 is to be allocated in the ratio of number of days the assets were used by the sole proprietary concern and the company.

Ex-sole proprietary concern:

1st April to 31st August = 153 days Rs. 63,000 x 153 / 365 = **Rs. 26,408**

Successor company:

Rs. 63,000 - Rs. 26,408 = **Rs. 36,592** (i.e. Rs. 63,000 x 212 /365)

The depreciation of Rs. 12,000 [50% of 15% on Rs. 1,60,000] in respect of asset purchased by the successor company on 1st January is fully allowable in the hands of the successor company.

Note: Since it has not been specified that the company is a manufacturing company or a company engaged in the generation or generation and distribution of power, additional depreciation has not been provided for.

PROBLEM NO.8

Under section 35AD, 100% of the capital expenditure incurred during the previous year, wholly and exclusively for the specified business, which includes the business of building and operating a hotel of two-star or above category anywhere in India which commences its operations on or after 1.4.2010, would be allowed as deduction from the business income. However, expenditure incurred on acquisition of any land, goodwill or financial instrument would not be eligible for deduction.

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

Accordingly, the deduction under section 35AD for the A.Y.2019-20 in the case of Win Ltd. would be calculated as follows, assuming that the expenditures were capitalized in the books of the company on 1.4.2018, being the date of commencement of operations-

Particulars	Rs. (in lakhs)
Cost of land (not eligible for deduction under section 35AD)	Nil
Cost of construction of hotel building (Rs. 30 lakhs + Rs. 150 lakhs)	180
Cost of plant and machinery	30
Deduction under section 35AD	**210**

Note:

1. For A.Y.2019-20, the loss from specified business of operating a three star hotel would be Rs.130 lakhs (i.e. Rs.210 lakhs - Rs.80 lakhs). As per section 73A, any loss computed in respect of the specified business referred to in section 35AD shall be set off only against profits and gains, if any, of any other specified business. The unabsorbed loss, if any, will be carried forward for set off against profits and gains of any specified business in the following assessment year.
2. Since the entire cost of plant and machinery and building qualifies for deduction under section 35AD, the same does not qualify for deduction under section 32.

PROBLEM NO.9

Computation of profits and gains of business or profession for A.Y. 2019-20

	Particulars	Rs. (in lakhs)
1.	Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD)	25
2.	**Less: Deduction under section 35AD**	
	i) Capital expenditure incurred during the P.Y.2018-19 (excluding the expenditure incurred on acquisition of land) = Rs. 200 lakh - Rs. 150 lakh	50
	ii) Capital expenditure incurred prior to 1.4.2018 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2018	50
	Total deduction u/s 35AD for A.Y.2019-20	**100**
3.	**Loss from the specified business of new hotel in Madurai**	**(75)**
4.	Profit from the existing business of running a hotel in Coimbatore	120
5.	**Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A**	**45**

PROBLEM NO.10

i) **The statement is not correct:** As per the third proviso to section 32(1)(ii), 50% of the additional depreciation on new plant and machinery acquired and used for less than 180 days in the year of acquisition and installation which has not been allowed as deduction in that previous year, shall be allowed in the immediately succeeding previous year. Hence, the balance additional depreciation of 10% (i.e. 50% of 20%) can be claimed in the immediately succeeding previous year.

ii) **The statement is not correct:** The proviso to section 36(1)(iii) provides that interest paid on capital borrowed for acquisition of an asset (whether capitalized in the books of account or not) for the period upto the date on which such asset was first put to use shall not be allowed as deduction. This is irrespective of whether the acquisition of asset was for extension of existing business or not. Therefore, interest paid on capital borrowed for acquisition of an asset for the period upto the date on which such asset was first put to use shall be capitalized even if the acquisition is not for the extension of existing business or profession.

PROBLEM NO.11

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 XVII-B would attract disallowance under section 40(a)(ia).

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible under section 192 or any sum credited or paid by way of directors' remuneration on which tax is deductible under section 194J, would attract disallowance @ 30% under section 40(a)(ia). Whereas in case of salary, tax has to be deducted under section 192 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 the cases i.e., salary and directors' remuneration, tax is deductible in the P.Y. 2018-19, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed under section 40(a)(ia) while computing business income for A.Y. 2019-20 is as follows:

Computing business income for A.Y.2019-20 is as follows:

Particulars	Amount paid in Rs.	Disallowance u/s 40(a)(ia) @ 30% of sum paid
Salary [Tax is deductible under section 192]	12,00,000	3,60,000
Directors' remuneration [Tax is deductible under section 194J without any threshold limit]	28,000	8,400
Disallowance under section 40(a)(ia)		**3,68,400**

If the tax is deducted on directors' remuneration in the next year i.e., P.Y.2019- 20 at the time of payment and remitted to the Government, the amount of Rs.8,400 would be allowed as deduction while computing the business income of A.Y. 2020-21.

Section 201 provides that the payer (including the principal officer of the company) who fails to deduct the whole or any part of the tax on the amount credited or payment made to a resident payee shall not be deemed to be an assessee-in-default in respect of such tax if such resident payee -

(i) has furnished his return of income under section 139;

(ii) has taken into account such sum for computing income in such return of income; and

(iii) has paid the tax due on the income declared by him in such return of income, and the payer furnishes a certificate to this effect from an accountant in such form as may be prescribed.

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

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

Since the date of furnishing the return of income by the resident payee is taken to be the date on which the payer has deducted tax at source and paid the same, 30% of such expenditure/payment in respect of which the payer has failed to deduct tax at source shall be disallowed under section 40(a)(ia) in the year in which the said expenditure is incurred. However, 30% of such expenditure will be allowed as deduction in the subsequent year in which the return of income is furnished by the resident payee, since tax is deemed to have been deducted and paid by the payer in that year.

PROBLEM NO.12

As per Explanation 3 to section 40(b), "book profit" shall mean the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same 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:

1. Computation of Book Profit of the firm under section 40(b)

Particulars	Rs.	Rs.
Net Profit (before deduction of depreciation, salary and interest)		7,00,000
Less: Depreciation under section 32	1,50,000	
Less: Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (5,00,000 × 12%)	60,000	2,10,000
Book Profit		**4,90,000**

2. Salary actually paid to working partners = Rs. 20,000 × 2 × 12 = Rs. 4,80,000.

As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits -

On the first **Rs.** 3,00,000 of book profit or in case of loss	**Rs.** 1,50,000 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 A.Y. 2019-20 in this case would be:

Particulars	Rs.
On the first **Rs.** 3,00,000 of book profit [(**Rs.** 1,50,000 or 90% of **Rs.** 3,00,000) whichever is more]	2,70,000
On the balance of book profit [60% of (**Rs.** 4,90,000 - **Rs.** 3,00,000)]	1,14,000
Maximum allowable partners' salary	3,84,000

Hence, allowable working partners' salary for the A.Y. 2019-20 as per the provisions of section 40(b)(v) is Rs. 3,84,000.

PROBLEM NO.13

Computation of total income of Mr. Ramamurthy for A.Y.2019-20

Particulars	Rs.
Presumptive business income under section 44AE	
4 heavy goods vehicles for 2 months (4 x Rs. 7,500 x 2)	60,000
Balance 2 heavy goods vehicles for 10 months (2 x Rs. 7,500 x 10)	1,50,000
7 heavy goods vehicles for 10 months (7 x Rs. 7,500 x10)	5,25,000
Business Income	**7,35,000**
Less: Brought forward business loss of discontinued business	50,000
Total Income	**6,85,000**

Note: The assessee is eligible for computing the income from goods carriages applying the presumptive provisions of section 44AE, since he does not own more than 10 goods carriages at any time during the previous year.

PROBLEM NO.14

Computation of income under the head "Profits and gains of business or profession" of Mr. Q for the A.Y. 2019-20

Particulars	Rs.	Rs.
Net profit as per profit and loss account		93,950
Add: Expenses not allowable		
Expenses on building a new toilet - Capital expenditure, hence not allowable as per section 37(1).	1,00,000	
Interest payable on which tax has not been deducted at source [disallowed under section 40(a)] [See Note 1]	15,000	
Penalty for contravention of Central Sales Tax Act [Penalty paid for violation or	24,000	

infringement of any law is not allowable as deduction under section 37(1)]		
Payment to IIT, Mumbai for scientific research programme (to be treated separately)	1,00,000	2,39,000
		3,32,950
Less: Income not forming part of business income		
Interest from company deposits (chargeable under the head "Income from other sources") (See Note 2 below)	6,400	
Income-tax refund (not an income chargeable to tax)	8,100	14,500
		3,18,450
Less: Weighted deduction @ 150% under section 35(2AA) for payment to IIT for an approved scientific research program.		1,50,000
Profit and gains of business or profession		**1,68,450**

Note:

1. Section 40(a)(ia) provides for disallowance of 30% of any sum paid, on which tax is deductible under Chapter XVII-B, but the same has not been deducted. Hence, Rs.15,000 being 30% of Rs.50,000 has to be added back while computing business income.
2. Interest on company deposits may also be treated as business income presuming that the interest has been earned by Mr. Q out of available temporary surplus funds which are not immediately required for his business purposes but nevertheless meant only for Mr. Q's business activities. In such a case, income under the head "Profit and gains of business or profession" would be Rs. 1,74,850.

