

TAXBOOK⁺

Working steps of solutions

B31 to B40

Profits and Gains of Business or Profession

Build Your Confidence (BYC)

SPECIAL DEDUCTIONS

B31. BAD DEBT – Analyze the tax implications in the following cases for AY 2022-23.

#	Case	Deduction u/s 36(1)(vii)	Remarks
1	Yug sells goods for Rs. 3 lakh on 1.1.2020 to Shubh who does not make any payment owing to a dispute. Yug claims the amount as deduction towards bad debt for PY 2021-22 while retaining the debt in the books of account.	No	Since not written off as irrecoverable in the books
2	Yug writes off Rs. 50,000 as irrecoverable on 1.5.2021, out of Rs. 3 lakh receivable from Jug towards sale of goods during PY 2019-20.	Yes	Debt taken into account in computing income and written off as irrecoverable in the books
3	Yug sold plant and machinery for Rs. 10 lakh on 1.6.2020 which he was using in manufacturing products for his business. He wrote off Rs. 1 lakh on 1.7.2021 as irrecoverable.	No	Debt not taken into account in computing income, being sale of capital asset
4	Yug, carrying on business of cloth retailer, extended loan of Rs. 5 lakh to another trader to help him start a new business. He wrote off the entire loan as irrecoverable on 1.4.2021.	No	Debt not taken in account in computing income and Yug is not in business of banking or money lending
5	Yug, carrying on money-lending business, extended loan of Rs. 5 lakh to Shubh. Shubh became insolvent. Yug wrote off entire loan of Rs. 5 lakh together with interest due of Rs. 50,000 on 1.3.2022.	Yes	Interest deductible as it is taken into account in computing income. Principle is also deductible as it is money lent in money lending business.

B32. S. 40(b) – Compute the remuneration liable to be disallowed u/s 40(b) to Rohit & Mohit, a partnership firm.....

Particulars	A	B	C
Remuneration eligible for deduction	7,50,000	2,00,000	1,00,000
Computation of remuneration allowable u/s 40(b)			
First 3 lakh of book profit (or loss) = Higher of 1.5 lakh or 90% of book profit	2,70,000	1,50,000	1,50,000
Balance of book profit = A: 60% of 7,00,000; B & C Nil	4,20,000	-	-
Maximum remuneration allowable u/s 40(b)	6,90,000	1,50,000	1,50,000
Remuneration eligible for deduction	7,50,000	2,00,000	1,00,000
Less: Remuneration allowed u/s 40(b)	(6,90,000)	(1,50,000)	(1,00,000)
Remuneration disallowed u/s 40(b) in the hands of the firm	60,000	50,000	-

B33. S. 40(b) – CA2011(N) – Rao and Jain, a partnership firm consisting of two partners, reports a net profit.....

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

Particulars	Rs.	Rs.
Computation of Book Profit of the firm u/s 40(b)		
Net profit (before deduction of salary, depreciation and interest)		7,00,000

Less:		
• Depreciation u/s 32	(1,50,000)	
• Interest @ 12% p.a. [being the maximum allowable u/s 40(b)] = 12% of 5 lakh	(60,000)	(2,10,000)
Book profit		4,90,000
Less: Remuneration to working partners (4,80,000) subject to a maximum of amount allowable u/s 40(b) computed as follows:		
• First 3 lakh of book profit (or loss) = Higher of 1.5 lakh or 90% of book profit	2,70,000	
• Balance of book profit = 60% of 1,90,000	1,14,000	(3,84,000)
Profit and gains of business or profession		1,06,000

B33A. S. 40(b) - CA2021(JAN) - M/s Bhandari & Batra, a partnership firm consisting of two partners, reports a net profit.....

Computation of book profits of the firm for AY 2022-23

Particulars	Rs.	Rs.
Net profit (before deduction of salary, depreciation, interest)		7,00,000
Less: Depreciation	1,50,000	
Less: Interest deductible u/s 40(b) @ 12% of 5 lakh	60,000	(2,10,000)
Book profit (salary to partners and c/fd loss is not to be adjusted)		4,90,000

Computation of salary that can be paid to working partners u/s 40(b)

Particulars	Rs.
First 3 lakh of book profit (or loss) = Higher of 1.5 lakh or 90% of book profit	2,70,000
Balance of book profit = 60% of 1,90,000	1,14,000
Salary that will be allowed to the firm u/s 40(b)	3,84,000

GENERAL DEDUCTION

B34. S. 37 – Determine whether the following expenditure will be allowed as deduction for the AY 2022-23.

