CHAPTER 4 - PROFITS & GAINS OF BUSINESS OR PROFESSION

Question 1 *(☆☆☆☆)*

X. Ltd. issued debentures in the tax year 2026-27, which were to be matured at the end of 5 years. The debenture holder was given an option of one time upfront payment of **Rs.** 60 per debenture on account of interest which was to be immediately paid by the company. As per the option exercised by the debenture holders, company paid interest upfront to them in the first year itself and the same was claimed as deduction in the return of the company. But in the accounts, the interest expenditure was shown as deferred expenditure to be written off over a period of 5 years. During the course of assessment, the Assessing Officer spread the upfront interest paid over a period of five year term of debentures and allowed only one-fifth of the amount in the tax year 2026-27. Examine the correctness of the action of Assessing Officer.

Answer

The issue under consideration is whether, in a case where debentures are issued with maturity at the end of five years, and the debenture holders are given an option of upfront payment of interest in the first year itself, can the entire upfront interest paid, be claimed as deduction by the company in the first year or should the same be deferred over a period of five years; and would the treatment of such interest as deferred revenue expenditure in the books of account have any impact on the tax treatment.

The facts of the case are similar to the facts in Taparia Tools Ltd. v. JCIT (2015), wherein the above issue came up before the Supreme Court. In that case, it was observed that under section 32(b), the amount of interest paid in respect of capital borrowed for the purposes of business or profession, is allowable as deduction.

The moment the option for upfront payment was exercised by the subscriber, the liability of X Ltd. to make the payment in that year had arisen. Not only had the liability arisen in the tax year in question, it was even quantified and discharged as well in that very year.

As per the rationale of the Supreme Court ruling in Taparia Tools Ltd.'s case, when the deduction of entire upfront payment of interest is allowable as per the Income-tax Act, 2025, the fact that a different treatment was given in the books of account could not be a factor which would bar the company from claiming the entire expenditure as a deduction.

Accordingly, the action of the Assessing Officer in spreading the upfront interest paid over the five year term of debentures and restricting the deduction in the tax year 2026-27 to one-fifth of the upfront interest paid is **not** correct. The company is eligible to claim the entire amount of interest paid upfront as deduction under section 32(b) in the tax year 2026-27.

Note: This case law is not there in ICAI Material in the explanation part, but it is covered as a part of question at the end of study material. You can ignore the name and remember the content.

Question 2 *(☆☆☆☆)*

Compute the quantum of depreciation available under section 33 of the Income-tax Act, 2025 in respect of the following items of Plant and Machinery purchased by PQR Textile Ltd., by paying through account payee cheque, which is engaged in the manufacture of textile fabrics, for the year ended 31-3-2027:

	(Rs. In crores)
New machinery installed on 1-5-2026	84
New Windmill purchased and installed on 18-6-2026.	22
Lorries for transporting goods to sales depots purchased and used on 15-7-2026	3
Items purchased after 30th November 2026:	
Fork-lift-trucks, used inside factory	4
Computers installed in office premises	1
Computers installed in factory	2

New imported machinery	12

The new imported machinery arrived at Chennai port on 30-03-2027 and was installed on 3-4-2027. All other items were installed & used during the year ended 31-3-2027.
The company was newly started during the year.
Also, compute the WDV of the various blocks of assets as on 1.4.2027.

