

TAXBOOK⁺

Working steps of solutions

B21 to B30

Profits and Gains of Business or Profession

Build Your Confidence (BYC)

B21. S. 35AD – CA2012(M) – MNP Ltd., commenced operations of the business of a new 4-star hotel in

Computation of profits and gains of business or profession for AY 2022-23

Particulars	Rs.
Profits from specified business of new hotel in Chennai (before deduction u/s 35D)	80,00,000
Less: Deduction u/s 35AD:	
• 100% of expenditure incurred prior to commencement of operations on 1.4.2021 and capitalized in books on this date	(40,00,000)
• 100% of capital expenditure incurred during PY 2021-22 (except land)	(1,50,00,000)
Loss from specified business of hotel in Chennai	(1,10,00,000)
Profits from existing business of hotel in Kanpur	1,30,00,000
Income under the head PGBP after set off loss of one specified business against profits of another specified business in terms of section 73A¹	20,00,000

B21A. S. 35AD – Ragini carries on business of operating sugar warehouse and manufacture of steel products.

Tax implications arising from transfer of building from sugar business to steel business

Particulars	Rs.
Deemed business income u/s 35AD for PY 2021-22 since building used in specified business is transferred to a non-specified business within 8 years of its acquisition	
Total deduction allowed u/s 35AD for building	20,00,000
Less: Depreciation allowable u/s 32 as if 35AD deduction was not allowed = 10% of Rs. 20 lakh	(2,00,000)
Deemed business income u/s 35AD	18,00,000
Depreciation of the Block (Building) for PY 2021-22	
Opening WDV on 1.4.2021	15,00,000
Add: Actual cost of building = Actual cost 20 lakh – Depreciation allowable since acquisition 2 lakh	18,00,000
WDV (as on 31.3.2022) for depreciation	33,00,000
Less: Depreciation @ 10%	(3,30,000)
Closing WDV	29,70,000

AMORTIZATION

B23. S. 35D – Rajat started the business of manufacturing clothes on 1.6.2021. Following expenditure was.....

Computation of deduction u/s 35D

Particulars	Rs.	Rs.
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¹ Covered in Chapter on Losses in detail

Specified Expenditure		
Preparation of project report by an approved concern: Eligible	1,00,000	
Market survey by self: Eligible	60,000	
Legal charges for drafting agreements by a law firm (not approved u/s 35D): Eligible	40,000	
Engineering services by BCD consultants: Not eligible as not approved	-	2,00,000
Cost of project = Cost of building, P&M, furniture	42,00,000	
Capital employed: Not relevant for non-company assessee	-	
5% of cost of project		2,10,000
Eligible specified expenditure (cannot exceed 2,10,000)		2,00,000
Deduction u/s 35D for each PY from PY 2021-22 to 2025-26 = 2,00,000 / 5		40,000

B24. S. 35DDA – BKC Ltd. offered voluntary retirement to its employees under a VRS scheme rolled out on 15.6.2021. It....

Year	Rs. lakh	Rs. lakh	Rs. lakh	Total deduction
PY 2021-22	8			8
PY 2022-23	8	8		16
PY 2023-24	8	8	8	24
PY 2024-25	8	8	8	24
PY 2025-26	8	8	8	24
PY 2026-27		8	8	16
PY 2027-28			8	8
				120

EXPENDITURE FOR SPECIAL PURPOSES

B25. S. 35 – Mr. Pharma commenced business of manufacture of medicines on 1.6.2021. Compute the deduction.....

Particulars	1.4.18 to 31.5.18	1.6.18 to 31.5.21	1.6.21 to 31.3.22	Deduction	Note
Purchase of land and building for scientific research (30% towards land) (not certified)	-	30,00,000	-	21,00,000	Exclude land; certification not required
Purchase of equipments for scientific research (not certified)	1,00,000	-	-	-	Prior to 3 year period
Purchase of plant and machinery for manufacturing medicines (not certified)	-	-	2,50,000	-	Not for scientific research. Depreciation can be claimed.
Purchase of equipment for conducting scientific search (purchased on 1.1.2022 and put to use on 1.5.2022) (not certified)	-	-	1,25,000	1,25,000	Put to use not relevant; certification not required
Purchase of scientific research material	20,000	50,000 (90% certified)	30,000	75,000	3 year pre-commencement expenditure should be certified
Salary to employees engaged in scientific research	-	6,00,000 (4 lakh certified)	2,00,000	6,00,000	3 year pre-commencement expenditure should be certified
Expenditure on scientific research in relation to Food & Beverage sector	-	1,50,000	25,000	-	Not related to business of assessee
Other revenue expenses	40,000	1,80,000	1,00,000	1,00,000	Pre-commencement expenditure not deductible
Total deduction u/s 35				30,00,000	