PROBLEM NO.15

Profits and gains of business or profession of Mr. A for the year ended 31.03.2019

Particulars	Rs.	Rs.
Net profit as per profit and loss account		94,500
Add: Expenses not allowable		
i) Expenses on raising compound wall - capital expenditure, hence disallowed	95,000	
ii) Interest payable outside India to a non-resident, as tax has not been deducted at source [Section 40(a)(i)]	12,000	
iii) Penalty for contravention of CST Act [Penalty paid for violation or infringement of any law is not allowable as deduction under section 37(1)]	24,000	
iv) Contribution for scientific research (to be treated separately)	1,00,000	2,31,000
		3,25,500
Less: Income not forming part of business income		
Interest from company deposits	6,400	
Dividend	3,600	
Income-tax refund	4,500	14,500
		3,11,000
Less: Deduction under section 35 for scientific research [See Note below]		1,50,000
Profit and gains of business or profession		**1,61,000**

Note: Contribution to approved scientific research association qualifies for deduction @ 150% under section 35(1)(ii).

PROBLEM NO.16

Computation of Total Income of Mr. Raju for the A.Y. 2019-20

Particulars	Rs.	Rs.
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 40A(2)	10,000	
Disallowance under section 40A(3) is not attracted since the limit for one time cash payment is Rs.35,000 in respect of payment to transport operators. Therefore, amount of Rs.33,000 paid in cash to a transport carrier is allowable as deduction.	Nil	
Salary paid to staff not recorded in the books (Assuming that the expenditure is	48,000	

in the nature of unexplained expenditure and hence, is deemed to be income as per section 69C and would be taxable @ 30% under section 115BBE - no deduction allowable in respect of such expenditure) [See Note 1 below]		
Bank term loan interest paid after the due date of filing of return under section 139(1) - disallowed as per section 43B	40,000	
State GST penalty paid disallowed [See Note 2 below]	5,000	
Depreciation debited to profit and loss account	2,00,000	3,03,000
		8,03,000
Less: Dividend from domestic companies [Exempt under section10(34)]	15,000	
Income from agriculture [Exempt under section 10(1)]	1,80,000	
Depreciation under the Income-tax Act, 1961 (As per working note)	2,25,000	4,20,000
		3,83,000
Income from house property		
Annual value of self-occupied property	Nil	
Less: Deduction under section 24(b) - Interest on housing loan	23,000	(23,000)
Gross Total Income		3,60,000
Less: Deduction under section 80C in respect of Principal repayment of housing loan		50,000
Total Income		**3,10,000**

Working Note:

Computation of depreciation under the Income-tax Act, 1961

Particulars	Rs.
Depreciation@15% on Rs.14 lakh (Opening WDV of Rs.12 lakh plus assets purchased during the year and used for more than 180 days Rs. 2 lakh)	2,10,000
Depreciation @7.5% on Rs. 2 lakh (Cost of assets used for less than 180 days)	15,000
	2,25,000

Notes (Alternate views):

1. It is also possible to take a view that the salary not recorded in the books of account was an erroneous omission and that the assessee has offered satisfactory explanation for the same. In such a case, the same should not be added back as unexplained expenditure, but would be allowable as deduction while computing profits and gains of business and profession.

2. Where the imposition of penalty is not for delay in payment of sales tax or VAT but for contravention of provisions of the Sales Tax Act (or VAT Act), 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. In such a case, the total income would be Rs. 3,05,000.

PROBLEM NO.17

Particulars	Amount (Rs.)
1. Scientific research expenditure related to its business (Note-1) (2,40,000 x 100%)	2,40,000
2. Building acquired for scientific research excluding cost of land is allowed as capital expenditure (12,00,000-5,00,000)	7,00,000
3. Amount paid to Indian Institute of Science (50,000 x 150%)	75,000
4. Demerger expenses allowed for five successive previous years (5,00,000 x 1/5)	1,00,000
5. Contribution to the account of employees as per pension scheme (note-2)	23,00,000
6. Amount recovered from employees towards provident fund contribution	7,00,000
7. Non-monetary perquisites provided to the employees	It should be Disallowed
8. Gain due to change in the rate of exchange of foreign currency	Reduced from the actual cost

Note 1: If Raghav Industries Ltd. is a company engaged in the business of biotechnology or in any business of manufacture or production of any article or thing, not being an article or thing specified in the list of the Eleventh Schedule, it would be entitled to a weighted deduction of Rs. 3,60,000 (150% of Rs.

2,40,000, being the revenue expenditure on scientific research related to its business) under section 35(2AB), if the in-house research and development facility is approved by the prescribed authority and the company has entered into an agreement with the prescribed authority for cooperation in such research and development facility and for audit of accounts maintained for that facility.

Note 2: The employer's contribution to the account of an employee under a pension scheme referred to in section 80CCD, upto 10% of salary of the employee in the previous year, is allowable as deduction under section 36(1)(iva) while computing business income.

Disallowance under section 40A(9) would be attracted only in respect of the amount in excess of 10% of salary. Accordingly, Rs. 23 lakhs would be allowed as deduction and Rs. 7 lakhs would be disallowed.

PROBLEM NO.18

i) **Yes.** Since his total turnover for the F.Y.2018-19 is below Rs. 200 lakhs, he is eligible to opt for presumptive taxation scheme under section 44AD in respect of his retail trade business.

ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be Rs. 15,88,000, being 8% of Rs. 1,98,50,000.

Note: 6% rate has not been considered for calculations assuming that the assessee not satisfied the required conditions.

iii) Mr. Praveen had declared profit for the previous year 2017-18 in accordance with the presumptive provisions and if he does not opt for presumptive provisions for any of the five consecutive assessment years i.e., A.Y. 2019-20 to A.Y. 2023-24, he would not be eligible to claim the benefit of presumptive taxation for five assessment years i.e., A.Y. 2020-21 to A.Y. 2024-25 subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumptive provisions.

Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.

iv) In case he opts for the presumptive taxation scheme under section 44AD, the due date would be 31st July, 2019.

In case he does not opt for the presumptive taxation scheme and claims that his income is Rs.13,20,000 as per books of account, then he has to get his books of account audited under section 44AB, in which case the due date for filing of return would be 30th September, 2019.

PROBLEM NO.19

Allowability of expenses of M/s. Arora Ltd. for the A.Y. 2019 - 20

i) Payment of professional fees is subject to TDS under section 194J. Since no tax is deducted at source, Rs. 15,000, being 30% of the expenditure of Rs. 50,000 is disallowed under section 40(a)(ia).

ii) Since the tax was deducted in March, 2019 and paid on or before the due date of filing the return (i.e., on or before September 30th, 2019), the expenditure on interior works will be allowed as deduction. Hence, disallowance under section 40(a)(ia) is not attracted.

iii) The maximum time allowable for deposit of tax deducted at source is upto the due date of filing of return i.e., 30th September, 2019. In this case, since tax deducted under section 194-I was paid after the due date of filing the return, Rs. 4,50,000 being 30% of Rs.15,00,000 is disallowed under section 40(a)(ia) for the previous year 2018-19.

iv) The tax deducted at source can be deposited on or before the due date of filing of return to avoid disallowance under section 40(a)(ia). In this case, disallowance would not be attracted since tax deducted during December 2018 was deposited before 30th September 2019 i.e. on 28.09.2019.

PROBLEM NO.20

i) The entire revenue expenditure of Rs. 5,65,000 on scientific research related to the business of the company qualifies for deduction under section 35(1)(i).

ii) As per section 35(1)(iv) read with section 35(2), if any capital expenditure (other than expenditure on acquisition of land) is incurred on scientific research related to the business carried on by the assessee, the whole of such capital expenditure is allowable as deduction in the previous year in which it is incurred. Therefore, Rs.12,50,000 (i.e. Rs. 22,00,000 - Rs. 9,50,000, being the cost of land) is allowable as deduction for the A.Y.2019-20. It is assumed that the scientific research is related to the business of Purnit Agro Industries.

iii) The employer's contribution to the account of an employee under a pension scheme referred to in section 80CCD, upto 10% of salary of the employee in the previous year, is allowable as deduction under section 36(1)(iva) while computing business income. Disallowance under section 40A(9) would be attracted only in respect of the amount in excess of 10% of salary. Accordingly, Rs.38,20,000 would be allowed as deduction under section 36(1)(iva) and Rs. 6,80,000 would be disallowed as per section 40A(9).

iv) The tax of Rs.5,50,000 borne by the employer on non-monetary perquisites provided to the employees is disallowed under section 40(a)(v).