Answer

Computation of depreciation allowance under section 33 for the tax year 2026-27

Particulars	Normal Depreciation	Additional Depreciation
	(Rs. in crores)	
(A) Plant and Machinery (15% block) (Put to use for 180 days or more)		
- New machinery installed on 01.05.2026	84.00	84.00
- Lorries for transporting goods to depots	3.00	-
Normal Depreciation @15% & additional deprecation @20%	**13.05**	**16.80**
(B) Plant and Machinery (15% block) (Put to use for less than 180 days – hence, depreciation is restricted to 7.5%, being 50% of 15%)		
- Fork-lift trucks, used inside a factory	4.00	4.00
Normal Depreciation @ 7.5% & additional depreciation @10%	**0.30**	**0.40**
(C) Plant and Machinery (40% block) (Put to use for less than 180 days, hence depreciation restricted to 20%, i.e., 50% of 40%)		
- Computers installed in office premises	1.00	-
- Computers installed in factory	2.00	**2.00**
	3.00	**2.00**
Normal depreciation @20% & additional depreciation @10%	**0.60**	**0.20**
(D) Plant and Machinery (40% block) (Put to use for 180 days or more) (See Note 1)		
- New windmill purchased and installed on 18.06.2026	22.00	22.00
Normal Depreciation @ 40% & additional depreciation @ 20%	**8.80**	**4.40**
Total depreciation and additional depreciation		
- Plant and Machinery (15% block) (A +B)	13.35	17.20
- Plant and Machinery (40% block) (C + D)	9.40	4.60
Depreciation available under section 33 = Rs.44.55 crores		

Computation of Written Down Value (WDV) as on 01.04.2027

Particulars		Plant & Machinery	
		15%	40%
		(Rs. in crores)	
WDV as on 01.04.2026 (The company was started during the year – as given in question)		Nil	Nil
Add: Plant and Machinery acquired during the year			
- New Machinery installed on 01.05.2026	84.00		
- Lorries for transporting goods to sales depots	3.00		
- Fork-lift trucks, used inside factory	4.00		
- New imported machinery	12.00	103.00	-
- New Windmill purchased and installed on 18.6.2026		-	22.00

- Computers installed in office premises	-	1.00
- Computers installed in factory	-	2.00
	103.00	**25.00**
Less: Asset sold during the year	Nil	Nil
WDV as on 31.3.2027 (before charging depreciation)	**103.00**	**25.00**
Less: Depreciation for the tax year 2026-27		
- Normal depreciation	13.35	9.40
- Additional depreciation	17.20	4.60
WDV as on 1.4.2027	**72.45**	**11.00**

Notes:

(1) Windmills and any specially designed devices which run on windmills would be eligible for depreciation @ 40%.

(2) New imported machinery was not installed during the tax year 2026-27. Hence, it would not be eligible for additional depreciation for tax year 2026-27. It would also not be eligible for normal depreciation for tax year 2026-27, since it was not put to use **wholly and exclusively for the purpose business or profession** in the tax year 2026-27 being the year of acquisition.

(3) It may be noted that investment in the following plant and machinery would not be eligible for additional depreciation under section 33:
(a) Lorries for transporting goods to sales depots, being vehicles/road transport vehicles; **and**
(b) Computers installed in office premises.

(4) As per section 2(28) of the Motor Vehicles Act, 1988, the definition of a "vehicle" excludes, inter alia, a vehicle of special type adopted for use only in a factory or in any enclosed premises. Therefore, fork-lift trucks used inside the factory would not fall within the definition of "vehicle". Hence, it is eligible for additional deprecation under section 33.

Question 3 *(☆☆☆☆)*

(A) Examine the taxability and/or allowability of the following receipts or expenditures under the provisions of the Income-tax Act, 2025, for the tax year 2026-27:

(i) S Ltd. receives a sum of **Rs.** 10 lakhs from K Ltd. on 3rd January, 2027 for agreeing not to carry on any business relating to computer software in India for the next three years.

(ii) Secret commission was paid during the tax year 2026-27.

(iii) P Ltd. paid dollars equivalent to **Rs.** 50 lakhs as sales commission for the year ended 31.03.2027, without deducting tax at source, to Mr. Rodrigues, a citizen of UK and non-resident who acted as agent for booking orders, from various customers who are outside India. **(See after Non-Resident Taxation)**

(B) Can the following transactions be covered under section 37 for disallowance?

(i) A bank guarantee given by a company towards disputed tax liabilities.

(ii) Interest payable to Goods and Services Tax Department but not paid before the due date specified in section 263(1).

