Profits and Gains of Business or Profession

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Concepts for Today's Discussion

- Introduction {Sec. 26,27,65,66}
- Business Allowances {Sec. 28 to 34, 44 to 49, 51, 52}
- Business Disallowances {Sec. 35 to 37}
- Special Provisions {Sec. 38, 50, 53 to 61, 64}
- Books & Tax Audit {Sec. 62, 63}
- Miscellaneous Provisions {Sec. 39 to 43}

Introduction

Profits and Gains of Business or Profession (Chapter IV D)		
Sections Covered	26 - 66	41 Sections
Rules Covered	22 - 48	27 Rules
Schedules Covered	IX - XIV	6 Schedules

Important Definitions under Section - 2

Section	Definition	Section	Definition
2(49)	Income	2(74)	Partner
2(20)	Business	2(75)	Partnership
2(86)	Profession	2(28)	Company
2(17)	Block of Assets	2(29)	Company in which public are substantially interested
2(19)	Books or Books of Account	2(46)	Foreign Company
2(45)	Firm	2(47)	Foreign Currency

Introduction

IT Act, 2025	Section Description	IT Act, 1961
Sec 26	Income under head “Profits and gains of business or profession”	28
Sec 27	Manner of computing profits and gains of business or profession	29
Sec 65	Interpretation for purposes of section 64	44DB
Sec 66	Interpretation	28 to 44DA

Introduction

Income from Business or Profession

Charging Section 26

Old Section 28

(1) Income referred in Sub section (2) is taxed under this head

(2) Income to be taxed under head PGBP

(3) Income from Speculation business

Old Section: Explanation 2 of Section 28

(4) Rent income from letting out of property to be taxed under head "Income from house property"

Old Section: Explanation 3 of Section 28

Introduction

Income from Profession and Business

Section 26(2)

(a) Profits and Gains of any business or profession at any time during the tax year

(b) Compensation received in connection with **termination or modification of terms** rec'd by a person managing a Co., or agency of other person's business or contract relating to business, in India.

(c) Compensation received for vesting the management of any property or business, in the Government

(d) income by **trade, professional** or similar association for **specific services** performed for its **members**

(e) profits on

- sale of import licence
- cash assistance against export
- Duty drawback / Remission
- Any other export incentive

(f) value of any benefit or perquisite arising from business

(g) Any

- Bonus
- Remuneration
- Interest
- Commission
- Salary,

received by, a partner of a firm from such firm to the extent allowed under section 35(e)

(h) Any sum received for not carrying on a business activity or not sharing business rights/know-how

(i) Any amount received under a Keyman Insurance Policy, including bonus on such policy

(j) the fair market value of inventory as on the date on which it is converted into, or treated as, a capital asset

(k) Any amount received from demolition, destruction, discard, or transfer of an asset (other than land, goodwill, or financial instruments) on which full deduction was allowed under section 35AD / 46 of this Act.

Introduction

Sec 27	The income referred to in section 26 shall be computed as per the provisions of sections 28 to 60, except section 58.

Sec 65	Interpretation for purposes of section 64

65 (a)	Amalgamation	65 (g)	Demerger
65 (b)	Amalgamating co-operative bank	65 (h)	Demerged co-operative bank
65 (c)	Amalgamated co-operative bank	65 (i)	Predecessor co-operative bank
65 (d)	Business Re-organization	65 (j)	Primary co-operative bank
65 (e)	Conversion	65 (k)	Resulting co-operative bank
65 (f)	Converted banking company	65 (l)	Successor co-operative bank

Introduction

Sec 66	Interpretation

66(1)	Agreement	66(11)	Micro enterprise
66(2)	Banking company	66(12)	Mineral oil
66(3)	Commission or brokerage	66(13)	Moneys payable
66(4)	Commodities transaction tax	66(14)	Non-scheduled bank
66(5)	Fees for technical services	66(15)	Paid
66(6)	Housing finance companies	66(16)	Permanent establishment
66(7)	Indian Institute of Technology	66(17)	Plant
66(8)	Keyman insurance policy	66(18)	Predecessor entity
66(9)	Limited liability partnership	66(19)	Primary agricultural credit society
66(10)	Long-term finance	66(20)	Primary co-operative agricultural and rural development bank

Introduction

Sec 66	Interpretation		
66(21)	Professional services	66(31)	Speculative transaction
66(22)	Public company	66(32)	Specified Banking or Online Mode
66(23)	Public financial institution	66(33)	Specified derivative transaction
66(24)	Rate of exchange	66(34)	State Government Undertaking
66(25)	Royalty	66(35)	State Industrial Investment Corporation
66(26)	Rural branch	66(36)	State Financial Corporation
66(27)	Scientific research	66(37)	Successor entity
66(28)	Securities transaction tax	66(38)	Taxable commodities transaction
66(29)	Service	66(39)	Taxable securities transaction
66(30)	Small enterprise	66(40)	University

Business Allowances

Checklist for Business Allowance

- Purpose - Wholly and exclusively for Business or Profession
- Ordinary and Necessity
- Expenses relatable to Income earned {Matching Concept}
- Not a Capital Expenditure {Some exceptions are given in the Act}
- Genuineness of expenses {False Purchases or Expenses}
- Incurred in relevant period
- Method of Accounting
- Reasonableness
- Mode of Payment
- Any other Statutory Compliances

Business Allowances

IT Act, 2025	Section Description	IT Act, 1961
Sec 28	Rent, rates, taxes, repairs and insurance	30, 31, 38
Sec 29	Deductions related to employee welfare	36, 40A
Sec 30	Deduction on certain premium	36
Sec 31	Deduction for bad debt and provision for bad and doubtful debt	36
Sec 32	Other deductions	36
Sec 33	Deduction for depreciation	32, 38
Sec 34	General conditions for allowable deductions	37

Business Allowances

Sec 28	Rent, rates, taxes, repairs and insurance

- Any Insurance Premium paid
- Land revenue, Municipal Taxes, Rent paid to premises
- Current Repairs to Building , P&M , Furniture (not being in the nature of capital expenditure)

Sec 29	Deductions related to employee welfare

Any Sum Paid by way of contribution to
- Approved Superannuation Fund, Recognized Provident Fund, Approved Gratuity Fund, Pension Scheme, Employee State Insurance (ESI), or any other employee welfare funds.

Sec 30	Deduction on certain premium

- Insurance Against Stocks or stores
- Insurance on health of employees
- Livestock / Cattle Insurance (In case of Federal Milk Co-operative Society)

Business Allowances

Sec 31	Deduction for bad debt and provision for bad and doubtful debt

- In Case of Scheduled Bank, Non-Scheduled bank, Co-op. Bank, Foreign Bank, Public Financial Institution, NBFC – Provision for Bad and Doubtful debts Allowed at prescribed % ages.
- In Case of other Entities – Actual Bad debt Written off as irrecoverable is allowed as deduction.

Sec 32	Other deductions

- Bonus or commission paid to an employee
- Interest on Capital Borrowed (in case of acquisition of an asset, int., paid from borrowal date to date that asset was first put to use shall not be included)
- Amount carried to a special reserve created and maintained by a specified entity
- Expenditure incurred by Co- Operative Society(Engaged in Manufacture of Sugar), on purchase of Sugarcane
- Expenditure incurred by the company for promoting Family planning amongst its employees (if Capital Expenditure Incurred – 1/5th allowed in the Each tax Year)
- Amount paid as Securities Transaction Tax (STT) or Commodities Transaction tax (CTT)

Business Allowances

Sec 33	Deduction for depreciation

1) Deduction for Depreciation on Assets;
2) Depreciation for power Units under SLM;
3) Depreciation for other entities under WDV Method calculated on Block of Assets;
4) Depreciation @ 50% of prescribed rate in case asset put to use is < 180 days in TY;
5) Depreciation on Pro rata Basis in case of Succession, Amalgamation and Demerger;
6) Depreciation on Renovation, Extension and Improvement on lease Hold Building;

7) Depreciation is considered as deduction, irrespective of whether, it is claimed or not;
8) Additional Depreciation on Acquisition of New Plant or Machinery;
9) Rates of Additional Deprecation; 20% or 10%, (based on date of put to use)
10) Deduction is available when Asset is sold, discarded, demolished or destroyed;
11) Carryforward and Setoff of Depreciation;
   (Brought Forward Depreciation from PTYs is considered as depreciation in the CTY)
12) Definition of Terms.