PROBLEM NO.21

Computation of Business Income of Mr. Chauhan for the A.Y. 2019-20

Particulars	Rs.	Rs.
Net profit as per Profit and Loss Account		11,50,000
Add: Expenses not deductible		
Donation to Prime Minister Relief Fund (Refer Note 1)	1,00,000	
Provision for bad debts (Refer Note 2)	50,000	
Family planning expenditure incurred on employees (Refer Note 3)	20,000	
Depreciation as per Profit and Loss Account	30,000	
Income-tax (Refer Note 4)	1,00,000	
Employer's contribution to recognized provident fund (Refer Note 5)	25,000	3,25,000
		14,75,000
Less: Expense allowed		
Depreciation as per Income-tax Rules, 1962 (Refer Note 6)		40,000
		14,35,000
Add: Employee's contribution included in income as per Section 2(24)(x) (Refer Note 7)		25,000
Business Income		**14,60,000**

Notes:

1. Donation to Prime Minister Relief Fund is not allowed as deduction from the business income, since it is not incurred wholly and exclusively for business. It is allowed as deduction under section 80G from the gross total income.
2. Provisions for bad debts is allowable as deduction under section 36(1)(viia) (subject to the limits specified therein) only in case of banks, public financial institutions, State Financial Corporation and State Industrial Investment Corporation. Therefore, it is not allowable as deduction in the case of Mr. Chauhan.
3. Expenditure on family planning is allowed as deduction under section 36(1)(ix) only to a company assessee. Therefore, such expenditure is not allowable as deduction in the hands of Mr. Chauhan.
4. Income-tax paid is not allowable as deduction as per the provisions of section 40(a)(ii).
5. Since Mr. Chauhan's contribution (Employer's Contribution) to recognized provident fund is deposited after the due date of filing return of income, the same is disallowed as per provisions of section 43B, in computing business income of A.Y. 2019-20.
6. As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds Rs.10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on furniture & fixtures would not be allowed, since payment exceeding Rs.10,000 (Rs.35,000 in this case) is made in cash. Therefore, no adjustment is required to be made in the amount of depreciation computed as per Income-tax Rules, 1962, since such amount does not include depreciation on furniture & fixtures.
7. Employee's contribution is includible in the income of the employer by virtue of Section 2(24) (x). The deduction for the same is not provided for as it was deposited after the due date under the Provident Fund Act.
8. TDS provisions under section 194A are not attracted in respect of payment of interest on bank loan. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

PROBLEM NO. 22

Computation of depreciation allowable in the hands of Mr. Gamma for the A.Y. 2019 - 20.

Particulars		Rs. in crore	
Total cost of plant and machinery		120.00	
Less: Used for Scientific Research (Note 1)		15.00	
		105.00	
Normal Depreciation at 15% on Rs.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 under section 35(2)(ia)	15.00	(35.00)	
		85.00	
Additional Depreciation at 20% on Rs.85 Crores			17.00
Depreciation allowable for A.Y.2019-20			**32.75**

Note:

1. As per section 35(2)(iv) no depreciation shall be allowed in respect of plant and machinery purchased for scientific research relating to assessee's business, since deduction is allowable under section 35 in respect of such capital expenditure.
2. As per section 32(1)(iia) additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged in the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

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

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

   ii) any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profit and gains of business or profession" of any one previous year.

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

   i) Second hand plant and machinery;

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

PROBLEM NO.23

Computation of depreciation allowable for A.Y.2018-19

	Asset	Rate	Depreciation (Rs.)
Block 1	Furniture	10%	30,000
Block 2	Plant (Computer, computer software, laptop, printers & books)	40%	34,500
Total depreciation allowable			64,500

Notes:

1. Computation of depreciation:

Block of Assets	Amount(Rs.)
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 (put to use for more than 180 days) [Rs.35,000 @ 40%]	14,000
(b) Computer Printer (put to use for more than 180 days) [Rs.12,500 @ 40%]	5,000
(c) Laptop (put to use for less than 180 days) [Rs.43,000 @ 20%]	8,600
(d) Computer Software (put to use for less than 180 days) [Rs.8,500@ 20%]	1,700
(e) Books (other than annual publications) (Put to use for more than 180 days) [Rs.1,000 @ 40%]	400
(f) Books(being annual publications)(Put to use for more than 180 days)[Rs.12,000 @ 40%]	4,800
	34,500

2. Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180days, the deduction on account of depreciation would be restricted to 50% of the prescribed rate. In this case, since Mr. Dhaval commenced his practice in the P.Y. 2017-18 and acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use for less than 180 days in that year, namely, laptop and computer software.

PROBLEM NO.24

The allowable remuneration calculated as per the limits specified in section 40(b)(v) would be –

Particulars	Amount(Rs.)
On first Rs.3 lakh of book profit [Rs.3,00,000 × 90%]	2,70,000
On balance Rs.7 lakh of book profit [Rs.7,00,000 × 60%]	4,20,000
	6,90,000

The excess amount of ` 60,000 (i.e., Rs.7,50,000 – Rs.6,90,000) would be disallowed as per section 40(b)(v).

PROBLEM NO.25

Computation of income under the head "Profits and gains of business or profession" of X Ltd. for the A.Y. 2019-20

Particulars	Rs.	Rs.
Net profit as per profit and loss account		5,45,000
Add: Expenses not allowable		
Out of sales tax of Rs. 50,000, only Rs.47,000 is paid hence not allowable as per section 43B.	3,000	
The payment is made Rs. 3,000 on Oct 1, 2019 [disallowed under section 43B] [See Note 1]	3,000	
	6,000	5,51,000
Less: Expenses allowable		
Bonus to employees pertaining to the P.Y.2016-17 paid on 30.4.18 **(Refer Note : 2)**	15,000	
Customs duty pertaining to the previous year 2016-17 paid on Dec 1st, 2018 **(Refer Note : 3)**	25,000	
Leave salary payable to employees pertaining to the previous year 2017-18 paid on December 2, 2018**(Refer Note : 4)**	45,000	
	85,000	
Profit and gains of business or profession		**4,66,000**

Note:

1. Sums can be paid by the assesse on or before the due date for furnishing the return of income under section 139(1) in respect of previous year in which the liability to pay such sum was incurred and evidence of such payment is furnished by the assesse along with such return.
2. Bonus or commission for services rendered payable to employees are allowed as deduction only on the basis of actual payment within the time limits specified in Section 43B
3. Any sum payable by way of tax, duty, cess or fee, by whatever name called , under any law for the time being in force are allowed as deduction only on the basis of actual payment within the time limits specified in Section 43B.
4. Any sum paid by the assesse as an employer in lieu of earned leave of his employee are allowed as deduction only on the basis of actual payment within the time limits specified in Section 43B.

PROBLEM NO.26

Computation of income under the head "Profits and gains of business or profession" of Ashok Ltd. for the A.Y. 2019-20

Particulars	Rs.	Rs.
Net profit as per profit and loss account		**4,25,000**
Add: Expenses not allowable		
Purchase price of land used for in-house research and development wrongly debited to profit and loss account **(Refer Note : 1)**	1,00,000	
Expenditure on notified skill development project: **(Refer Note : 2)** **a)** Purchase of land	50,000	
Expenditure incurred on advertisement in the souvenir published by a political party **(Refer Note : 3)**	25,000	
	1,75,000	**6,00,000**
Less: Expenses allowable		
Purchase price of raw material used for the purpose of in-house research and development **(Refer Note : 1)**	1,000,00	
Expenditure incurred on notified agricultural extension project **(Refer Note : 4)**	1,25,000	
Expenditure on notified skill development project: **(Refer Note : 2)** a). Expenditure on training for skill development	2,50,000	
	4,75,000	
Profit and gains of business or profession		**1,25,000**

Note:

1. In case of companies engaged in the business of bio- technology or manufacture or production of article or thing, deduction of 150% of expenditure incurred on scientific research on in-house research and development facility is allowed (other than expenditure on cost of land or building) [Section 35(2AB)].
2. 150% of expenditure (other than expenditure in nature of cost of any land or building) incurred by a company on notified skill development project under section 35CCD.
3. Under Section 37(2B), a taxpayer would not be entitled to any deduction in respect of expenses incurred by him on advertisement in any souvenir, brochure, tract or the like published by any political party, whether it is registered with the Election Commission of India or not.
4. 150% of expenditure incurred by an assessee on notified agricultural extension project in accordance with the prescribed guidelines.