#	Expenditure	Deductible?	Section
1	Loss due to embezzlement by employee	Yes	29 (as per general principles)
2	Rent of building hired for business	Yes	30
3	Municipal taxes for building	Yes	30 (subject to 43B)
4	Repair of furniture	Yes	31
5	Insurance premium for machinery	Yes	31
6	Insurance premium for stock in trade	Yes	36(1)(i)
7	Extension of a floor on the office building	No	32 – depreciation allowed
8	Purchase of books	No	32 – depreciation allowed
9	Cost of goods sold	Yes	37(1)
10	Sundry office expenses	Yes	37(1)
11	Electricity	Yes	37(1)
12	Freight and installation expenses for machinery incurred before it is put to use	No	32 (add to actual cost for depreciation)
13	Payment to approved and notified university for scientific research	Yes	35
14	Purchase of laboratory equipment for scientific research	Yes	35
15	Expenditure on notified skill development project	Yes	35CCD
16	Market survey and feasibility study before commencement of business	Yes	35D amortization
17	VRS compensation paid to employees	Yes	35DDA amortization
18	Building, plant, machinery and furniture purchased for new fertilizer production business	Yes	35AD, if opted for
19	Salary paid to employees	Yes	37(1)
20	Health insurance premium paid for employees	Yes	36(1)(ib)
21	Bonus and commission paid to employees	Yes	36(1)(ii) (subject to 43B)
22	Employer's contribution to RPF	Yes	36(1)(iv) (subject to 43B)

23	Employee's contribution to RPF received but not paid by the due date under EPF Act	No	36(1)(va)
24	Payment to approved gratuity fund even though no gratuity is payable during the PY	Yes	36(1)(v) (subject to 43B)
25	Amount payable by buyers of stock-in-trade written off as irrecoverable	Yes	36(1)(vii)
26	Interest on loan taken from SBI for purchase of office vehicles pertaining to period after these are put to use	Yes	36(1)(iii) (subject to 43B)
27	Brokerage, commission and bank charges paid for arranging the loan	Yes	37(1)
28	Interest on unpaid purchase price of raw material	Yes	37(1)
29	Interest on loan taken from a colleague to meet office expenses	Yes	36(1)(iii)
30	STT paid on dealing in shares held as investments	No	36(1)(xv). As not stock-in-trade
31	Premium paid on Keyman insurance policy taken on the life of CEO	Yes	37(1)
32	Payment to lawyer for defending tax appeal in the Supreme Court	Yes	37(1)
33	Payment to CA for compliance with various provisions of income tax and GST	Yes	37(1)
34	Damages paid to buyer for not supplying goods on time	Yes	37(1)
35	Advertisement and sales promotion expenses	Yes	37(1)
36	Celebration expenses in office on the occasion of Diwali and Holi	Yes	37(1)
37	Fee paid for employees attending a business conference	Yes	37(1)
38	Provision created to meet expenses on damages which may need to be paid if a legal dispute is lost in the court	No	37(1), it is contingent
39	Income tax paid for the current year	No	40(a)(ii)
40	CSR expenditure incurred under the Companies Act	No	37(1), Explan 2
41	Penalty paid under GST law for not passing ITC benefit to buyers	No	37(1), it is penal in nature
42	Penalty paid under GST law to compensate for delay in payment of tax	Yes	37(1), it is compensatory in nature
43	Bribe paid to income tax office to pass a favorable order	No	37(1), it is offence/prohibited
44	Advertisement in a brochure published by the JJP, a political party	No	37(2B)
45	Loss of stock in trade due to fire	Yes	29
46	Expenditure on business travel incurred during PY 2020-21	No	37(1), doesn't pertain to PY 2021-22
47	Dividend paid to shareholders	No	37(1), appropriation of profits
48	Postage, stationery, food and beverage expenses	Yes	37(1)
49	Purchase of computers and computer software	No	32 – depreciation allowed

EXPENSES NOT DEDUCTIBLE IN CERTAIN CIRCUMSTANCES

B35. S. 40(a)(i)/(ia) – Determine the PY in which the expenditure on payment of fees for professional service Rs.