Business Allowances

Sec 34	General conditions for allowable deductions

- Expenses incurred Wholly and Exclusively for the purposes of Business or Profession is generally allowed, with certain exceptions explained below -

- Expenses incurred and not being in the nature of
  - Capital Expenditure (With Certain Exceptions provided in respective sections of the Act)
  - Personal Expenditure of assessee
  - Expenses allowed U/s. 28 to 33, 44 to 49, 51 and 52

  Are Not Allowed

- Further, Expenses incurred
  - For purposes which is an Offence or Prohibited by Law
  - For Corporate Social Responsibility (CSR)
  - For Advertisement in any Souvenir or Brochure or Pamphlet published by a Political Party

  Are Not Allowed

Business Allowances

IT Act, 2025	Section Description	IT Act, 1961
Sec 44	Amortisation of certain preliminary expenses	35D
Sec 45	Expenditure on scientific research - {Sch. XIII}	35
Sec 46	Capital expenditure of specified business	35AD
Sec 47	Expenditure on agricultural extension project and skill development project	35CCC, 35CCD
Sec 48	Tea, coffee and rubber development account - {Sch. IX}	33AB
Sec 49	Site Restoration Fund - {Sch. X}	33ABA
Sec 51	Amortisation of expenditure for prospecting certain minerals - {Sch. XII}	35E
Sec 52	Amortisaiton of expenditure for telecommunications services, amalgamation, demerger, scheme of voluntary retirement, etc.,	35ABA, 35ABB, 35DD, 35DDA

Business Allowances

Sec 44	Amortisation of Preliminary expenses

1/5th of the total expenses incurred, over a period of 5 years.
The cost is restricted to 5% of cost of Project or capital employed at the option of assessee.

Sec 45	Expenditure on Scientific research.

Sec 45(1)(a) - Capital or revenue expenditure incurred on Scientific research related to the business of assessee.

Sec 45(1)(b) - Salary or purchase of materials used in such scientific research, expenses incurred upto 3 years before commencement of business is considered.

Sec 45(1)(c) - Shall be deemed to have been incurred in the tax year in which the business is commenced.

Business Allowances

Sec 45(2) - "Expenditure on Scientific Research" incurred by a company engaged in bio-technology or manufacture or production of any article or thing.
Or in-house research and development facility.

Sec 45(3) – Amount paid with a specific direction that the said sum shall be used for scientific research to
(a) A research association or a university, college or institution
(b) A company having main object of Scientific research and development and approved.
(c) A national laboratory or a university or an IIT or a specified person.

Sec 46	Capital expenditure of specified business

Sec 46(1) – Assessee at his option shall be allowed a deduction of the whole of the capital expenditure incurred, wholly and exclusively, for the purposes of any specified business.
Expenditure is allowed in the tax year in which it is incurred.

Business Allowances

Sec 47	Expenditure on agricultural extension project and skill development project

Sec 47(1) – Any expenditure (excluding cost of L&B) incurred on such project notified by the board on –
(a) Agricultural extension project by an assessee or
(b) Any skill development project by a company
is allowed in the tax year in which it is incurred.

Sec 48	Tea, Coffee or Rubber Development account

Eligibility – Assessee is engaged in growing and manufacturing tea or coffee or rubber in India.
Deduction u/s 48(1) – Amount deposited into special account or deposit account is allowed as deduction to the assessee.
Computation is Provided in Schedule IX

Business Allowances

Sec 49	Site Restoration Fund

Eligibility – Assessee is engaged in prospecting, extracting or producing petroleum or natural gas or both in India
Deduction u/s 49(1) – Deposit to special account or site restoration account.
Computation provided in Schedule X.

Sec 51	Amortisation of expenditure for prospecting certain minerals.

Eligibility – Assessee being an Indian Company or a person who is resident in India.
Engaged in prospecting or extraction or production of any mineral.
Deduction – $1/10^{th}$ of expenditure incurred or
Income of the tax year – whichever is less.
Refer – Schedule XII

Business Allowances

Sec 52	Amortisation of expenditure for telecommunication services, amalgamation, demerger, scheme of voluntary retirement etc.,

Eligible Expenditure and Deduction Period

Sl. No	Expenditure	Initial Tax Year	No. of tax years over which deduction of expenditure is allowable in equal instalments
01	Amalgamation or Demerger Expenses	Year in which amalgamation / demerger occurs	**05** tax years
02	Voluntary Retirement (VRS) Payments	Year in which such payment is made	**05** tax years
03	Capital Expenditure for acquiring right to use Spectrum for Telecommunication. **Spectrum Fee**	Start of telecom business, or Actual payment Whichever is later	**Number of years** during which Spectrum fee remains in force
04	Capital Expenditure for acquiring right to operate Telecommunication services. **License Fee**	Start of telecom business, or Actual payment Whichever is later	**Number of years** during which Licence fee remains in force

Business Allowances

Sec 52	Amortisation of expenditure for telecommunication services, amalgamation, demerger, scheme of voluntary retirement etc.,

Treatment on Transfer of License/Spectrum

If sale proceeds < unamortised cost	Balance is allowed as deduction in YOT
If sale proceeds > unamortised cost	Excess is taxed as Business income
If sale proceeds >= remaining expenditure	No further deduction allowed under this Sec.
Transfer under amalgamation/demerger	Deduction continues for succession company

Restrictions	No depreciation is allowed if amortisation claimed (for spectrum and telecom fees) No further deduction under any other provisions of the act in respect of amalgamation or demerger expenses and voluntary retirement payments.

Business Allowances

Sl. No.	Headings	Sl. No.	Headings
1.	Direct material	9.	Depreciation
2.	Direct Labour	10.	Interest on Capital, Remuneration, etc.,
3.	Direct Expenses	11.	Payment to Professionals
4.	Administration Expenses	12.	Statutory Payments towards employees
5.	Employee Related Cost	13.	Provisions
6.	Finance Charges	14.	Payments Outside India
7.	Rates and Taxes	15.	Business Development Expenses
8.	Selling and Distribution Expenses	16.	Business Expediency Expenses

Business Allowances

Direct Material - Direct material cost is the total expense of raw material and components directly traceable to a finished product, forming an integral part of it.

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Purchase of Raw-material	**34**	Depends on case to case basis Sec 393(1) Sl.no 8(ii) - 0.1%	Depends on the goods purchased	Purchase in ordinary course of business
Purchase of Consumables & Spares	**34**	Depends on case to case basis Sec 393(1) Sl.no 8(ii) - 0.1%	Depends on the goods purchased	Purchase in ordinary course of business
Purchase of Finished / Trading goods	**34**	Depends on case to case basis Sec 393(1) Sl.no 8(ii) - 0.1%	Depends on the goods purchased	Purchase in ordinary course of business
Cess, Duties & Taxes paid on Purchases	**34**	No TDS	No GST	ITC shouldn't be claimed

Business Allowances

Direct Material -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Depletion or Evaporation of oil	**34**	No TDS	No GST	As per Industry Standards
Shortage / Deterioration of Material	**34**	No TDS	No GST	As per industry standard
Materials issued for approval	**34**	No TDS	No GST	Incurred in ordinary course of business
Purchase of Land as stock in trade in Real Estate business	**34**	Sec 393(1) Sl.no 3(i) –1% (For resident sellers) -13% (For Non resident sellers)	No GST	Incurred in ordinary course of business
Consideration paid not in kind under JDA	**34**	Sec 393(1) Sl.no 3(ii) - 10%	No GST	Joint Development Agreement to be executed

Business Allowances

Direct Labour - Direct labour involves the employees who are directly involved in manufacturing goods and services

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Wages paid to workers in Factory	**34**	Sec 392 - As per Slab rates	No GST	Incurred in ordinary course of business
Overtime charges paid to workers	**34**	Sec 392 - As per Slab rates	No GST	Incurred in ordinary course of business
Sub - Contract Labour charges	**34**	Sec 393(1) Sl.no 6(i)– 1%/2%	Yes @18% Input Avl	Incurred in ordinary course of business

Business Allowances

Direct Expenses – Direct expenses are costs directly traceable to producing specific goods or providing services, fluctuating with production volume.