PROBLEM NO.27

For the P.Y.2018-19, the turnover of Mr. Suresh from Hypermarket business is Rs.25 lakhs and Supermarket business is Rs.15 lakhs. Since his turnover in respect of such business is less than Rs.200 lakhs, he is eligible to opt for presumptive tax scheme under section 44AD in respect of these businesses.

The presumptive income under section 44AD would be as under:

(i) Hypermarket business (100% cash sales) = 8% x Rs.25 lakhs = Rs. 2,00,000

(ii) Supermarket business (online sales) = 6% x Rs.15 lakhs = Rs. 90,000

No deduction in respect of any expenditure is allowed while computing presumptive business income as per the provisions of section 44AD.

In the question, it is stated that Mr. Suresh "maintains proper books of accounts for both businesses in mercantile system". The income as per regular books of account has to be computed and if such income is more than the presumptive income computed under section 44AD, the higher income can be declared under section 44AD.

Hence, income of Mr. Suresh for the assessment year 2019-20 as per books of account is computed below:

Computation of Profits and gains of business as per books of account

Particulars	Rs.	Rs.
Net profit as per profit and loss account		**1,23,800**
Add: Expenses not allowable		
Depreciation	6,72,000	
repairs was incurred for building a new room	1,50,000	
The amount was paid in cash on 30-09-18 to Mrs. Ann, accountant for preparation of the accounts for the year ended 31-03-2018 and adjusted under the head "expenses payable" account.	1,00,000	
	9,22,000	**10,45,800**
Less: Expenses allowable		
Depreciation as per Income-tax Act, 1961	3,50,000	
Depreciation on building extension of a room @ 10%	15,000	
	3,65,000	
Profits and gains of business computed as per books of account		**6,80,800**

Note: The assessee's total income from hypermarket and supermarket business computed as per books of account is greater than the income computed under section 44AD. The question states that the assessee wants to declare income under presumptive provision i.e. section 44AD. Hence, the total income computation would include only the presumptive income computed under section 44AD for both hypermarket and supermarket businesses.

Computation of Total Income

Particulars		Rs.
Profits and gains from business: **[As per Section 44AD]**		
Hypermarket business Rs.25 lakhs@ 8%		2,00,000
Supermarket business Rs.15 lakhs@ 6%		90,000
Furniture business [Discontinued]		
Amount of insurance compensation deemed as income	4,00,000	
Less: Unabsorbed business loss of discontinued business	3,00,000	
		1,00,000
Total Income		**3,90,000**

Note: It is assumed that since capital repairs of Rs.1.5 lakh on building has been debited to profit and loss account, depreciation in respect of the same is not included in the figure of Rs.3,50,000 computed as per the Income-tax Act, 1961. Alternatively, if it is assumed that the same is included in the said figure, Rs.15,000, being the difference between Rs.3,65,000 and Rs.3,50,000 has to be added back. In such a case, the adjusted net profit would be Rs.6,95,800.

PROBLEM NO.28

a) Computation of Book Profit

Particulars	Rs.	Rs.
Net loss as per profit and loss account		(3,80,000)
Add: Expenses not allowable		
other expenses debited include Rs.44,500 not allowable	44,500	
Interest to partners is in excess by Rs.14,200 (not statutorily allowable)	14,200	
. Remuneration to Partners	1,72,000	
Book Profit	**2,30,700**	**(1,49,300)**

b) Permissible remuneration to partners under Sec.40(b)

On the first Rs. 3 lakh of book profit or in case of loss = 1,50,000 or 90% of book profit, whichever is higher under section 40(b)
So Permissible remuneration to partners = Rs.1,50,000

c) The income or loss of the firm

Particulars	Amount (Rs.)
Book Profit	(1,49,300)
Permissible remuneration to partners	(1,50,000)
Loss of the firm	(2,99,300)

PROBLEM NO.29

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

In the given case of Ravi, the unpaid interest of Rs. 30,00,000 due to APSFC and of Rs.60,00,000 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 Ravi that the entire interest of Rs.90,00,000 is to be allowed as deduction in the year of conversion is not tenable. The deduction shall be allowed only to the extent of repayment made during the financial year. Accordingly, the amount of interest eligible for deduction for the A.Y.2019-20 shall be calculated as follows:

	Interest outstanding	Number of Installments	Amount per installment	Installments paid	Interest allowable (Rs.)
APSFC	30 lakh	80	37,500	5	1,87,500
Indian Bank	60 lakh	80	75,000	3	2,25,000
Total amount eligible for deduction					4,12,500

PROBLEM NO.30

Particulars	Rs.
Income from PGBP	
Net profit (Rs.52,35,000 - Rs. 47,76,000)	4,59,000
Taxable income from other business	52,000

Total	**5,11,000**
Income from Capital Gain	
Long term Capital Gain	**1,20,000**
Gross Total Income	**6,31,000**
Deduction under section 80G	**(9,000)**
Net Taxable Income	**6,22,000**

SOLUTIONS TO ADDITIONAL PROBLEMS FOR STUDENT'S SELF PRACTICE

PROBLEM NO.1

Deduction under section 35 for the assessment year 2019-20 will be calculated as follows:

	Particulars	When the scientific research is	
		Related to the Business (Rs.)	**Unrelated to the Business (Rs.)**
a)	150% of Rs.90,000 paid to an approved scientific research institution for carrying on research in natural science is deductible under section 35(1)(ii) even if it is not related to the business of the Assessee.	1,35,000	1,35,000
b)	100% of Rs.60,000 paid to an approved Institution for carrying on scientific research in social science /statistical research is deductible under section 35(1)(iii), even if the scientific research is not related to the business of the assessee.	60,000	60,000
c)	Payment of Rs.40.000 to an approved National Laboratory is qualified for weighted deduction of 150% under section 35(2AA) even if scientific research is not related to the business of the assessee.	60,000	60,000
d)	Cost of construction of laboratory building is deductible only if such expenditure is related to the business of the assessee (cost of land is not deductible).	1,70,000	-
e)	**i)** Expenditure on salary and perquisites upto 30.11.2015 is not deductible as it is not incurred within 3 years before commencement of business.	Nill	Nill
	ii) Expenditure on salary to research personnel as certified by the prescribed authority within 3 years before commencement of business is deductible only when the research is related to the business of the assessee.	42,000	Nill
	iii) Expenditure on providing perquisites to research personnel before commencement is not deductible even if research is related to the business of the assessee.	Nill	Nill
	iv) Expenditure as certified by the prescribed authority on purchasing research material within 3 years before commencement of business is deductible when the research is related to the assessee's business	34,800	Nill
	v) Capital expenditure incurred within 3 years before commencement of business is deductible as follows:		
	Particulars	**When the scientific research is**	
		Related to the Business (Rs.)	**Unrelated to the Business (Rs.)**
	Cost of land purchased for growing herbals (not deductible)	-	-
	Rs. 40,000 (being the cost of equipment) is deductible if research is related to the business	40,000	-
	Rs. 4,600 being the cost of growing herbals is deductible if research is related to the business	4,600	-

	Total deduction	5,46,400	2,55,000

PROBLEM NO.2

Amount deductible under section 35AD: Expenditure incurred prior to the commencement of operation (to the extent these are capitalized)

Particulars	Amount (Rs.)
Purchase of land (not qualified for deduction)	Nil
Construction cost of warehouse	8,00,000
Purchase of know-how	10,00,000
Salary to staff	78,000
Expenditure incurred during the previous year	
Construction cost of warehouse	60,00,000
Purchase of machinery (Rs. 2,00,000 + Rs. 4,00,000 + Rs. 9,00,000)	15,00,000
Total	93,78,000
Amount deductible under section 35AD (deduction @100% of Rs. 93,78,000)	93,78,000
Computation of Income from warehouse:	
Net profit as per profit and loss account	53,49,000
Depreciation of building (not deductible as cost of building is eligible for deduction under section 35AD)	3,40,000
Add: Depreciation of machinery (not deductible as cost of machinery is qualified for deduction under section 35AD)	3,50,000
Add: Cost of know-how (not deductible as deduction is available under section 35AD)	10,00,000
Add: Amount paid in cash (operating expenses)	40,000
Add: Donation to political party	10,000
Less: Deduction under section 35AD	(93,78,000)
Loss from warehouse	(22,89,000)

Computation of income:

Particulars	Amount (Rs.)	Amount (Rs.)
Commission agency business	20,15,000	
Warehouse	22,89,000	
Business income (from operating warehouse, being a specified business under section 35AD cannot be set off against and other income except income from a specified business)		20,15,000
Income from other sources (dividend from foreign company)		50,000
Gross total income		20,65,000
Less: Deduction under section 80GGB (donation to a political party)		10,000
Net Income		20,55,000

Notes:

a) Second hand imported machinery is taken as new machinery. The business of operating warehouse is formed by using new machinery of Rs. 13,00,000 and old machinery of Rs. 2,00,000. Value of old plant and machinery does not exceed 20 percent of the total value of plant and machinery. Other conditions of section 35AD are satisfied. X Ltd. is, therefore, eligible for deduction under section 35AD.

b) Loss from operating warehouse (by virtue of section 73A) can be set off only against profit and gains, if any, of any other business specified under section 35AD. In this case, X Ltd. does not have any other specified business. Loss will be carried forward (without any time-limit) for being set off against income from operating warehouse or any other specified business under section 35AD.