#	Payee	Tax deducted by payer	Tax paid by payer	Action by payee	Deduction	Remarks
1	NR	15.3.2022	15.12.2022	-	1,00,000 in PY 2022-23	Tax deducted in PY 2021-22 but paid after ROI due date of such PY. 100% allowed u/s 40(a)(i) in PY in which tax paid.
2	ROR	15.3.2022	30.11.2022	-	1,00,000 in PY 2021-22	Tax deducted in PY 2021-22 and paid by ROI due date of such PY. 100% allowed u/s 40(a)(ia) in PY in which expense incurred.
3	ROR	15.3.2022	1.12.2022	-	70,000 in PY 2021-22 30,000 in PY 2022-23	Tax deducted in PY 2021-22 but paid after ROI due date of such PY. 30% allowed u/s 40(a)(ia) in PY in which tax paid.
4	RNOR	Not deducted	Not paid	-	70,000 in PY 2021-22	Tax not deducted and paid. 30% disallowed u/s 40(a)(ia).
5	ROR	Not deducted	Not paid	ROI filed on 1.11.2022 after including Rs. 1,000 and paying tax due.	70,000 in PY 2021-22 30,000 in PY 2022-23	Tax not deducted by payer but payee filed ROI after including income in ROI and paid tax due. 30% allowed u/s 40(a)(ia) in PY in which ROI filed. Assumed that Radius Ltd.

has furnished certificate of accountant.

B36. S. 40(a)(ia) - Compute the amount of income under the head PGBP in the hands of Roshan for the.....

Computation of income under the head PGBP for AY 2022-23

Particulars	Rs.	Remarks
Gross receipts from profession	55,00,000	-
<i>Less: Expenses:</i>		
Salary to employees	9,40,000	TDS deductible u/s 192. Tax not deducted and paid. 30% of 2 lakh disallowed u/s 40(a)(ia).
Commission to agent	1,00,000	TDS deductible u/s 194H since gross receipts > 50 lakh from profession in preceding FY 2020-21 (see para 215). Tax deducted in PY 2021-22 and paid by ROI due date of such PY. No disallowance u/s 40(a)(ia).
Catering charges for business function	1,05,000	TDS deductible u/s 194C since gross receipts > 50 lakh from profession in preceding FY 2020-21 (see para 216). Tax deducted in PY 2021-22 but paid after ROI due date of such PY. 30% disallowed u/s 40(a)(ia); it will be allowed in PY in which tax paid, i.e., PY 2022-23.
Fees for professional services	25,000	TDS not deductible u/s 194J as sum ≤ limit of 30,000 specified under that section (see para 216). No disallowance u/s 40(a)(ia)
PGBP income	43,30,000	

B37. S. 40A(2)– Identify whether the following expenditure can be disallowed u/s 40A(2) in the hands of Rohan, carrying on business of electronics, for AY 2022-23.

#	Expenditure	Disallowance	Remarks
1	Purchase of raw material from his brother for Rs. 1 lakh. Market value is Rs. 60,000.	Rs. 40,000	Brother is related party
2	Rs. 2 lakh paid for consultancy service taken from PQR Pvt. Ltd. in which Rohan's sister holds 25% equity shares. Market value of such service is Rs. 50,000.	Rs. 1.5 lakh	Sister (relative) has SI in the company as equity holding ≥ 20%. Hence, PQR Pvt. Ltd. is related party.
3	Vehicles taken on hire for Rs. 6 lakh from Z Pvt. Ltd. in which Rohan holds 10% equity shares. Rs. 4 lakh is charged for similar arrangement in the market.	No	Rohan does not have SI in company as equity holding < 20%. Z Pvt. Ltd. is not related party.
4	Products sold to his father for Rs. 1 lakh where similar products are sold in the market for Rs. 75,000.	No	Sale value is not an expenditure. 40A(2) not applicable.
5	Repayment of loan taken from partnership firm in which Rohan is a partner with 30% share.	No	Firm is related party as profit share ≥ 20% but there is no expenditure. Hence, 40A(2) not applicable.

B38. S. 40A(3)– Identify whether the following expenditure can be disallowed u/s 40A(3) in the hands of Roshan, following mercantile system of accounting, for AY 2022-23.