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Factory Rent	**28(1)(c)**	If owner is resident : Sec 393(1) Sl.no 2(ii) – 10% If owner is non – resident : Sec 393(2) - 31.2%	Yes @18% Input Avl	Rent agreement and PAN of the owner should be available
Electricity Charges	**34**	Sec 393(1) Sl.no 8(ii) - 0.1%	GST @ Appl. rate Input Avl.	From Private Distributors, who charge GST
Water Charges	**34**	If on Contract Sec 393(1) Sl.no 6(i)–1%/2%	GST @ Appl. rate Input Avl	Water should be used in the manufacturing process
Trade Discount	**34**	No TDS	No GST	Incurred in ordinary course of business

Business Allowances

Direct Expenses –

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Depreciation on Factory L&B and P&M	**33**	No TDS	No GST	1. Asset must be wholly or partly owned by assessee 2. Must be used for business / profession
Repairs and Maintenance to factory building, P&M	**28(1)(d) 28(1)(e)**	Sec 393(1) Sl.no 6(i) – 1%/ 2%	Yes @ 18% Input : Avl	Not a capital expenditure
Carriage Inwards	**34**	Sec 393(1) Sl.no 6(i)– 1%/2%	RCM may be applicable Input - Avl	Incurred in ordinary course of business
Insurance and Freight expenses	**34**	No TDS	Yes @18% Input Avl	Incurred in ordinary course of business

Business Allowances

Direct Expenses -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Insurance to Factory Premises / Assets	**28(1)(a)**	No TDS	Yes @18% Input Avl	Incurred in ordinary course of business
Port Charges / Shipment charges	**34**	Sec 393(1) Sl.no 6(i)– 1%/2%	Yes @18% Input Avl	Incurred in ordinary course of business
Royalty Paid on Production Volume	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Primary Packing materials	**34**	Sec 393(1) Sl.no 8(ii) – 0.1%	Yes @18% Input Avl	Incurred in ordinary course of business

Business Allowances

Direct Expenses -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Costs for special drawings and designs	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Costs of Moulds, Structures	**34**	If on Contract: Sec 393(1) Sl.no 6(i) – 1%/2%	Yes @18% Input Avl	Incurred in ordinary course of business
Software Services	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Equipment hired for special job	**34**	Sec 393(1) Sl.no 2(ii) –2%	Yes @18% Input Avl	Incurred in ordinary course of business

Business Allowances

Administrative Expenses – Administrative expenses are indirect overhead costs necessary for day - to-day operations that are not directly tied to production or sales.

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Rent to Premises	**28(1)(c)**	Depends on case-to-case basis Sec 393(1) Sl.no 2(i) – 2% Sec 393(1) Sl.no 2(ii) –10%	Yes @18% Input Avl	Rent agreement and PAN of owner should be avl.
Electricity Charges	**34**	Sec 393(1) Sl.no 8(ii) - 0.1%	GST @ Appl. rate Input Avl.	From Private Distributors, who charge GST
Water Charges	**34**	If on Contract : Sec 393(1) Sl.no 6(i) – 1%/2%	Only on packaged mineral water @5% Input Not Avl	Incurred in ordinary course of business
Telephone Charges	**34**	No TDS	Yes @18% Input Avl	Incurred in ordinary course of business

Business Allowances

Administrative Expenses -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Internet Charges	**34**	No TDS	Yes @18% Input Avl	Incurred in ordinary course of business
Printing and Stationery	**34**	If on Contract : Sec 393(1) Sl.no 6(i) – 1%/2%	Yes @18% Input Avl	Incurred in ordinary course of business
Postage and Courier Charges	**34**	If on Contract : Sec 393(1) Sl.no 6(i) – 1%/2%	If Courier charges from private party @18% Input : AvL	Incurred in ordinary course of business
Local Conveyance	**34**	No TDS	No GST	Incurred in ordinary course of business

Business Allowances

Administrative Expenses -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Travelling Expenses	**34**	No TDS	Yes @5%/18% Input : Avl except for cab charges	Incurred in ordinary course of business
Computer Maintenance Charges	**34**	If on Contract : Sec 393(1) Sl.no 6(i) – 1%/2% If Professional Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Security Charges	**34**	If on Contract : Sec 393(1) Sl.no 6(i) – 1%/2%	Yes @18% Input Avl	Incurred in ordinary course of business
Insurance paid on Business premises, F&F	**28(1)(a)**	No TDS	Yes @18% Input Avl	Incurred in ordinary course of business

Business Allowances

Administrative Expenses -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Maintenance of Guest House	**34**	If on Contract : Sec 393(1) Sl.no 6(i) – 1%/2%	Yes @18% Input Avl	Incurred in ordinary course of business
Keyman Insurance Premium	**34**	No TDS	Yes @18% Input Not Avl	Incurred in ordinary course of business
Software Purchases and Maintenance Charges	**34**	If Professional Sec 393(1) Sl.no 6(iii)– 2%/10%	Yes @18% Input Avl	Incurred in ordinary course of business
Website development and maintenance charges	**34**	If on Contract : Sec 393(1) Sl.no 6(i) – 1%/2% If Professional Sec 393(1) Sl.no 6(iii)– 2%	Yes @18% Input Avl	Incurred in ordinary course of business

Business Allowances

Administrative Expenses -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
General repairs and maintenance expenses	**34**	If on Contract : Sec 393(1) Sl.no 6(i) – 1%/2%	Yes @18% Input Avl	Incurred in ordinary course of business
Accounting Charges	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Charges paid for Domain name and Data space	**34**	If Professional Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Business whatsapp account charges	**34**	No TDS	Yes @18% Input Avl	Incurred in ordinary course of business

Business Allowances

Administrative Expenses -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Fire and Theft Insurance on Bldg, P&M, Stock, F&F	**34**	No TDS	Yes @18% Input Avl	Incurred in ordinary course of business
Vehicle Insurance	**34**	No TDS	Yes @18% Input Avl	Commercial Vehicle used for further supply
Losses due to Frauds & Cash embezelment	**34**	No TDS	NO GST	Incurred in ordinary course of business
Theft of Articles or Assets	**34**	No TDS	ITC reversal on stolen stock/assets	Incurred in ordinary course of business
Destruction of Asset & Property	**34**	No TDS	ITC reversal on destroyed assets/property	Incurred in ordinary course of business

Business Allowances

Employee Related Expenses - Employee related expenses are all costs a business entity incurs to employ staff, covering Salaries, benefits, taxes and overheads. It also includes cost incurred to maintain and support its workforce.

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Salaries to Employees	**34**	Sec 392 - As per Slab rates (If Applicable)	NA	Incurred in ordinary course of business
Rent for Accommodation provided to employees as perquisites	**34**	If owner is resident : Sec 393(1) Sl.no 2(i)/(ii) – 2%/10% (If Applicable) If owner is non resident – Sec 393(2) – 31.2%	18% (If applicable) Input not Avl.	Rent agreement and PAN is mandatory
Rent for Movable assets provided to employees as perquisites	**34**	Sec 393(1) Sl.no 2(i)/(ii) – 2%/10% (If Applicable) Sec 393(1) Sl.no 6(i) – 1%/2% (If Applicable)	18% (If applicable) Input not Avl.	Agreement and PAN is mandatory

Business Allowances

Employee Related Expenses -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Education to employees & family members of employees	**34**	If Professional : Sec 393(1) Sl.no 6(iii) – 10%	No GST	Incurred in ordinary course of business
Training of Employees & family members of employees	**34**	If on Contract : Sec 393(1) Sl.no 6(i) – 1%/2% If Professional : Sec 393(1) Sl.no 6(iii) – 10%	No GST	Incurred in ordinary course of business
Provision of Gas, Water and Electricity	**34**	If on Contract : Sec 393(1) Sl.no 6(i) – 1%/2%	18% (If applicable) Input not Avl	Incurred in ordinary course of business
Provision of Sweeper, Maid & Helper	**34**	If on Contract : Sec 393(1) Sl.no 6(i) – 1%/2%	18% (If applicable) Input not Avl	Incurred in ordinary course of business