PROBLEM NO.3

Amount allowed as deduction while computing business income (For the A.Y. 2019-20)

a) Interest paid to financial corporation on 04.06.2019 i.e. Rs.3,00,000 will be allowed as deduction on due basis but interest of Rs 2,00,000 will be allowed as deduction in the previous year 2019- 20 as deposited after due date of return.

b) Employer's contribution if due on 31st March shall be allowed as a deduction on due basis if the payment of the same is made on or before the due date of furnishing the return of income. Hence, Rs 45,000 shall be allowed as deduction on due basis.

c) Advance income tax is not an allowable deduction.

d) GST paid on 5.11.2019 cannot be allowed as deduction in the previous year 2018-19 as it was paid after the due date of filing of return i.e. 30.09.2019. The deduction of this amount shall be allowed in the previous year 2019-20.

e) Rs.1,50,000 paid to railway cannot be allowed as deduction in the previous year 2018-19 as the same has been paid after the due date of filing return i.e. 30.09.2019. The deduction of this amount shall be allowed in the previous year 2019-20.

PROBLEM NO.4

Income from House Property	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
Rent received		36,000	
Less: Standard deduction @ 30%		10,800	25,200
Profit as per Profit and Loss A/c		34,100	
Add: Inadmissible Expenses			
i) Charity	500		
ii) Reserve for Bad Debts	10,000		
iii) Gifts	500		
iv) L.I.P.	1,000		
v) interest on capital	3,000		
vi) Repairs to house	500		
vii) Income-tax	2,000	17,500	
		51,600	
Less: Rent from House Property, taxable under Income from House Property		36,000	
Net income from Business			15,600
Gross Total Income			40,800

Charity, gift and presents shall not allowed as deduction.

PROBLEM NO.5

Gross receipts:	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
Audit fee		56,80,000	
Consultation		40,000	
Appellate Tribunal appearance		25,000	
Miscellaneous receipts		20,000	
Presents from clients		10,000	57,75,000
Payments:			
Stipend		5,12,000	
Office expenses		2,24,000	
Office rent		3,18,000	
Salary and wages		20,20,500	
Printing and stationery		4,000	
Subscription to C.A. Institute		1,500	
Depreciation on books on Rs. 7,500 @ 40%	3,000		
on Rs. 7,500 @ 20%	1,500	4,500	
Travelling expenses		3,750	30,88,250
income from profession			26,86,750
Income from House Property I			

Rent received		24,000	
Less: Standard deduction @ 30%		7,200	16,800
Loss from self-occupied (House II)			(12,000)
Income from House Property			4,800

W.e.f. previous year 2017- 18, the maximum depreciation allowed on plant and machinery is 40%

PROBLEM NO.6

Particulars	Amount (Rs.)	Amount (Rs.)
Net profit as per Profit and Loss Account		4,20,000
Add: inadmissible expenses		
Disputed VAT Demand	10,000	
Municipal tax	3,000	
Custom penalty	5,000	
Reserve for bad debts	30,000	
Provision for income-tax	40,000	88,000
		5,08,000
Less: Income from house property	80,000	
Dividend received from companies	9,000	89,000
		4,19,000
Add: Under valuation of Closing Stock	1,60,000	
Overvaluation of Opening Stock	80,000	2,40,000
		6,59,000
Less: Bad debts		20,000
		6,39,000
Add: House Property Income		
Actual rent	80,000	
Less: Municipal taxes	3,000	
	77,000	
Less: Standard deduction @30%	23,100	53,900
Add: Income from other sources (dividends)		exempt
Gross total income		6,92,900

Provision for gratuity will be allowed as it is ascertained liability.

PROBLEM NO.7

Particulars	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
Net Profit as per P&L A/c			63,000
Less: Dividend included in sundry receipts		4,000	
Interest on Bank Deposits to be considered separately		15,000	
Capital gain to be considered separately		6,000	25,000
			38,000
Add: Capital expenditure and revenue expenditure on family planning		14,000	
Reserve for future losses. being inadmissible		20,000	
Reserve for bad debts	12,000		
Less: Debts which actually became bad	10,000	2,000	
Reserve for payment of advance income tax. being inadmissible		17,000	
Depreciation to be considered separately		30,000	
Out of sundry expenses the following disallowance are made			
i) Printing charges paid to a relative of the Proprietor disallowed u/s 40A(2) Being excessive and unreasonable (Rs.12.000 - Rs.9,000)		3,000	
ii) 100% of payment Rs. 12,000 for purchasing		12,000	

miscellaneous items is disallowed u/s 40A(3) as the payment has been made otherwise than by an account payee cheque or account payee bank draft			
The following amounts are added u/s 43B as the payments have not actually been made Sales tax	7,000		
Contribution to employees P.F	2,000	9,000	1,07,000
			1,45,000
Less: Depreciation as worked out below:			
Machinery WDV 42,000 @ 15%		6,300	
Motor car WDV 18,750 @ 15%		2,813	
Furniture WDV 12,000 @10%		1,200	10,313
Business Income			1,34,687

Expenditure in family planning, whether capital or revenue, is allowed to a company assessee

PROBLEM NO.8

Particulars	Amount (Rs.)	Amount (Rs.)
Net profit as per P&L A/c		27,68,950
Deductions:		
i) Refund of penalty of sales-tax cannot be treated as income u/s 41 as in the relevant year it must have been disallowed like other penalties.	35,000	
ii) Recovery of disallowed bad debt	3,750	
iii) Insurance claim rightly credited	-	38,750
		27,30,200
Add: Disallowable items:		
i) Provision for taxation		33,75,780
ii) Amount misappropriated by the Accountant and written off in the books in the nature of revenue loss as it is incidental to the business (Badridas Daga vs. CIT (1958) 34 ITR 10 (SC))		
iii) Expenses incurred in connection With increasing the share capital are capital expenditure; hence, not allowable [See PSIDC v CIT (1997) 225 ITR 792 (SC)]. But expenses for amending Memorandum and Articles of Association are allowable.		6,000
iv) Demurrage charges even if they were paid for unauthorised import of the goods are allowable, [Nanhoomal Jyoti Prasad v CIT (1980) 3 Taxman 60 (All)] Fine of Rs.65,000 paid in lieu of confiscation of goods by customs authority is not allowable		65,000
v) The expenditure for starting a new unit of industry is of capital nature whether: the same produces capital asset or not is not decisive. Hence, the sum of Rs.1,31,000 (56,000 + 75,000) is disallowed.		1,31,000
vi) Salary and other benefits to Managing Director-Fully allowed.		
vii) Municipal taxes Rs 2,680 paid during the previous year and the balance amount paid on 11.5.2019, i.e., after the end of previous year but before the due date of furnishing the return of income, allowed as a deduction u/s 43B.		
viii) Gratuity actually paid during the previous year is allowed. The excess over this amount is added as inadmissible u/s 40(7) (Rs.82,500 - Rs.17,650)		64,850
ix) Income tax		1,00,000
Less: Depreciation		(14,466)
Business Income		64,58,364

Particulars	Amount (Rs.)

f) Motor car (Indian) WDV (Rs.21,875 @ 15%)	3,821
g) Furniture & Fixture WDV (Rs.79,600 @ 10%)	7,960
h) Air-conditioner WDV (Rs.17,900 @ 15%)	2,685
	14,466

PROBLEM NO.9

Computation of depreciation under section 32 for A.Y.2020-21

Particulars	Rs.	Rs.
Normal Depreciation		
Depreciation @ 15% on Rs.51,00,000, being machinery put to use for more than 180 days [Opening WDV of Rs.42,00,000 + Purchase cost of imported machinery of Rs.9,00,000]	7,65,000	
Depreciation @ 7.5% on Rs.10,00,000, being new machinery put to use for less than 180 days	75,000	
	8,40,000	
Depreciation @ 40% on computers purchased Rs.2,00,000	80,000	9,20,000
Additional Depreciation (Refer Note below)		
Additional Depreciation @ 10% of Rs.10,00,000 [being actual cost of new machinery purchased on 12-10- 2019]	1,00,000	
Additional Depreciation @ 20% on new computer installed in generation wing of the unit [20% of Rs.2,00,000]	40,000	1,40,000
Depreciation on Plant and Machinery		**10,60,000**

Note:-

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 12.10.2019, it was put to use for less than 180 days during the previous year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the A.Y.2020-21. 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.