Answer

(A) **(i)** As per section 26(2)(h), any sum received under an agreement for not carrying out any activity in relation to any business / profession (i.e., non-compete fee) is chargeable to income-tax under the head "Profits and gains of business or profession".
Accordingly, **Rs.** 10 lakhs received by S Ltd. from K Ltd. for agreeing not to carry on any business relating to computer software in India for the next three years is chargeable to income-tax under the head "Profits and gains of business or profession".
The amount shall be allowed as deduction in the hands of K Ltd. provided tax has been deducted at source under section 393 & its Table: Sl. No. 6(iii) on the payment so made to S Ltd. If tax is not deducted at source, 30% of the expenditure shall be disallowed under section 35(b)(i).

(ii) Secret commission is one of the forms of commission payment generally made by business organizations. Secret commission is a payment for obtaining business orders or contracts

from parties and /or customers and paid to employees and / or officials of those parties and / or customers or companies from whom business orders are obtained by the assessee.

Section 34(2) of Income-tax Act, 2025 provides that any expenditure incurred by an assessee for any purpose which is an offence or which is prohibited by law within or outside India, shall not be allowed as deduction. Therefore, if secret commission payment could be established as a payment for an offence prohibited by law, the same cannot be allowed as deduction.

(iii) A foreign agent of an Indian exporter operates in his own country and no part of his income accrues or arises in India. His commission is usually remitted directly to him and is, therefore, not received by him or on his behalf in India. The commission paid to the non-resident agent for services rendered outside India is, thus, not chargeable to tax in India.

Since commission income for booking orders by non-resident who remains outside India is not subject to tax in India, disallowance under section 35(b)(ii) is not attracted in respect of payment of commission to such non-resident outside India even though tax has not been deducted at source. Thus, the amount of **Rs.** 50 lakhs remitted to Mr. Rodrigues outside India in foreign currency towards commission would not attract disallowance under section 35(b)(ii) for non-deduction of tax at source.

(B)(i) For claiming deduction of any expense enumerated under section 37, the requirement is, the actual payment and not deemed payment. Furnishing of bank guarantee cannot be equated with actual payment. Actual payment requires that money must flow from the assessee to the public exchequer as specified in section 37. Therefore, deduction of an expense covered under section 37 cannot be claimed by merely furnishing a bank guarantee.

(ii) Interest payable to Goods and Services Tax department is part of Goods and Services Tax. Therefore, interest payable to Goods and Services Tax department, which is not paid before the "due date" of filing of return of income, would attract disallowance under section 37.

Question 4 *(☆☆☆)*

ILT Limited is engaged in manufacturing pipes and tubes. The profit and loss account of the company for the year ended 31st March, 2027 shows a net profit of **Rs.** 405 lacs. The following information and particulars are furnished to you. You are required to compute total income of the company for tax year 2026-27 indicating reasons for treatment of each item.

(i) A group free air ticket was provided by a supplier for reaching a certain volume of purchase during the financial year 2026-27. The same is encashed by the company for **Rs.** 10 lacs in April 2027 and credited to General Reserve Account.

(ii) A regular supplier of raw materials agreed for settlement of **Rs.** 8 lacs instead of **Rs.** 10 lacs for poor quality of material supplied during the tax year which was not given effect in the running account of the supplier.

(iii) Andhra Bank sanctioned and disbursed a term loan in the financial year 2023-24 for a sum of **Rs.** 50 lacs. Interest of **Rs.** 8 lacs was in arrear. The bank has converted the arrear interest into a new loan repayable in 10 equal instalments. During the year, the company has paid 2 instalments and the amount so paid has been reduced from Funded Interest in the Balance Sheet.

(iv) The company remitted **Rs.** 5 lacs as interest to a company incorporated in USA on a loan taken 2 years ago. Tax deducted under section 393(2) from such interest has been deposited by the company on 15th July, 2027. The said interest was debited to profit and loss account.