Business Allowances

Employee Related Expenses -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Provision of food to employees - (Staff Welfare)	**34**	If on Contract : Sec 393(1) Sl.no 6(i) – 1%/2%	GST @ 18% Input Avl	If canteen facility is mandated by law
Provision of transport to employees	**34**	If on Contract : Sec 393(1) Sl.no 6(i) – 1%/2%	GST @18% Input Avl	If Vehicle is above 13 Seater capacity
Provision of Medical facilities to employees	**34**	If Professional : Sec 393(1) Sl.no 6(iii) – 10%	GST @ 18% Input not Avl	Incurred in ordinary course of business
Group Medical insurance to employees	**30(c)**	No TDS	GST @18% Input not Avl	Incurred in ordinary course of business

Business Allowances

Employee Related Expenses -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Contribution to ESI & PF for employees	**29(1)(e)**	No TDS	No GST	Credited to fund within due date
Payment of Professional Tax of employees	**29(1)(e)**	No TDS	No GST	Credited to fund within due date
Staff welfare expenses	**34**	If on Contract : Sec 393(1) Sl.no 6(i) – 1%/2%	5%/18% Input Not Avl	Incurred in ordinary course of business
Bonus and commission to employees	**32(a)**	Sec 392 - As per Slab rates (If Applicable)	No GST	Incurred in ordinary course of business
Staff entertainment and trip/tour expenses	**34**	If on Contract : Sec 393(1) Sl.no 6(i) – 1%/2%	No GST	Incurred in ordinary course of business

Business Allowances

Employee Related Expenses -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Workmen Compensation Paid	**34**	No TDS	No GST	Incurred in ordinary course of business
ESOP Grant Expenses (FMV – Exercise Price)	**34**	No TDS	No GST	Incurred in ordinary course of business
Provision of Motor vehicle – Lease Charges	**34**	If on Contract : Sec 393(1) Sl.no 2(ii) – /2%	18% (If applicable) Input not Avl	Incurred in ordinary course of business
Provision of a driver	**34**	If on Contract : Sec 393(1) Sl.no 6(i) – 1%/2%	18% (If applicable) Input not Avl	Incurred in ordinary course of business
Promotion of family planning among employees	**32(i)**	No TDS	No GST	Incurred in ordinary course of business

Business Allowances

Finance Charges – Finance charges is the total cost of borrowing money, encompassing interest and fees charged by lenders for using credit.

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Interest paid on Term Loans of business	**32(b)**	Depends on case to case basis Sec 393(1) Sl.no 5(iii) – 10%	No GST	If paid to Scheduled Banks, TDS N.A.
Interest paid on CC/OD	**34**	Depends on case to case basis Sec 393(1) Sl.no 5(ii)/(iii) – 10%	No GST	If paid to Scheduled Banks, TDS N.A.
Bank Charges paid	**34**	No TDS	Yes @18% Input Avl	If paid to Scheduled Banks, TDS N.A.
Processing Fee Paid	**34**	No TDS	Yes @18% Input Avl	If paid to Scheduled Banks, TDS N.A.

Business Allowances

Finance Charges -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Project Report expenses	**34**	Depends on case to case basis Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Annual fee paid for maintaining credit card	**34**	No TDS	Yes @18% Input Avl	Incurred in ordinary course of business

Business Allowances

Rates and Taxes – Rates and taxes are mandatory financial charges imposed by Governments (Local, State or Central) on Individuals and businesses to fund public services, infrastructure and administration.

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Professional Tax Paid	**34**	No TDS	No GST	Incurred in ordinary course of business
GST paid on which ITC not claimed	**34**	No TDS	NO GST	Entire GST Paid is claimed as expense
Licence Fee paid to set-up business	**34**	If Professional : Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Business Registration related expenses	**34**	If Professional : Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Property tax on business premises, land revenue	**28(1)(b)**	No TDS	No GST	Incurred in ordinary course of business

Business Allowances

Rates and Taxes -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Permit Fees paid to Govt.	**34**	No TDS	No GST	Incurred in ordinary course of business
Motor Vehicle tax for commercial vehicles	**34**	No TDS	No GST	Incurred in ordinary course of business
Registration / Annual membership fees to trade association	**34**	No TDS	Yes @18% Input Avl	Incurred in ordinary course of business
Stamp duty paid for lease or other documents	**34**	No TDS	No GST	Incurred in ordinary course of business
Security Transaction Tax paid	**32(k)**	No TDS	No GST	Incurred in ordinary course of business

Business Allowances

Selling and Distribution Expenses – Selling and Distribution cost encompass all expenses involved in selling products and delivering them to customers.

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Advertising & Marketing Expenses	**34**	If on Contract: Sec 393(1) Sl.no 6(i)– 1%/2% If Professional : Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Market Research Expenses	**34**	If on Contract: Sec 393(1) Sl.no 6(i)– 1%/2% If Professional : Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Hoarding Charges	**34**	Sec 393(1) Sl.no 2(ii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Commission paid	**34**	Sec 393(1) Sl.no 1(ii) – 2%	Yes @18% Input Avl	Incurred in ordinary course of business
Brokerage / Incentive paid on sales	**34**	Sec 393(1) Sl.no 1(ii) – 2%	Yes @18% Input Avl	Incurred in ordinary course of business

Business Allowances

Selling and Distribution Expenses -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Carriage / Transportation Outwards	**34**	If on Contract : Sec 393(1) Sl.no 6(i) – 1%/2%	Yes @18% Input Avl	Incurred in ordinary course of business
Business promotion expenses	**34**	If on Contract: Sec 393(1) Sl.no 6(i)– 1%/2%	Yes @18% Input Avl	Incurred in ordinary course of business
Cash Discounts Allowed	**34**	No TDS	No GST	Incurred in ordinary course of business
Packing Material expenses	**34**	Sec 393(1) Sl.no 8(ii) - 0.1%	Yes @18% Input Avl	Incurred in ordinary course of business
Perquisite / Benefit paid to dealers	**34**	393(1) Sl.no 8(iv) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business

Business Allowances

Selling and Distribution Expenses -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Warehousing Expenses	**34**	Sec 393(1) Sl.no 2(ii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Cold storage expenses	**34**	Sec 393(1) Sl.no 2(ii) – 2%	Yes @18% Input Avl	Incurred in ordinary course of business
Performance incentives paid to sales staff	**34**	Sec 392 - As per Slab rates	No GST	Incurred in ordinary course of business
Entertainment expenses to sales staff	**34**	If on Contract: Sec 393(1) Sl.no 6(i)– 1%/2% If Professional : Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input: Not Avl	Incurred in ordinary course of business
Delivery Vehicle cost	**34**	If on Contract: Sec 393(1) Sl.no 6(i)– 1%/2%	Yes @18% Input Avl	Incurred in ordinary course of business

Business Allowances

Selling and Distribution Expenses -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Order fulfilment charges	**34**	If on Contract : Sec 393(1) Sl.no 6(i) – 1%/2%	Yes @18% Input Avl	Incurred in ordinary course of business
Payments made to Online Operators	**34**	Sec 393(1) Sl.no 8(v) – 0.1%	Yes @18% Input Avl	Incurred in ordinary course of business
Free Samples	**34**	No TDS	Yes @18% Input Not Avl	Incurred in ordinary course of business
Payment made to Artists and Sportspersons (Residents)	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Payment made to Non-Resident Sportspersons or Non-resident sports association or Artists	**34**	Sec 393(2) Sl.no 1 – 20%	No GST	Incurred in ordinary course of business

Business Allowances

Depreciation – Depreciation is a reduction in the value of an asset over time, due to wear and tear, age or becoming outdated

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
WDV Method	**33**	No TDS	No GST	1. Depn. on Block and not on individual asset 2. Must be owned and put to use for business
SLM Method	**33**	No TDS	No GST	1. Applied **asset-wise (not block)** 2. Based on **cost, life, residual value** 3. Allowed under **Companies Act** and under **Income-tax** 4. Applies to **Power Units**
Additional Depreciation	**33**	No TDS	No GST	1. Only for N**ew Plant & Machinery** 2. Applicable to **manufacturing/power sector** 3. 20% extra depreciation 4. Not for **vehicles, furniture, second-hand assets**

The payment > 10,000/- in a day to a person otherwise than by **“specified banking or online mode”** will not be considered as cost of acquisition.