PROBLEM NO.10

Computation of written down value of block of assets of Venus Ltd. as on 31.3.2020

Particulars	Plant & Machinery (Rs. in lakhs)	Computer (Rs.in lakhs)
Opening written down value (as on 01.04.2019)	**20**	**Nil**
Add: Actual cost of new assets acquired during the year New machinery purchased on 1.9.2019	10	-
New machinery purchased on 1.12.2019	8	-
Computer purchased on 3.1.2020	-	4
	38	4
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Closing Written Down Value (as on 31.03.2020)	**38**	**4**

Computation of Depreciation for A.Y. 2020-21

	Particulars	Plant & Machinery (Rs. in lakhs)	Computer (Rs.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>		
	- Opening WDV of plant and machinery (Rs.20 lakhs x 15%)	3.00	-
	- New Machinery purchased on 1.9.2019 (Rs.10 lakhs x 15%)	1.50	-
	(A)	4.50	-
	<u>Additional Depreciation</u>		
	New Machinery purchased on 1.9.2019 (Rs.10 lakhs x 20%)	2.00	-
	Balance additional depreciation in respect of new machinery purchased on 31.10.2018 and put to use for less than 180 days in the P.Y. 2018-19 (Rs.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 1.12.2019 [Rs.8 lakhs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2020 [` 4 lacs x 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80

	Total Depreciation (A+B+C)	8.10	0.80

Notes:

(1) As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005, by an assessee engaged, *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 1.12.2019, installed in office and

(ii) Computer purchased on 3.1.2020, installed in office.

(2) As per third proviso to section 32(1)(ii), balance 50% of additional depreciation 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 previous year.

Hence, in this case, the balance 50% additional depreciation (i.e., Rs.1 lakhs, being 10% of Rs.10 lakhs) in respect of new machinery which had been purchased during the previous year 2018-19 and put to use for less than 180 days in that year can be claimed in P.Y. 2019-20 being immediately succeeding previous year.

PROBLEM NO.11

Computation of depreciation for Gopi chand Industries for A.Y.2019-20

Particulars	Rs.	Rs.
Block 1 : Plant & machinery (Rate of depreciation – 15%)		
WDV as on 1st April (10 looms)	5,00,000	
Add: Additions during the year - 5 looms acquired on 5th July - 2 looms acquired on 10th January	 4,00,000 3,00,000 12,00,000	
Less : Assets sold during the year - 15 looms sold on 7th December	 10,00,000	
W.D.V. as on 31st March (2 looms)	2,00,000	
Depreciation on Rs. 2 lakhs @ 15% (limited to 50%)		15,000
Block II: Buildings (Rate of depreciation – 10%)		
WDV as on 1st April (3 buildings)	12,50,000	
Depreciation on Rs. 12,50,000 @ 10%		1,25,000
Total depreciation for the year		**1,40,000**

Notes:

1. Closing balance of Block 1: Plant and machinery represents the looms acquired on 10^{th} January. These looms have been put to use or less than 180 days during the previous year, and therefore, only 50% of normal depreciation is permissible.
2. No additional depreciation @ 20% of the cost of new plant and machinery is provided for assuming that all conditions contained in the section 32(1)(iia) have not been fulfilled.

PROBLEM NO.12

Computation of depreciation allowable to Honest Industry for the A.Y. 2019-20

Particulars	Plant &	Building	Intangible assets	Total

	Machinery		(patents)	(Rs.)
Rate of depreciation	**15%**	**10%**	**25%**	
Opening Balance as on 1.04.2018	14,50,000	25,00,000	15,00,000	
Add: Assets acquired during the year	16,00,000	15,00,000	5,00,000	
	30,50,000	40,00,000	20,00,000	
Less: Moneys payable in respect of asset sold or destroyed	50,000	-	3,00,000	
W.D.V as on 31.03.2018	30,00,000	40,00,000	17,00,000	
Asset held for less than 180 days	**4,00,000**	**15,00,000**	**-**	
Depreciation@50% of applicable rate	30,000	75,000	-	1,05,000
Asset held for more than 180 days	**26,00,000**	**25,00,000**	**17,00,000**	
Depreciation at the applicable rates	3,90,000	2,50,000	4,25,000	10,65,000
Total Depreciation allowable				**11,70,000**

Note: Land is not a depreciable asset. Therefore, Rs.3 lakh being the value of land, has been reduced from Rs.18 lacs, being the value of building acquired during the year, for the purpose of computing depreciation.

PROBLEM NO.13

Computation of profits and gains of business of Mr. Anirudh for A.Y.2019-20

Particulars	Rs. (in lakhs)
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32)	25
Less: Depreciation under section 32 10% of Rs.60lakh, being (Rs.70lakh - Rs.20lakh + Rs.10lakh)	6
Income chargeable under "profits and gains from business or profession"	**19**

Computation of loss from specified business to be carried forward as per section 73A

	Particulars	Rs. (in lakhs)
A.	Profits from the specified business of setting up warehousing facility for storage of pulses (before providing deduction under section 35AD)	14
B.	**Less: Deduction under section 35AD** Capital expenditure incurred prior to 1.4.2018 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2018 (excluding the expenditure incurred on acquisition of land) = Rs.20 lacs (Rs.50 lacs - Rs.30 lacs)	20
C.	Capital expenditure incurred during the P.Y.2018-19	20
D.	Total capital expenditure (B + C)	40
E.	Deduction under section 35AD 100% of capital expenditure	40
F.	**Total deduction u/s 35AD for A.Y.2018-19**	**40**
G.	**Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)**	**(26)**

Notes:

1. Weighted deduction@100% of the capital expenditure is available under section 35AD for A.Y.2019-20 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2017. Pulses constitute agricultural produce and therefore, the capital expenditure incurred for setting up a warehousing facility for storage of pulses is eligible for weighted deduction@100% under section 35AD.
2. However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. Anirudh is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.

3. Mr. Anirudh can claim depreciation @ 10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2018-19.

4. Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of Rs. 26 lakh from the specified businesses of setting up and operating a warehousing facility for storage of pulses cannot be set-off against the profits of Rs. 19 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.

PROBLEM NO.14

S.No.	Particulars	Rs.
1.	Skill development project (Rs.75,000 X 150%)	1,12,500
2.	Agricultural extension project (Rs.50,000 X 150%)	75,000
3.	Building under section 35(1)(iv) (note-1)	5,00,000
4.	Purchase of building for setting up and operating a warehousing facility	20,00,000
5.	Payment to its employees with a scheme of voluntary retirement(note-2)	4,00,000
	Total amount allowed as a deduction:	**30,87,500**

Note 1: Z Ltd. would not be eligible for weighted deduction@150% under section 35(2AB), since the in-house research and development expenditure is incurred on land and building. However, it would be eligible for deduction of actual expenditure of Rs.5 lakh incurred on building under section 35(1)(iv) read with section 35(2).

Note 2: Under section 35DDA, expenditure incurred on payment of any sum to the employees in accordance with a scheme of voluntary retirement is allowable as deduction in five equal installments over a period of five years, commencing from the previous year in which the payment was made.

Therefore, Rs.4 lakh, being one-fifth of Rs.20 lakh, would be allowable as deduction under section 35DDA, while computing the business income of Y Ltd. for A.Y.2019-20.

PROBLEM NO.15

Statement showing computation of depreciation allowable to Sai Ltd. & Shirdi Ltd. for A.Y. 2019-20

Particulars	Rs.
Written down value (WDV) as on 1.4.2018	40,00,000
Add: Addition during the year (used for less than 180 days)	14,40,000
	54,40,000
Depreciation on Rs. 40,00,000 @ 15%	6,00,000
Depreciation on Rs. 14,40,000 @ 7.5%	1,08,000
Total depreciation for the year	**7,08,000**
Apportionment between two companies:	
a) Amalgamating company, Sai Ltd.	
Rs. 6,00,000 × 275/365	4,52,055
Rs. 1,08,000 × 61/151	43,629
	4,95,684
b) Amalgamated company, Shirdi Ltd.	
Rs. 6,00,000 × 90/365	1,47,945
Rs. 1,08,000 × 90/151	64,371
	2,12,316

Notes:

i) The aggregate deduction, in respect of depreciation allowable to the amalgamating company and amalgamated company in the case of amalgamation shall not exceed in any case, the deduction calculated at the prescribed rates as if the amalgamation had not taken place. Such deduction shall be apportioned between the amalgamating company and the amalgamated company in the ratio of the number of days for which the assets were used by them.

ii) The price at which the assets were transferred, i.e., Rs.60 lacs, has no implication in computing eligible depreciation.

PROBLEM NO.16

His profits and gains from the 3 trucks shall be deemed to be Rs.7,500 × 10 + Rs.7,500 × 9 + Rs.7,500 × 12 = Rs.2,32,500.