(v) Sandeep, a sales executive stationed at HO at Delhi, was on official tour in Bangalore from 31st May, 2026 to 18th June, 2026 and 28th September, 2026 to 15th October, 2026 for the business development. The company has paid Sandeep's salary in cash, from its local office at Bangalore for the month of May, 2026 (payable on 1st June) and September 2026 (payable on 1st October), amounting to **Rs.** 45,000 and **Rs.** 47,000 respectively (net of TDS and other deduction), as Sandeep has no bank account at Bangalore. These were included in the amount of "salary" debited to Profit and Loss Account.

(vi) The company has contributed **Rs.** 50,000 by cheque to an electoral trust and the same stands included under the head "General Expenses".

Answer

Computation of total income of ILT Ltd. for the tax year 2026-27

Particulars	Rs. (in lacs)	
Profits and gains from business or profession		
Net profit as per profit and loss account		405.00
Add: Items debited to profit and loss account, but to be disallowed and items not considered in accounts but to be taxed		
Value of group free air ticket provided by a supplier is taxable as business income under section 26(2)(f), as the value of any benefit, whether convertible into money or not, arising from business is taxable as business income.	10	
Amount waived by the supplier of raw materials is a deemed income under section 38, as the expenditure was allowed as deduction in the last year and there is a benefit by way of remission or cessation of a trading liability. The fact that effect was not given in the running account of supplier is not relevant.	2	
Interest payable outside India to a foreign company is allowable **(See Note 1 below)**	-	
Contribution to electoral trust is not an allowable expenditure while computing business income. Hence, the same has to be added back, since it is included in general expenses.	0.50	
Salary paid to employee Sandeep is eligible for deduction. Disallowance under section 36(4) will not apply **[See Note 2 below]**	NIL	12.50
		417.50
Less: Amount of deduction allowable		
Under section 37, interest on loan due to any scheduled bank, etc. is allowed as deduction, if such interest is actually paid irrespective of the method of accounting followed by the assessee. Conversion of arrear interest into a fresh loan by a bank cannot be considered as actual payment of interest. However, the amount of funded interest (i.e., converted loan) actually paid is allowable as deduction. Hence, **Rs.** 1,60,000, being two installments of **Rs.** 80,000 each, actually paid is deductible.		1.60
Business Income		**415.90**
Gross total income		**415.90**
Less: Deduction under Chapter VIII		
Deduction under section 136 in respect of contribution by the assessee company to an electoral trust.		0.50
Total Income		**415.40**

Notes:

1. Since tax has been deducted on interest payable outside India to a foreign company during the tax year 2026-27 and the same has been deposited on or before the due date of filing return of income under section 263(1), disallowance under section 35(b)(ii) is not attracted. Since the interest has already been debited to profit and loss account, no further adjustment is required.

2. In respect of payment of salary to sales executive in cash, no disallowance under section 36(4) is to be made as the payments fall within the scope of Rule 26. Salary paid to him in cash is allowable as the executive was temporarily posted for a continuous period of 15 days or more in Bangalore which is not the place of his normal duty. Further tax was deducted from such salary under section 392 and he does not maintain any bank account in Bangalore. No disallowance under section 36(4) is attracted in respect of such salary.

Question 5 *(☆☆☆☆☆)*

G Ltd. is engaged in the business of growing and manufacturing tea in India. For the tax year ended 31.03.2027, its composite business profits before allowing deduction u/s 48 is **Rs.** 60,00,000. On 01.09.2027, it deposited a sum of **Rs.** 11,00,000 in the Tea Development Account. During the tax year 2025-26, G Ltd. had incurred a business loss of **Rs.** 14,00,000 which has been carried forward. On 25.01.2028, it withdrew **Rs.** 10 lakhs, from deposit account which is utilized as under:

(a) **Rs.** 6,00,000 for purchase on non-depreciable asset as per the scheme specified.

(b) **Rs.** 3,00,000 for purchase of machinery to be installed in the office premises.

(c) **Rs.** 1,00,000 was spent for the purpose of scheme on 5.4.2028.

(i) You are required to determine business income of G Ltd. and the tax consequences that may arise from the above transactions in the relevant tax year.