Business Allowances

Interest on Capital & Remuneration – BRICS payment made to partners or members of firm or AOP or BOI. It includes payments made to director of company .

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Interest on capital paid to partners / members	**34**	Sec 393(3) Sl.no 7 – 10%	No GST	Incurred in ordinary course of business
Remuneration paid to working partners	**34**	Sec 393(3) Sl.no 7 – 10%	No GST	Incurred in ordinary course of business
Director's Remuneration	**34**	Non-Executive : Sec 393(1) Sl.no 6(iii) – 10% Executive : Sec 392 - As per Slab rates	GST only if Non-Executive @18% (RCM)	Incurred in ordinary course of business
Director's Sitting fees	**34**	Sec 393(1) Sl.no 6(iii) – 10%	GST RCM @18% Input Avl	Covered under **director services exclusion**
Travelling re-imbursement to Partners / Members / Directors	**34**	No TDS	No GST	Must be **actual reimbursement with bills**

Business Allowances

Professional, Technical and Consultancy Charges – Professional fees are payments for specialized, intellectual, or manual services requiring qualifications, technical services involve operational or technical skills. Consultancy charges are fees for advisory services, studies or recommendations

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Pmt. to Chartered Accountant	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Pmt. to Company Secretary	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Pmt. to Lawyers	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl (RCM)	Incurred in ordinary course of business
Pmt. to Cost Accountants	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Pmt. to Engineers	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Pmt. to Architects	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business

Business Allowances

Professional, Technical and Consultancy Charges -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Pmt. to Actuaries	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Pmt. to Valuers	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Pmt. to Artists	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Pmt. to Sportsperson	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Pmt. to Corporate Trainers	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Pmt. to Land Surveyors	**34**	Sec 393(1) Sl.no 6(iii) – 2%	Yes @18% Input Avl	Incurred in ordinary course of business

Business Allowances

Statutory payment towards employees - Statutory payments towards employees are mandatory financial contributions or benefits required by law that employers must provide, ensuring compliance with labour regulations.

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Pmt. to Recognised Provident Fund	**29(1)(a)**	No TDS	No GST	1. Contribution within prescribed limits 2. Contribution must be regular and systematic
Pmt. to Recognised Superannuation Fund	**29(1)(a)**	No TDS	No GST	1. Contribution within prescribed limits 2. Contribution must be regular and systematic
Pmt. towards Gratuity / Gratuity Fund	**29(1)(c)**	No TDS	No GST	1. Fund created for exclusive benefit of employees 2. Held under an irrevocable trust
Pmt. to Leave Encashment to employees	**34**	Sec 392 – As per slab rates	No GST	Incurred in ordinary course of business

Business Allowances

Statutory payment towards employees -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
VRS Compensation paid to retiring employees	**52**	Sec 392 – As per slab rates	No GST	Payment is as per the Scheme
Pmt. to other employee welfare funds	**34**	No TDS	No GST	Incurred in ordinary course of business
Employer's ESI Contribution	**34**	No TDS	No GST	Incurred in ordinary course of business
Pmt. To NPS Account of employees	**29(1)(b)**	Sec 392 – As per slab rates	No GST	Incurred in ordinary course of business

Business Allowances

Provisions – Provision in accounting is an amount set aside from profits to cover probable future liabilities, expense or asset value deductions where the exact amount or timing is uncertain

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Provision for Bad and Doubtful Debts	**31(1)**	No TDS	No GST	Applicable only to Scheduled bank, non Scheduled bank, Co- operative bank, PFI and NBFC as per Table of 31(1)
Provision for NPA's	**-**	No TDS	No GST	Applicable only to Scheduled bank, non Scheduled bank, Co- operative bank, PFI and NBFC as per Table of 31(1)
Provision for General Expense	**34**	Depends on the type of expense	No GST	1. Expense relates to current year 2. Expense is **ascertained / accrued**

Business Allowances

Payments outside India – Businesses in India make payments outside India to its group companies towards, royalty, technical services, business expenditure, professional, consultancy services and even towards import of goods and services.

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Payment towards royalty, FTS	**34**	TDS to be done as per Sec. 207	Yes @18% (RCM) Input Avl	Incurred in ordinary course of business
Payment towards business expenditure	**34**	Depends	Yes @18% (RCM) Input Avl	Incurred in ordinary course of business
Payment towards medical treatment to employees	**34**	TCS : Sec 394(1) Sl.no 7 – 2%	No GST	Incurred in ordinary course of business
Payment towards education of employees	**34**	TCS : Sec 394(1) Sl.no 7 – 2%	No GST	Incurred in ordinary course of business
Payment towards foreign travel	**34**	TCS : Sec 394(1) Sl.no 8 – 2%	No GST	Incurred in ordinary course of business

Business Allowances

Payments outside India -

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Payment to Foreign Professionals	**34**	TDS as per rates in force	Yes @18% (RCM) Input Avl	Incurred in ordinary course of business
Payment to Foreign Consultancy services	**34**	TDS as per rates in force	Yes @18% (RCM) Input Avl	Incurred in ordinary course of business
Interest paid to foreign parent company	**34**	TDS to be done as per Sec. 207	No GST	Incurred in ordinary course of business
Interest paid on borrowing	**34**	TDS to be done as per Sec. 207	No GST	Incurred in ordinary course of business
Amount paid for imports	**34**	No TDS	Yes ; Customs	Incurred in ordinary course of business
Services received from abroad	**34**	TDS as per rates in force	Yes @18% (RCM) Input Avl	Incurred in ordinary course of business

Business Allowances

Business Development Expenses – Business Development expenses are costs incurred by a company to foster growth, create long term value and build relationship with potential customers, partners and markets.

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Conference and Trade fairs	**34**	Sec 393(1) Sl.no 6(i) – 1%/2%	Yes @18% Input Avl	Input avl only if directly linked to **taxable business operations**
Business Networking expenses	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% (RCM) Input Avl	Input avl only if directly linked to **taxable business operations**
Business acquisition expenses	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% (RCM) Input Avl	Input avl only if directly linked to **taxable business operations**
Purchase of Goodwill, Patent, Trade Mark, Copyright, etc.,	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Project Report expenses for new business acquisitions	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business

Business Allowances

Business Expediency Expenses - Business Expediency expenses refers to expenditure incurred voluntarily by a business for its own advancement, efficiency or protection even if not legally required or directly linked to immediate profits.

Nature of Expenditure	Sec.	TDS / TCS and Rate	GST Rate and Input	Conditions
Non-compete fees paid	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% Input Avl	Incurred in ordinary course of business
Legal fees to settle disputes	**34**	Sec 393(1) Sl.no 6(iii) – 10%	Yes @18% (RCM) Input Avl	Input avl only if directly linked to **taxable business operations**
Payment to employees to retain them in time of crisis	**34**	Sec 392 – As per slab rates	No GST	Incurred in ordinary course of business

Business Dis-Allowances

IT Act, 2025	Section Description	IT Act, 1961
Sec 35	Amounts not deductible in certain circumstances	40
Sec 36	Expenses or payments not deductible in certain circumstances	40A
Sec 37	Certain deductions allowed on actual payment basis only	43B

Business Dis-Allowances

Sec 35	Amounts not deductible in certain circumstances
35(a)	Any amount of Tax paid on Income or tax paid by employer or tax paid in any other country for which relief is eligible
35(b)(i)	30% of any sum payable to a resident, on which tax is not deducted at source during the Tax year or has been deducted but not paid upto due date specified in Sec 263
35(b)(ii)	Any interest, royalty, fees for technical services or other sum payable outside India or in India to Non-Resident or Foreign company on which tax has not been deducted during the Tax year or has been deducted but not paid upto the due date specified in Sec 263
35(b)(iii)	Any payment to a provident or other fund established for the benefit of employees of the assessee – No Arrangements have been made for Deducting TDS on payments made from the fund
35(c)	Payment chargeable under the head "Salaries", payable outside India or to a non-resident, on which Tax has not been deducted or after deduction has not been paid
35(d)	Any amount paid by way of royalty, license fee, service fee, privilege fee, service charge or any other fee or charge levied exclusively on or which is appropriated, from, a State Govt undertaking to the State Govt