B26. S. 35 – Compute the deduction allowable u/s 35 for AY 2022-23 from the following particulars of expenditure

Particulars	Section	Deduction	Note
Payments for scientific research:			
National Science Institute	35(1)(ii)	1,30,000	
IIT, Mumbai	35(2AA)	90,000	
Zeta Ltd.	35(1)(iia)	1,00,000	
Beta Inc	35(1)(iia)	-	Not a company registered in India
PQR college	35(1)(ii)	50,000	
DEF college	35(1)(ii)	-	Not approved and notified
National Laboratory	35(2AA)	75,000	Withdrawal of program subsequent to payment does not effect deduction
Expenditure on in-house R&D facility:			
Revenue expenditure on scientific research	35(1)(i)	1,80,000	
Acquisition of land	35(1)(iv)	-	Expenditure on land not deductible
Acquisition of premises	35(1)(iv)	5,00,000	
Deduction u/s 35		11,25,000	

B27. S. 35 – CA2011(M) – Praveen Kumar has furnished the following particulars relating to payments made

Particulars	Section	% deduction	Deduction Rs. Lakhs
Payment for scientific research			
K Research Ltd.	35(1)(ii)	100	20
LMN college	35(1)(ii)	100	15
OPQ college (assuming it is not approved)	35(1)(ii)	-	-
National Laboratory	35(2AA)	100	8
In-house research			
Machinery purchased – capital expenditure	35(1)(iv)	100	25
Salaries to research staff	35(1)(i)	100	12
Deduction allowable u/s 35			80

INTEREST

B28. S. 36(1)(iii) – Mr. Shree purchased a machinery for Rs. 10 lakh on 1.8.2021 by utilizing loan of Rs. 8 lakh.....

Particulars	Working	Rs.	Rs.
Interest for PY 2021-22	10% p.a. on 10 lakh for 9 months		75,000
Actual cost of machinery			
• Purchase price		10,00,000	
• Add: Interest	10% p.a. on 10 lakh for 6 months (1.7.2021 to 31.12.2021)	50,000	10,50,000
Interest deductible u/s 36(1)(iii)	10% p.a. on 10 lakh for 3 months (1.1.2022 to 31.3.2022)		25,000

B29. S. 36(1)(iiia) – Z Ltd., a public sector company, issued 10,000 notified zero coupon bonds on 10.10.2021.....

Particulars	Working	Rs.
Discount	10,000 × (100 – 75)	25,000
Life of bond (calendar months)	October 2021 is considered as 1 month (since ≥ 15 days) while October 2024 is to be ignored (since < 15 days)	36
Pro-rata discount p.m.	25,000 / 36	694
Deduction for PY 2021-22	694 × 6 months (October 2021 to March 2022)	4,164

EMPLOYEE WELFARE

B30. CONTRIBUTION TO EMPLOYEE WELFARE FUNDS – Analyze the tax implications for Welfare Ltd. in the following cases for AY 2022-23.

#	Case	Impact
1	Welfare Ltd. contributes Rs. 2 lakh to RPF during the PY (Rs. 1.5 lakh is 43B compliant)	1.5 lakh deductible u/s 36(1)(iv)
2	Welfare Ltd. receives Rs. 1 lakh from employees as their contribution towards RPF. Out of this Rs. 80,000 is credited to their account by the due date as per the rules of the Fund.	1 lakh first included in income then 80,000 deductible u/s 36(1)(va). Thus, 20,000 taxable.
3	Welfare Ltd. pays Rs. 1 lakh as gratuity to retiring employees. It does not maintain any gratuity fund.	1 lakh deductible u/s 37(1)
4	Welfare Ltd. contributes to an approved gratuity fund every year. During the PY 2021-22 it pays Rs. 6 lakh as gratuity from this fund.	Contribution to AGF is deductible u/s 36(1)(v). Payment from fund is not deductible again.
5	Welfare Ltd. contributes 20% of basic salary to the account of each employee under the NPS. DA is 40% of basic and it forms part of pay. Aggregate basic salary during the PY 2021-22 is Rs. 10 lakh.	Salary for purpose of 36(1)(iva) = 10 lakh + 4 lakh = 14 lakh. 10% thereof is 1.4 lakh. NPS contribution = 2 lakh. Deductible = 1.4 lakh. Disallowed = 60,000.