Note : The problem does not contain the information w.r.t gross vehicle weight and therefore it cannot be solved as per the amended provisions of Sec.44AE

PROBLEM NO.17

Mr. Tiwari chargeable to tax in India under the head "Profits and gains of business or profession" is worked out hereunder –

Particulars	Rs.
Amount received in India on account of carriage of passengers from Mumbai	3,00,00,000
Amount received in India on account of carriage of goods from Mumbai	2,00,00,000
Amount received in India on account of carriage of passengers from Bangkok	1,00,00,000
Amount received in Bangkok on account of carriage of passengers from Mumbai	2,00,00,000
	8,00,00,000

Income from business under section 44BBA at 5% of Rs.8,00,00,000 is Rs.40,00,000, which is the income of Mr.Tiwari chargeable to tax in India under the head "Profits and gains of business or profession" for the A.Y.2019-20.

PROBLEM NO.18

Under section 44BBA, in case of an assessee, being a non-resident, engaged in the business of operation of aircraft, a sum equal to 5% of the aggregate of the following amounts shall be deemed to be his business income:

a) The amount paid or payable, whether in or out of India, to the assessee on account of carriage of passengers, goods etc. from any place in India; and

b) The amount received or deemed to be received in India by the assessee on account of carriage of passengers, goods etc. from any place outside India.

Hence, the income of Mr. B.A. Patel chargeable to tax in India under the head "Profits and Gains of business or profession" is determined as under:

Particulars	Rs.
For carrying passengers from Ahmedabad	50,00,000
For carrying passengers from London, amount received in India	75,00,000
For carrying goods from Ahmedabad	25,00,000
Total	**1,50,00,000**

Hence, income from business computed on presumptive basis as per section 44BBA is Rs. 7,50,000, being 5% of Rs. 1,50,00,000.

Note: No deduction is allowable in respect of any expenditure incurred for the purpose of the business.

PROBLEM NO.19

Under section 43B, interest on term loans and advances to scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the assessee.

Explanation 3D to section 43B provides that if any interest payable by the assessee is converted into a loan, the interest so converted and not "actually paid" shall not be deemed as actual payment, and hence would not be allowed as deduction. Therefore, the interest of Rs. 1.2 lakhs converted into loan cannot be claimed as business expenditure.

PROBLEM NO.20

a) **Yes.** Since his total turnover for the F.Y.2018-19 is below Rs.200 lakhs, he is eligible to opt for presumptive taxation scheme under section 44AD in respect of his retail trade business.

b) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be Rs. 6,59,680, being 8% of Rs. 82,46,000.

Note: 6% rate has not been considered for calculations assuming that the assessee not satisfied the required conditions i.e.Rs.4,94,760, being 6% of Rs. 82,46,000.

c) Mr. Jagat had declared profit for the previous year 2017-18 in accordance with the presumptive provisions and if he does not opt for presumptive provisions for any of the five consecutive assessment years i.e., A.Y. 2019-20 to A.Y. 2023-24, he would not be eligible to claim the benefit of presumptive taxation for five assessment years i.e., A.Y. 2020-21 to A.Y. 2024-25 subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumptive provisions..

d) In case he opts for the presumptive taxation scheme under section 44AD, the due date would be 31st July, 2019.

In case he does not opt for the presumptive taxation scheme and claims that his income is Rs.5,85,600 as per books of account, then he has to get his books of account audited under section 44AB, in which case the due date for filing of return would be 30th September, 2019.

PROBLEM NO.21

As per section 43B, municipal tax is not deductible for A.Y. 2019-20 since it is not paid on or before 30.09.2019, being the due date of filing the return for A.Y. 2019-20.

Note – It is assumed that the company has not undertaken any international transaction during the year, and therefore, does not have to file a transfer pricing report under section 92E. Therefore, the due date of filing of return of the company would be 30th September, 2019.

1. Patent is an intangible asset eligible for depreciation@25%, as per section 32(1)(ii). Since it has been acquired and put to use for more than 180 days during the previous year 2018-19, full depreciation of Rs. 6,25,000 (i.e. 25% of Rs. 25,00,000) is allowable as deduction.

2. Weighted deduction@150% is available under section 35(2AB) in respect of expenditure incurred by a company on scientific research on in-house research and development facility as approved by the prescribed authority. However, cost of land is not eligible for deduction.

Deduction under section 35(2AB) = 150% of Rs. 10 lakhs = Rs. 15,00,000.

Note: It is presumed that the in-house research and development facility is approved by the prescribed authority and is hence, eligible for weighted deducted @ 150% under section 35(2AB).

3. Bad debts i.e. Rs. 4,00,000 written off in the books of account as irrecoverable is deductible under section 36(1)(vii), provided the debt has been taken into account in computing the income of the company in the current previous year or any of the earlier previous years.

4. As per section 40(a)(v), income-tax of Rs. 1,10,000 paid by the company in respect of non-monetary perquisites provided to its employees, exempt in the employee's hands under section 10(10CC), is not deductible while computing business income of the employer–company.

5. Expenditure towards advertisement in souvenir of a political party is disallowed under section 37(2B) while computing business incomes.

However, the same is deductible under section 80GGB from gross total income provided the payment is made by any mode other than cash.

6. Refund of a trading liability is taxable under section 41(1), if a deduction was allowed in respect of the same to the taxpayer in an earlier year.

Since sales tax was claimed as expenditure in an earlier year, refund of the same during the year would attract the provisions of section 41(1).

PROBLEM NO.22

a) **True:** Section 36(1)(xv) 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 previous year as deduction from the business income of a dealer in shares and securities.

b) **True:** As per section 40A(3), in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment exceeding Rs. 10,000 has been made in the subsequent year otherwise than by an account payee cheque or an account payee bank draft or use of electronic payment system, then the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.

c) **True:** According to the Explanation 5 to section 32(1), 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.

d) **True:** Section 36(1)(ib) 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 36(1)(ib).

e) **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.

f) **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 generation and distribution of power. In this case, the assessee is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, the assessee will not be entitled to claim additional depreciation under section 32(1)(iia).

PROBLEM NO.23

a) **Not allowable as deduction:** As per section 40A(7), 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 except in the following two cases:

- Where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund or;
- Where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the previous year.

  Therefore, in the present case, the provision made on the basis of actuarial valuation or payment of gratuity has to be disallowed under section 40A(7), 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.

b) **Allowable as deduction:** As per Rule 6DD, 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 40A(3) is attracted even though the cash payment for the expense exceeds Rs. 10,000.

Therefore, in the given case, disallowance under section 40A(3) is not attracted since, cash payment for purchase of oil seeds is made directly to the farmer.

c) **Not allowable as deduction:** Income-tax of Rs.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 section 10(10CC). As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.

d) **Allowable as deduction:** Payment for fire insurance is allowable as deduction under section 36(1). Since payment by credit card is covered under Rule 6DD, which contains the exceptions to section 40A(3), disallowance under section 40A(3) is not attracted in this case.

e) **Not allowable as deduction:** Disallowance under section 40(a)(iii) is attracted in respect of salary payment of Rs. 2,00,000 outside India by a company without deduction of tax at source.

Allowable as deduction: The limit for attracting disallowance under section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft is Rs. 35,000 in case of payment made for plying, hiring or leasing goods carriage. Therefore, in the present case, disallowance under section 40A (3) is not attracted for payment of Rs. 30,000 made in cash to a transporter for carriage of goods.

PROBLEM NO.24

a) Recovery of a bad debt claim disallowed in the earlier year cannot be brought to tax under section 41(4). Section 41(4) can be invoked only in a case where bad debts or part thereof has been allowed as deduction earlier under section 36(1)(vii).

b) The scope of section 40(a)(ia) has been expanded to cover all sums in respect of which tax is deductible under Chapter VII-B. Section 192, which requires deduction of tax at source from salary income, forms part of Chapter VII-B. Therefore, salary payment without deduction of tax at source would attract disallowance under section 40(a)(ia). However, only 30% of salary paid without deduction tax at source would be disallowed under section 40(a)(ia).

c) It is deductible in 5 equal annual installments commencing from the previous year of payment. Rs. 24 lakhs, being 1/5th of Rs. 120 lakhs, is deductible under section 35DDA for the A.Y.2019-20.

d) As per section 41(4), any amount recovered by the assessee against bad debt earlier allowed as deduction shall be taxed as income in the year in which it is received.

Therefore, in this case, Rs. 50,000 would be taxable in the F.Y.2018-19 (A.Y.2019-20).

PROBLEM NO.25

a) **True:** In order to escape the disallowance specified in section 40A(3), payment in respect of the business expenditure ought to have been made through an account payee cheque or draft or use of electronic payment system. Payment through a cheque crossed as “& Co.” will attract disallowance under section 40A(3).