Business Dis-Allowances

Sec 35	Amounts not deductible in certain circumstances
35(e)	The expenditure incurred by a firm: i. Salary, bonus, commission or remuneration paid to a Non-working partner ii. Remuneration to working partner and interest to any partner not authorized by the partnership deed iii. on the aggregate remuneration to all working partners as authorized by the partnership deed, exceeding the amount computed as under : • On the first Rs. 6,00,000 of the book-profit **OR** in case of a loss ➢ Rs. 3,00,000 **OR** 90% of the book profit, whichever is higher • On the balance of the book-profit ➢ 60% of the book profit iv. on interest to any partner as authorized by the partnership deed, exceeding 12% simple interest per annum **v.** **A) "Book Profit"** - means the net profit, as shown in the P&L account for relevant tax year + aggregate amount of remuneration to all partners of the firm, if such amount has been deducted while computing Net profit **B) "Working partner"** - means an individual who is actively engaged in conducting the affairs of the business or profession of the firm of which he is a partner
35(f)	The expenditure incurred by an association of persons or a body of individuals in the nature of interest, salary, bonus, commission or remuneration, made to a member of such association or body,

Business Dis-Allowances

Sec 36	Expenses or payments not deductible in certain circumstances
36(2)	Payment made to "Specified Person(Relatives)" which in the opinion of AO is excessive or unreasonable having regard to: a) fair market value of the goods, services or facilities ,or b) legitimate needs of the business or profession of the assessee, or c) benefit derived by or accruing to the assessee therefrom Such excessive or unreasonable expenditure shall not be allowed as deduction
36(4)	Any expenditure, any payment or aggregate of payments made in a day to a person exceeds ₹ 10,000* AND is not made through specified banking or online mode,
36(5)	Expenditure claimed as a deduction for liability in preceding tax year and payment for such liability is made in subsequent tax year, - Such payment or Aggregate of payments made in a day to a person exceeds ₹ 10,000* AND is not made through specified banking or online mode – Deemed to be income under PGBP in Subsequent Tax year.
36(6)	* ₹ 35000 in case the payment is made for plying, hiring or leasing of goods carriages
R. 26	Exceptions to Sec 36(4),36(5), 36(6) have been stated in Rule 26 of Income Tax Rules,2026
36(9)	No deduction or allowance shall be allowed in respect of marked to market loss or other expected loss, except as allowable under section 32(1)(*h*).

Business Dis-Allowances

Sec 37	Certain deductions allowed on actual payment basis only

Sec 37 (1)	Sums payable, as specified below, shall be allowed as a deduction only in the tax year in which such sums are actually paid Irrespective of – a) Any provision to the contrary in this act or b) Method of accounting regularly followed or c) The Tax year in which the liability was incurred
Sec 37 (2)	Sums payable shall be a) Tax, Cess, duty, surcharge, or fee levied under any law in force b) Contribution of the employer to a provident fund or superannuation fund or gratuity fund or any fund for the welfare of employees; c) Amount payable by employer *in lieu* of any leave at the credit of the employee; d) Any sum referred to in section 32(*a*) - Bonus or Commission paid to an employee for services rendered. e) Interest on loans or advances or borrowings from specified financial entities as per the terms and conditions of the agreement f) Amount payable to the Indian Railways for use of railway assets g) Amount payable by the assessee to a micro or small enterprise beyond the time limit specified in MSME Act,2006

Business Dis-Allowances

Sec 37	Certain deductions allowed on actual payment basis only

Additional points to be considered:

Sums Specified, if paid after the end of the tax year in which the liability was incurred, but on or before the due date of filing of return of income under section 263(1) for such tax year, the deduction towards such sum shall be allowed in such tax year.

If interest on loans or advances or borrowings specified in sub-section (2)(*e*) is converted into a loan or advance or debenture or any other instrument by which the liability to pay is deferred to a future date, then it shall not be deemed to have been actually paid.

If a deduction has already been allowed in any tax year when such liability was incurred, it shall not be allowed again in any subsequent tax year when it is paid.

The provisions of this section shall not apply to a sum received by the assessee from any employee as contribution towards any of the funds referred u/s 2(49)(o).

Special Provisions

IT Act, 2025	Section Description	IT Act, 1961
Sec 38	Certain sums deemed as profits and gains of business or profession	41
Sec 50	Special provision in case of trade, profession or similar association	44A
Sec 53	Full value of consideration for transfer of assets other than capital assets in certain cases	43CA
Sec 54	Business of prospecting for mineral oils	42
Sec 55	Insurance business -{ Sch. XIV }	44
Sec 56	Special provision in case of interest income of specified financial institutions	43D
Sec 57	Revenue recognition for construction and service contracts	43CB
Sec 58	Special provision for computing profits and gains of business or profession on presumptive basis in case of certain residents	44AD, 44ADA, 44AE
Sec 59	Computation of royalty and fee for technical services in hands of non-residents	44DA
Sec 60	Deduction of head office expenditure in case of non-residents	44C
Sec. 61	Special provision for computation of income on presumptive basis in respect of certain business activities of certain non-residents	44B,44BB, 44BBA,44BBB 44BBC,44BBD
Sec. 64	Special provision for computing deductions in case of business reorganization of co-operative banks	44DB

Special Provisions

Sec 38	Certain sums deemed as profits and gains of business or profession

38(1)(a) – (i) Cessation of trading liability (liability of the creditors)
(ii)Any amount obtained by the assessee in respect of loss or expenditure incurred earlier –
(recovery in respect of loss or expenditure incurred earlier)
38(1)(b) – Amount received in case of a tangible asset which is sold, discarded, demolished, destroyed.
38(1)(c) – Sale of capital asset used for scientific research.
38(1)(d) – Amount subsequently received on bad debts allowed.
38(1)(e) – Amount withdrawn from special reserve created u/s 32(e) by specified entity.

Sec 50	Special provision in case of trade, profession or similar association.

If during the year –
amount received by specified institution from its members is < the expenditure incurred by such association solely for the protection or advancement of common interest of its members.
Then,

- such shortfall can be allowed against Income from PGBP of the association,
- remaining amount, if any, shall be allowed under any other head.
- Carry forward losses / allowances adjusted before claiming above deduction.
- **Maximum deduction** allowed - **50% of total income** (before this deduction).

Special Provisions

Sec 53	Full value of consideration for transfer of assets other than capital assets in certain cases

➢ Type of Asset transferred ➢ Actual Consideration < Stamp Duty Value (SDV) ➢ If difference between actual consideration and SDV is less than 10%,	Land or Building or both. SDV is the Consideration then actual consideration is considered as full value of consideration.

Sec 54	Business of prospecting for mineral oils

Applicability – Applies to business engaged in prospecting, extraction, or production of mineral oils. Deduction is allowed under **PGBP.**
Eligibility – Agreement with Central Government (laid before Parliament)

Types of Deduction Allowed	
Before Commercial Production	**After Commercial Production**
Expenses on abortive/infructuous exploration in surrendered areas.	Expenses on Drilling and exploration activities. Related services. Assets used in such activities.

Special Provisions

Sec 55	Insurance business

Applicability – All Insurance businesses(including mutual & Co-operative banks)
Special Rule – Overrides all the other provisions relating to HP, IFOS, CG & Other specified section
Profits and gains is computed as per schedule XIV

Sec 56	Special provision in case of interest income of specified financial institutions

Interest income in relation to bad and doubtful debts is charged in the tax year in which such interest is –
(a) Credited to the profit and loss account or
(b) Actually received, whichever is earlier.

Special Provisions

Sec 57	Revenue recognition for construction and service contracts

- Profits are determined on percentage of completion method.
- Contract revenue shall include retention money.
- Contract costs shall not be reduced by any incidental income in the nature of interest, dividends or capital gains.

In case of contract for providing services

- Project completion method – if contract duration is < 90 days.
- Straight line method – if contract involves intermediate number of acts over a specified period of time or years.