(ii) What will be the consequence if the asset which was purchased for **Rs.** 6,00,000 is sold for **Rs.** 8,00,000 in April, 2028.

Answer

(i) Computation of Business Income of G Ltd. for the tax year 2027-28

Particulars	**Rs.**
Rs. 10,00,000 being the amount withdrawn from Tea Development Account has to be utilized in the prescribed manner, otherwise, the withdrawn amount would be chargeable to tax as business income. In the given case, the taxability of withdrawal amount based on their utilization is as follows:	
- **Rs.** 6,00,000, out of the amount withdrawn from the deposit account, utilised for purchase of non-depreciable asset as per the specified scheme. [No deduction would be allowed under section 48 since amount is spent out of **Rs.** 11 lakhs deposited in Tea Development Account, which has already been allowed as deduction in tax year 2026-27 **(See Working Note below)].**	Not taxable
- **Rs.** 3,00,000, being the amount utilized for purchase of machinery to be installed in the office premises is not a permissible utilization. Hence, the amount would be deemed as profits and gains of business of the tax year 2027-28 as per section 48.	3,00,000
- **Rs.** 1,00,000 was spent for the purpose of scheme on 05.04.2028. As per section 48, this amount would be taxable since the same is not utilized during the same tax year 2027-28 in which the amount is withdrawn from the deposit account.	1,00,000
When any part of withdrawal amount becomes taxable, the agricultural and non- agricultural portions of income must be segregated. Accordingly, **Rs.** 1,60,000, being 40% of **Rs.** 4,00,000 (**Rs.** 3,00,000 + **Rs.** 1,00,000) would be chargeable to tax as business income and the balance **Rs.** 2,40,000, being 60% of **Rs.** 4,00,000 would be agricultural income exempt from tax.	

Working Note:

Computation of Business Income of G Ltd. for the tax year 2026-27

Particulars	**Rs.**
Composite business profits before allowing deduction under section 48	60,00,000
Less: Deduction under section 48 would be the lower of: - Amount deposited in Tea Development Account on or before 30.09.2027 [i.e., **Rs.** 11,00,000] **(earlier)** - 40% of profits of such business [i.e., **Rs.** 24,00,000, being 40% of **Rs.** 60,00,000]	11,00,000
	49,00,000
Less: 60% of **Rs.** 49,00,000, being agricultural income **[as per Rule 271]**	29,40,000
Business income	19,60,000
Less: Brought forward business loss of tax year 2025-26 set-off as per section 112	14,00,000
Business income chargeable to tax	**5,60,000**

(ii) Consequences, if asset purchased out of deposit account is sold during the tax year 2028-29:

As per section 48, if the asset is sold before the expiry of eight years from the end of the tax year in which it was acquired, then, the cost of such asset shall be deemed to be the profits and gains from business or profession of the tax year in which asset is sold.

Therefore, **Rs.** 6,00,000 would be deemed to be the business income (composite) for the tax year 2028-29. However, since the full cost of the asset was deducted in the tax year 2026-27 (being part of **Rs.** 11 lakhs deposited in Tea Development Account) before segregation of agricultural income and non-agricultural income, the agricultural and non-agricultural portions of income should be segregated in the year in which such amount becomes taxable on account of sale of asset before the expiry of eight years. Therefore, **Rs.** 3,60,000, being 60% of **Rs.** 6,00,000 would represent agricultural income. The balance **Rs.** 2,40,000 being 40% of **Rs.** 6,00,000 would be chargeable to tax as business income.