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 36(1)(vii). However, where the debt has been taken into account in computing the income of the assessee on the basis of ICDSs notified under section 145(2), without recording the same in the accounts, then, such debt shall be allowed in the previous 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) **Partly True:** Section 40(a)(ia) provides that failure to deduct tax at source from rent or royalty payable to a resident, in accordance with the provisions of Chapter XVII-B, will result in **disallowance of only 30% of such expenditure**, where the resident payee has not paid the tax due on such income.

PROBLEM NO.26

Since the capital asset, in respect of which deduction of Rs. 50 lacs was claimed under section 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in the P.Y.2018-19, the deeming provision under section 35AD(7B) is attracted during the A.Y.2019-20.

Particulars	Amount(Rs.)
Deduction allowed under section 35AD for A.Y.2018-19	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2018-19 [10% of Rs. 50 lacs]	5,00,000
Deemed income under section 35AD(7B)	**45,00,000**

Mr. Arnav, however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation under section 32 on the building in Unit B. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	Amount(Rs.)
Actual cost to the assessee	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2018-19 [10% of Rs. 50 lacs]	5,00,000
Actual cost in the hands of Mr. Arnav in respect of building in its Unit B	**45,00,000**

PROBLEM NO.27

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2018-19, he is eligible to opt for presumptive taxation scheme under section 44AE. Rs.1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and Rs.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 vehicle	
2	29.08.2018	8	16
1	23.02.2019	2	2
			18
		For goods vehicle other than heavy goods vehicle	
2	10.4.2018	12	24
1	15.3.2019	1	1
3	16.7.2018	9	27
1	2.1.2019	3	3
			55

The presumptive income of Mr. X under section 44AE for A.Y.2019-20 would be -

Rs.6,82,500, i.e., 55 × Rs.7,500, being for other than heavy goods vehicle + 18 x Rs.1,000 x 15 ton being for heavy goods vehicle.

The answer would remain the same even if the two vehicles purchased in April, 2018 were put to use only in July, 2018, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

PROBLEM NO.28

i) **Allowable as deduction:** As per section 36(1)(viia)(d), deduction is allowed to a non-banking financial company on account of provision for bad and doubtful debts of an amount not exceeding 5% of total income (before making any deduction under section 36(1)(viia) and Chapter VI-A).

Accordingly, XYZ Credit Corporation, a non-banking finance company would be eligible for deduction in respect of provision for bad and doubtful debt provided such amount does not exceed 5% of total Income (before making any deduction under section 36(1)(viia) and Chapter VI-A).

ii) **Allowable as deduction:** As per section 43B, the allowability of deduction in respect of any sum payable by an assessee to the Indian Railways for use of Railway Assets is subject to actual payment of such sum on or before the due date of filing return of income under section 139(1).

Thus, in the present case, Rs.45,000 paid by ABC Ltd. to Indian Railways for use of railway assets would be allowed as deduction while computing the business income for the previous year 2018-19, since such payment is made on or before the due date for filing return of income for the previous year 2018-19, being the year in which such liability incurred.

iii) **Not allowable as deduction:** Income-tax paid by the employer in respect of nonmonetary perquisites provided to its employees is exempt in the hands of the employee under section 10(10CC). As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.

Therefore, income-tax of Rs.55,000 paid by the MNO Ltd. in respect of non-monetary perquisites provided to an employee would not be allowed as deduction while computing its business income.

iv) **Allowable as deduction:** The limit for attracting disallowance under section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft is Rs.35,000 in case of payment made for plying, hiring or leasing goods carriage to a transporter.

Therefore, in the present case, no disallowance under section 40A(3) would be attracted in the hands of S Ltd. in respect of payment of Rs.32,000 made in cash for carriage of goods to a transporter. Further, disallowance under section 40(a)(ia) for non-deduction of tax at source would also not be attracted, since the provisions for deduction of tax at source under section 194C are not applicable, in case of a transporter owning not more than 10 goods carriages at any time during the previous year.

v) **Allowable as deduction:** As per Rule 6DD, 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 40A(3) is attracted even if the cash payment for the expense exceeds Rs.20,000.

Therefore, disallowance under section 40A (3) would not be attracted in this case, since cash payment for purchase of wheat is made directly to the farmer.

PROBLEM NO.29

i) As per section 32AC(1), manufacturing companies would be entitled to deduction @ 15% of aggregate amount of actual cost of new plant and machinery acquired and installed during the F.Y. 2017-18 and F.Y. 2018-19, if the same exceeds Rs.100 crore.

Further, sub-section (1A) to section 32AC provides that deduction @15% would be available to a manufacturing company which acquired and installed new plant and machinery for a sum exceeding Rs.25 crore in the F.Y. 2018-19.

In this case, ABC Ltd. is not entitled for deduction under section 32AC(1), since the aggregate amount of actual cost of new plant and machinery acquired and installed during the F.Y. 2017-18 and F.Y. 2018-19 does not exceed Rs.100 crore. However, it would be entitled for deduction of Rs.4.5 crore (15% of Rs.30 crore) under section 32AC(1A), in respect of the new plant and machinery acquired and installed during the financial year 2018-19, since the amount of investment made during the previous year 2018-19 exceeds Rs.25 crore.

The deduction under section 32AC would be in addition to the deduction under section 32 in respect of depreciation and additional depreciation.

Computation of depreciation and additional depreciation under section 32

Particulars	Rs. in crores
Written down value as on 01.04.2018 **(See Note below)**	45.50
Add: Plant and Machinery acquired during the previous year 2018-19	30.00
Written down value as on 31.03.2019	**75.50**
Less: Normal Depreciation @ 15%	11.33
Less: Additional Depreciation (20% of Rs.30 crore)	6.00
WDV as on 01.04.2019	**58.17**
Total deduction under section 32 (Rs.11.33 crore + Rs.6.0 crore)	**17.33**

Notes:

1. **Computation of written down value as on 1st April 2018**

Cost of the machinery acquired	70.00 crore
Less: Normal Depreciation @ 15%	10.50 crore
Less: Additional Depreciation@ 20%	14.00 crore
Written Down Value as on 01st April 2018	**45.50 crore**

2. It has been assumed that the new plant and machinery was put to use for more than 180 days during the P.Y. 2017-18 and P.Y 2018-19.
3. It is also assumed that the new plant and machinery does not include any plant or machinery which is previously used at any time within or outside India or which is installed in any office premises or residential accommodation or guest house or any office appliance or any vehicle, ship or aircraft.

ii) As per section 40(a)(i), interest, royalty, fee for technical services or other sum chargeable under the Act which is payable to a non-resident is not allowable as deduction while computing business income if tax on such payment has not been deducted during the previous year or after deduction, is not paid on or before the due date specified for filing of return under section 139(1).

In the present case, MNO Ltd deducted tax at source on payment made to a non-resident in the previous year 2018-19 and deposited such amount on 31.08.2019, before the due date under section 139(1) i.e., 30th September 2019. Therefore, the disallowance under section 40(a)(i) would not be attracted, in this case.

iii) Under section 37(1) of the Income-tax Act, 1961, only expenditure, not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

Explanation 2 to section 37 provides that any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction under section 37.

Accordingly, the amount of Rs.1,80,000 incurred by Bus & Train Pvt. Ltd. towards CSR expenditure referred to in section 135 of the Companies Act, 2013 shall not be allowed as deduction under section 37.

iv) Section 40(a)(ia) provides that 30% of any sum payable to a resident, on which tax is deductible at source under Chapter XVII-B and such tax has not been deducted or after deduction has not been paid on or before the due date specified in section 139(1) would be disallowed.

Section 192 of Chapter XVII-B provides that tax is required to be deducted on the payment made as salaries. Tax is to be deducted on the estimated income at the average of income tax computed on the basis of the rates in force for the financial year in which payment is made.

In this case, XYZ Ltd. has not deducted tax at source on the amount of Rs.7,50,000 paid as salary to Mr. Raghav. Therefore, Rs.2,25,000 being 30% of Rs.7,50,000 would be disallowed under section 40(a)(ia).

v) As per section 35AD, investment linked deduction is available in respect of any of the specified businesses defined thereunder. 100% of the capital expenditure is available in respect specified business inter alia business of warehousing facility for storage of sugar. Therefore, in this case, Rise & Co. would be eligible for deduction of Rs.72,00,000 (100% of Rs.72 lakhs), in the P.Y. 2018-19. No other deduction is allowable in respect of the said sum under any other provision of the Income-tax Act, 1961.

No, the answer would be same, if the company has set up a warehousing facility of food grain. As per section 35AD(1A), a weighted deduction of 100% of the capital expenditure is available in respect of certain specified businesses which include inter alia business of warehousing facility for storage of agricultural produce. Therefore, Rs. 72 lakhs, being 100% of Rs.72 lakhs, would be allowable as deduction under section 35AD in the hands of Rise & Co. in the P.Y. 2018-19.