Special Provisions

Sec 58(1)	The provisions of section 26 to 54, to the extent contrary to this section, shall not apply to the manner of computation of profits and gains of the specified business or profession in sub-section (2)	
IT Act, 2025	**Special provision for computing profits and gains of business or profession on presumptive basis in case of certain residents**	**IT Act, 1961**
Sec 58(2) Table -Sl. no 1	Special provision for computing profits and gains of business	Sec 44AD

Specified Business ✓ → Eligible Assessee ✓ → Presumptive Basis ✓

Specified Business

- Any Business other than Business in Table – Sl.no 2
- **AND**
- Turnover or Gross Receipts

If Cash Receipts <= **5%** of Total Turnover or Gr. Receipt

- Yes – **Upto 3 Cr**
- No – **Upto 2 Cr**

Eligible Assessee

Eligible Persons –

RESIDENT →

- Individual
- HUF
- Partnership Firm
- ~~LLP~~

AND

- ~~Not claimed Deduction u/s 144~~
- Not claimed Deduction u/c VIIIC
- Not a Specified Profession u/s 62(4)
- Not earned Commission or Brokerage
- Not carrying on Agency Business

Presumptive Basis

Computation of Income

A. **Aggregate receipts by -**

Specified Banking or Online Mode	6% of TO/GR received in TY or upto 263(1)
(+)	
Other Modes	8% of TO/GR received in TY

OR

B. **Actual Profit earned**

Which ever is Higher

Special Provisions

IT Act, 2025	Special provision for computing profits and gains of business or profession on presumptive basis in case of certain residents	IT Act, 1961
Sec 58(2) Table -Sl. no 2	Special provision for computing profits and gains of business of Plying, Hiring, Leasing Goods Carriage	Sec 44AE

Eligible Assessee ✓ → Presumptive Basis ✓

An Assessee

Owns → **<= 10** Goods Carriage **At anytime** During the TY

Deemed Owner – **Possession of Goods Carriage Taken on Hire Purchase or Instalment And Amount Payable is due**

Computation of Income

A. Aggregate of income from goods carriage -

Heavy Goods Vehicle > 12,000 KGS. – Rs.1,000 per ton of Gross Vehicle Weight or Unladen Weight – for each vehicle, for every month or Part of month owned during TY

(+)

Other than HGV – Rate at Rs.7,500 – for each Goods Carriage for every month or part of month Owned during TY

OR

B. Actual Profit earned

Which ever is Higher

Special Provisions

IT Act, 2025	Special provision for computing profits and gains of business or profession on presumptive basis in case of certain residents	IT Act, 1961
Sec 58(2) Table -Sl. no 3	**Special provision for computing profits and gains of profession**	Sec 44ADA

Specified Profession ✓ → Specified Assessee ✓ → Presumptive Basis ✓

Specified Professional as per Sec 62(4)

AND

Gross Receipts

If Cash Receipts <= **5%** of Aggregate Gross Receipts

- Yes – **Upto 75 lakhs**
- No – **Upto 50 Lakhs**

Eligible Persons –

RESIDENT →
- Individual
- Partnership Firm
- ~~LLP~~

Specified Profession is defined in Sec. 62(4) and also notified by the Board

Computation of Income

A. Aggregate receipts by -

Banking Mode or Online Mode

(+)

Other Modes

– 50 % of Gross Receipts

OR

B. Actual Profit earned

Which ever is Higher

Special Provisions

Sec 58	**Special provision for computing profits and gains of business or profession on presumptive basis in case of certain residents**

- **58(3) - Eligible Assessee (Table Sl no. 1 to Sl.no 3)**

Declared PGBP < Deemed PGBP
AND
Total Income > BEL

Maintain BOA and Other Documents — **Sec 62**
(+)
Get Accounts Audited and Furnish Report — **Sec 63**

- **Eligible Assessee (Table Sl no. 1)**

Succeeding 5 Tax Years cannot opt 58(2)

Sec 58(7) : Contravenes Sec 58(1)

Tax year 1	Tax year 2	Tax year 3	Tax year 4	Tax year 5	Tax year 6	Tax year 7
Declared PGBP > = Deemed PGBP	Declared PGBP < Deemed PGBP (+) Total Income > BEL					

Sec 58(8) -

Maintain BOA and Other Documents — **Sec 62**
(+)
Get Accounts Audited and Furnish Report — **Sec 63**

Special Provisions

Sec 58	**Special provision for computing profits and gains of business or profession on presumptive basis in case of certain residents**

Section	Particulars	Sl.no 1	Sl.no 2	Sl.no 3
58(3)	[PGBP < Deemed PGBP] + [Income > BEL] • BOOKS OF ACCOUNT u/s. 62 • AUDIT u/s. 63	Yes Yes	Yes Yes	Yes Yes
58(4)	Loss, Allowance or Deduction Allowable under the provisions of this Act	No	No	No
58(5)	In Case of Firm, Salary and Interest on capital deduction	No	Yes	No
58(6)	Depreciation is considered as Allowed	Yes	Yes	Yes
58(7)	5 Tax Years Requirement	Yes	No	No
58(8)	Books of Accounts and Audit For 5 Years	Yes	No	No
58(9)	Non A/c Payee Cheque and DD treated as Cash	Yes	N.A	Yes
58(10)	Income and Gross Receipts to be considered for Sec 62 and Sec 63	Yes	No	Yes

NOW LET's DISCUSS WHETHER ABOVE PRESUMPTIVE PROVISIONS ARE **OPTIONAL** **OR** **MANDATORY**

Special Provisions

Sec 59	Computation of royalty and fee for technical services in hands of non-residents

Applicability – Non-Residents / Foreign companies (specified assessee)
Tax treatment – Income taxed under PGBP

Conditions:
- Income from Government/Indian concern
- Based on agreement
- Assessee has Permanent Establishment (PE) / Fixed Place in India
- Income is connected to such PE of Fixed Place

Deductions – Only expenses wholly/exclusively for PE business
No deduction for payments to H.O. (except reimbursement)

Special Provisions

Sec 60	Deduction of head office expenditure in case of non-residents

Applicability – Non-residents with business/profession in India
Deduction allowed – Head office expenses (incurred outside India) attributable to Indian Business

Limit on deduction
- Maximum 5% of Adjusted Total Income (ATI)
- If there is loss – 5% of Average ATI (last 3 years)

Head Office expenses include – rent, tax, insurance of office, salary and employee benefits, travel expense, other admin costs, etc.,

Adjusted Total Income = Total income before certain deduction and losses.

Special Provisions

Sec. 61	Special provision for computation of income on presumptive basis in respect of certain business activities of certain non-residents

Applicability – Certain specified business of Non-resident / foreign companies
Special rule – Profits computed on presumptive basis (fixed %), this section overrides normal computation provisions.

Presumptive profit rates as per Sec. 61(2):

Sl. No.	Type of Business	Profits from Business
1.	Shipping Business	7.5% of receipts
2.	Cruise Ships Operation	20% of receipts
3.	Aircraft Operations	5% of receipts
4.	Turnkey Power Projects	10% of receipts
5.	Oil Exploration Services	10% of receipts
6.	Electronics / Technology Service	25% of receipts

Special Provisions

Sec. 64	Special provision for computing deductions in case of business reorganization of Co-operative Banks

If there is business reorganization of co-operative bank during the tax year –
Deduction to be allowed under –

- Sec 33 – Depreciation
- Sec 44 – Preliminary expenses
- Sec 52(1) – Amount incurred for the purposes of amalgamation or demerger of an undertaking. Amount paid to an employee in connection with his voluntary retirement scheme.