Moreover, the difference between the sale consideration and purchase price of the asset would be chargeable to tax as "Short term capital gains", which is computed as follows:

Sales consideration	8,00,000
Less: Cost of acquisition	6,00,000
Short term capital gain	**2,00,000**

Question 6 *(☆☆☆☆☆)*

The trading and profit and loss account of Pingu Trading Pvt. Ltd. having business of agricultural produce, consumer items and other products for the year ended 31.03.2027 is as under:

Trading Account

Particulars	Rs.	Particulars	Rs.
Opening Stock	3,75,000	Sales	1,55,50,000
Purchases	1,25,75,000	Closing Stock	4,50,000
Freight & Cartage	1,26,000		
Gross profit	29,24,000		
	1,60,00,000		1,60,00,000

Profit and Loss Account

Particulars	Rs.	Particulars	Rs.
Bonus to staff	47,500	Gross profit	29,24,000
Rent of premises	53,500	Income-tax refund	20,000
Advertisement	5,000	Warehousing charges	15,00,000
Bad Debts	75,000		
Interest on loans	1,67,500		
Depreciation	71,500		
Goods and Services tax demand paid	1,08,350		
Miscellaneous expenses	5,25,650		
Net profit of the year	33,90,000		
	44,44,000		**44,44,000**

On scrutiny of records, the following further information and details were extracted/ gathered:

(i) There was a survey under section 253 on the business premises on 31.3.2027 in which it was revealed that the value of closing stocks of 31.3.2026 was **Rs.** 8,75,000 and a sale of **Rs.** 75,000 made on 13.3.2027 was not recorded in the books. The value of closing stocks after considering these facts and on the basis of inventory prepared by the department as on 31.3.2027 worked out at **Rs.** 12,50,000, which was accepted to be correct and not disputed.

(ii) Income-tax refund includes amount of **Rs.** 4,570 of interest allowed thereon.

(iii) Bonus to staff includes an amount of **Rs.** 7,500 paid in the month of December 2026, which was provided in the books on 31.03.2026.

(iv) Rent of premises includes an amount of **Rs.** 5,500 incurred on repairs. The assessee was under no obligation to incur such expenses as per rent agreement.

(v) Advertisement expenses include an amount of **Rs.** 2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.

(vi) Miscellaneous expenses include:

(a) amount of **Rs.** 15,000 paid towards penalty for non-fulfillment of delivery conditions of a contract of sale for the reasons beyond control,

(b) amount of **Rs.** 1,00,000 paid to the wife of a director, who is working as junior lawyer for taking an opinion on a disputed matter. The junior advocate of High Courts normally charge only **Rs.** 25,000 for the same opinion,

(c) amount of **Rs.** 1,00,000 paid to an Electoral Trust by cheque.

(vii) Goods and Services Tax demand paid includes an amount of **Rs.** 5,300 charged as penalty for delayed filing of returns and **Rs.** 12,750 towards interest for delay in deposit of tax.

(viii) The company had made an investment of **Rs.** 25 lacs on the construction of a warehouse in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.09.2026 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".

(ix) Depreciation under the Income-tax Act, 2025 works out at **Rs.** 65,000.

(x) Interest on loans includes an amount of **Rs.** 80,000 on which tax was not deducted.

Compute the income chargeable to tax for tax year 2026-27 of Pingu Trading Pvt. Ltd, ignoring MAT. Support your answer with working notes.

Answer

Computation of Income of Pingu Trading Pvt. Ltd. chargeable to tax for the tax year 2026-27

Particulars	Rs.
Net profit as per profit and loss account	33,90,000
Add: Difference in the value of stocks detected on survey under section 253 on 31.03.2027 chargeable as income **(See Note 1)**	3,75,000
	37,65,000
Less: Income-tax refund credited in the profit and loss account, out of which interest is to be considered separately under the head "Income from other sources"	20,000
	37,45,000
Add: Expenses either not allowable or to be considered separately but charged in the profit & loss account	
Repair expenses on rented premises where assessee is under no obligation to incur such expenses are not allowable as per section 28. However, if such expenses are required for carrying on the business efficiently, the same are allowable under section 34. In this case, assuming that such expenses are required for carrying on business efficiently, the same are allowable under section 34.	
Advertisement in the souvenir of political party not allowable as per section 34 **(See Note 3)**	2,500
Payment made to the wife of a director examined as per section 36(2) and the excess payment made to be disallowed **(See Note 5)**	75,000
Payment made to electoral trust by cheque **(See Note 6)**	1,00,000
Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law **(See Note 7)**	5,300
Depreciation as per books	71,500
30% of interest paid on loan without deduction of tax at source not allowable as per section 35(b)(i)	24,000
	40,23,300
Less: Depreciation allowable as per Income-tax Act, 2025	65,000