#	Case	Disallowance u/s 40A(3)	Note
1	Payment to Jones of Rs. 40,000 for legal services – Four cash payments of Rs. 8,000 each on 1 June 2021.	Yes	Payments to a person in a day by non-specified mode > 10,000
2	Payment to Jones of Rs. 32,000 for goods supplied – Four cash payments of Rs. 8,000 each on 1 June, 2 June, 3 June and 4 June 2021.	No	Payments to a person in a day by non-specified mode ≤ 10,000
3	Payment to Jones and Jane of Rs. 8,000 each in cash on 1 June 2021 for consultancy services	No	Payments to a person in a day by non-specified mode ≤ 10,000
4	Payment to Shri Ltd. for raw material purchased on credit on 1 June 2020 for Rs. 20,000. Payment made by uncrossed cheque on 1 June 2021.	-	Payment will be deemed profits for PY 2021-22
5	Payment to brother in cash on 1 May 2021 for hiring machinery for Rs. 20,000. Hire charges in the market are Rs. 8,000.	12,000 u/s 40A(2)	Balance Rs. 8,000 is < 10,000. No disallowance u/s 40A(3).

6	Repayment of loan taken from ICICI Bank. Principal of Rs. 1,00,000 and interest of Rs. 20,000 is paid in cash on 1 May 2021.	No	Principal repayment is not expenditure. Interest paid to bank is covered as exception u/r 6DD
7	Jones sold goods for Rs. 1 lakh to Roshan on 1 May 2021. Roshan provided services to Jones for Rs. 60,000 on 1 June 2021. This was adjusted in the accounts by an entry made on 1 May 2021.	No	Book adjustment is covered as exception u/r 6DD
8	Cash payment of Rs. 50,000 is made to Railways on 1 May 2021 for transportation of goods.	No	Payment to Government is covered as exception u/r R 6DD

B39. S. 43B – Determine the year in which the following expenses incurred by Bharat, for the purposes of his business during the PY 2021-22, will be allowed as deduction. Due date of filing return of income for Bharat is 31.10.2022.

#	Expense	PY of deduction	Remarks
1	Commission on sales paid to employees on 15.4.2022	PY 2021-22	36(1)(ii) + 43B
2	Bharat's contribution to recognized PF of employees – Rs. 50,000 paid on 10.3.2022 and Rs. 30,000 paid on 1.12.2022. Due date as per PF law is 15 days from the close of every month.	50,000 for PY 2021-22; 30,000 for PY 2022-23	36(1)(iv) + 43B. Due date as per PF law is not relevant for employer's contribution.
3	GST and customs duty paid on 15.9.2022 – Rs. 1 lakh	PY 2021-22	37(1) + 43B
4	Municipal taxes on factory building not paid – Rs. 60,000	-	30 + 43B
5	Bharat's contribution to approved superannuation fund for employees paid on 31.10.2022 – Rs. 45,000	PY 2021-22	36(1)(iv) + 43B
6	Interest on loan taken from friend, paid on 1.3.2023 – Rs. 50,000	PY 2021-22	36(1)(iii). 43B not applicable.
7	Interest on loan taken from HDFC, paid on 1.3.2023 – Rs. 50,000	PY 2022-23	36(1)(iii) + 43B
8	Electricity bill of UPPCL paid on 15.11.2022 – Rs. 2 lakh	PY 2021-22	37(1). 43B not applicable.
9	Annual bonus to employees declared on Diwali, 2021 and paid on 1.10.2022 – Rs. 3 lakh	PY 2021-22	37(1) + 43B
10	Income-tax paid on 1.3.2023 – Rs. 1 lakh	Disallowed	40(a)(ii). 43B not relevant.

B40. S. 43B – Gyani, engaged in manufacturing business, took loans of Rs. 10 crore each from Bank of India

Interest converted into a loan is not deductible. Such converted interest is deductible only once it is actually paid. Interest deductible u/s 36(1)(iii) read with 43B for AY 2022-23 is computed below.

Bank	Interest outstanding	No. of instalments	Amount per instalment	Instalments paid	Interest allowable
Bank of India	50 lakh	48	1,04,167	9	9,37,503
Dena Bank	30 lakh	48	62,500	9	5,62,500
Total amount eligible for deduction					15,00,003