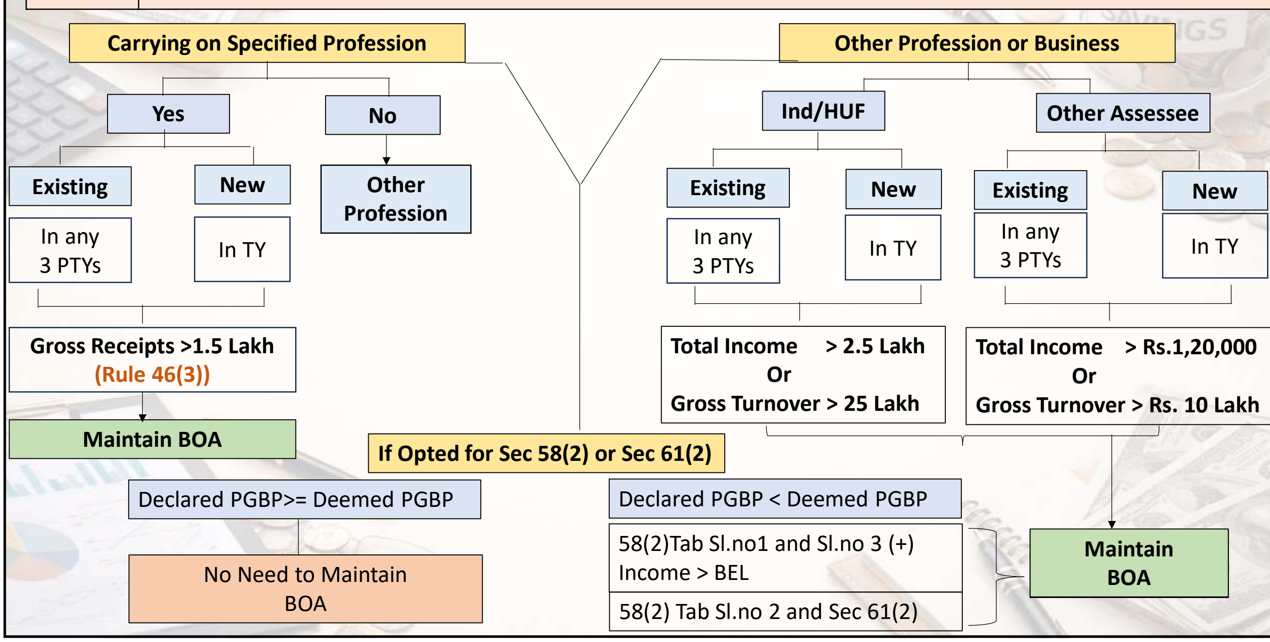
Deductions allowable under sections shall be divided on the number of days between predecessor and successor co-operative banks in the tax year.
Date of business reorganization is the date for calculating the number of days.

Books and Tax Audit

IT Act, 2025	Section Description	IT Act, 1961
Sec 62	Maintenance of Books of Account	44AA
Sec 63	Tax Audit	44AB

Books and Tax Audit

Sec 62	Maintenance of books of account



Books and Tax Audit

Rule 46	Maintenance of books of account under Section 62
What to Maintain -	a) Cash Book b) A Journal, if the accounts are maintained according to the mercantile system of accounting; c) A ledger d) Copies of bills or receipts issued by him for > Rs. 250 e) Original bills and receipts in respect of expenditure >= Rs.250 f) Payment voucher prepared and signed by the person for the expenditure incurred upto Rs.250 A person carrying on medical profession shall also maintain: a) a daily case register in Form No. 25 b) an inventory under broad heads, as on the first and the last day of the tax year,
Where to maintain -	a) the place where he is carrying on the profession **(or)** b) where the profession is carried on in more places than one, at the principal place of his profession; (or) c) If Separate BOA for each place of profession – then maintain at such respective place of Profession
How to maintain -	Maintained in electronic mode Backup – on daily basis in server located in India
Period to maintain -	$\underbrace{\text{Tax Year}}$ $\underbrace{\text{Subsequent 7 Tax years}}$

Books and Tax Audit

IT Act, 2025	Sec 63 : Tax Audit	IT Act, 1961
63(1) Table A Sl.no 1(a)	**Business -** Total sales, Turnover or Gross Receipts **> 1 Crore** in any Tax year	44AB(a)
63(1) Table Sl.no 1(b)	**Business -** Total sales, Turnover or Gross Receipts **> 10 Crore** in any Tax year - if Aggregate Cash Receipts during TY <=5% of Total receipts During TY **And** if Aggregate Cash Payments during TY <=5% of Total Payments During TY	44AB(a) 1st Proviso
63(1) Table Sl.no (1c)	**Profession -** Gross receipts in profession **> 50 Lakh** in any Tax year.	44AB(b)
63(1) Table Sl.no (2)	**Business or Profession Referred to in Sec. 58(2) and 61(2) {Sl. No. 4 & 5}** - Declared PGBP < Deemed PGBP **and** - whose total income exceeds the maximum amount which is not chargeable to tax (This is applicable in case of 58(2))	44AB (c)(d)(e)

Books and Tax Audit

IT Act, 2025	Sec 63 : Tax Audit	IT Act, 1961
63(2)	This section shall not apply where profits and gains of business or profession, declared by the assessee are as per section 58(2) or 61(2). **Declared PGBP >= Deemed PGBP**	44AB 1st Prov
63(3)	The assessee shall furnish by the specified date, the report of such audit in such form, duly signed and verified by the accountant. - **Form No. 26**.	44AB
63(4)	Where a person is required, to get his accounts audited, by or under any other law - Sufficient Compliance under this section - Get accounts audited before Specified due date under such law **and** - Furnish by that specified date the report of such audit.	44AB 2nd Prov
63(5)	(a)Specified date - means the date one month prior to the due date for furnishing the return of income under section 263(1) (b) Payment or receipt – Cheque or Bank draft – "not an Account Payee Cheque" – **Deemed to be in CASH**	44AB Expla. / 44AB(a) 2nd Pro

Miscellaneous Provisions

IT Act, 2025	Section Description	IT Act, 1961
Sec 39	Computation of actual cost	43
Sec 40	Special provision for computation of cost of acquisition of certain assets	43C
Sec 41	Written down value of depreciable asset	43
Sec 42	Capitalising impact of foreign exchange fluctuation	43A
Sec 43	Taxation of foreign exchange fluctuation	43AA

Miscellaneous Provisions

Sec 39	Computation of actual cost

Actual Cost= Purchase price to assessee reduced by:
Government / other consideration, ITC(GST / excise credit), Subsidy/grant/ reimbursement, Cash payments > Rs.10,000(Non-banking mode)

Different Valuation Rules

Amalgamation/Demerger/Holding-Subsidiary	Cost = Same as predecessor entity
Gift / Inheritance	Cost = Previous owner's cost – Depreciation (if allowed)
Inventory converted into Capital asset	Fair Market Value on the date of conversion
Building owned by the assessee used in business for the first time	Cost - Notional depreciation
Reacquired asset	Original WDV / Purchase price - whichever is lower
Interest Cost	Exclude interest after asset is put to use

Miscellaneous Provisions

Sec 40	Special provision for computation of cost of acquisition of certain assets

Applicability – Assets received through amalgamation, Gift/will/trust/HUF – when later sold as assets.
Cost of Acquisition includes – Original cost to previous owner + Cost of improvement + Transfer related expenses.
Exception:- NA to assets covered under specified section 67(6)

Sec 41	Written down value of depreciable asset

WDV – Value of asset after deducting depreciation
WDV Calculation:

- New asset = Actual Cost
- Old asset = Cost - Depreciation already allowed
- Block of Assets = Opening WDV + Additions - Sales - Depreciation.

In case of block of asset transferred by:
Holding/subsidiary, amalgamation/demerger, Company-LLP conversion, business succession
WDV of new entity = same as old entity (adjusted for depreciation)

Miscellaneous Provisions

Sec 42	Capitalising impact of foreign exchange fluctuation

Applicability – applies when importing assets / foreign currency loans for business / capital assets. Any gain/loss due to exchange rates change is adjusted in the cost of the asset or capital expenditure.
Variation = Actual payment in INR - Liability at time of acquisition.
If foreign exchange contract is entered with authorized dealer: cost adjustment is based on contracted exchange rate.

Sec 43	Taxation of foreign exchange fluctuation

Applicability – All foreign currency transactions including:
- Monetary & Non-monetary items,
- Forward exchange contracts,
- Foreign currency translation reserves.
- Exchange gain/loss is treated as Income / Loss.
- Computed as per ICDS (Income Computation and Disclosure Standards)

Thank you

by, CA. Cotha S Srinivas