		39,58,300
Less: Income from specified business (warehousing charges) credited to profit and loss account, to be considered separately **(See Note 8)**		15,00,000
Income from business (other than specified business)		**24,58,300**
Computation of income / loss from specified business (See Note 8)		
Income from specified business	**Rs.** 15,00,000	
Less: Deduction under section 46 @ 100% of **Rs.** 25 lakhs	**Rs.** 25,00,000	
Loss from specified business to be carried forward as per section 114	**(10,00,000)**	
Income from Other Sources		
Interest on income-tax refund		4,570
Gross Total Income		**24,62,870**
Less: Deduction under section 136		
Contribution to political party **(See Note 3)**	**Rs.** 2,500	
Contribution to an Electoral trust **(See Note 7)**	**Rs.** 1,00,000	1,02,500
Total Income		**23,60,370**

Notes:

(1) The business premises were surveyed and differences in the figures of opening and closing stocks and sales were found which have not been disputed and accepted by the assessee. Therefore, the trading account for the year is to be recasted to arrive at the correct amount of the gross profit/ net profit for the purpose of return of income to be filed for the tax year ended on 31.3.2027.

Revised Trading Account

Particular	Rs.	Particular	Rs.
Opening Stock	8,75,000	Sales (**Rs.** 1,55,50,000+**Rs.** 75,000)	**1,56,25,000**
Purchases	1,25,75,000	Closing Stock	**12,50,000**
Freight and Cartage	1,26,000		
Gross Profit	32,99,000		
	1,68,75,000		**1,68,75,000**

The difference of gross profit of **Rs.** 32,99,000 - **Rs.** 29,24,000 = **Rs.** 3,75,000 is to be added as income of the business for the year.

(2) Bonus for the tax year 2025-26 paid after the due date for filing return for that year would have been disallowed under section 37 for the tax year 2025-26. However, when the same has been paid in December 2026, it should be allowed as deduction in the tax year 2026-27. Since it is already included in the figure of bonus to staff debited to profit and loss account of this year, no further adjustment is required.

(3) The amount of **Rs.** 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 34. However, such expenditure falls within the meaning assigned to "contribute" under Companies Act, and is hence, eligible for deduction under section 136. Any contribution to the political party or electoral trust made by way of cash is not allowed as deduction under section 136. Since in the present case, the payment to the political party is made by way of an account payee cheque, it is allowed as deduction under section 136.

(4) The penalty of **Rs.** 15,000 paid for non-fulfilment of delivery conditions of a contract for reasons beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense.

(5) It has been assumed that **Rs.** 25,000 is the reasonable payment for the wife of Director, working as a junior lawyer, since junior advocates of High Courts normally charge only **Rs.** 25,000 for the same opinion and therefore, the balance **Rs.** 75,000 has been disallowed.

(6) Payment to an electoral trust qualifies for deduction under section 136 since the payment is made by way of a cheque. However, since the amount has been debited to profit and loss account, the same has to be added back for computing business income.

(7) The interest of **Rs.** 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of **Rs.** 5,300 for delay in filing of returns is not allowable since it is for breach of law.

(8) Deduction @ 100% of the capital expenditure is available under section 46 in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2009. It is presumed that **Rs.** 25 lacs does not include expenditure on acquisition of any land.

The loss from specified business under section 46 (warehousing) should be segregated from the income from other businesses, since, as per section 114, any loss computed in respect of any specified business referred to in section 46 shall not be set off except against profits and gains, if any, of any other specified business.

In view of the provisions of section 114, the loss of **Rs.** 10 lacs from the specified business cannot be set-off against income from other businesses. Such loss has to be carried forward to be set-off against profit from specified business in the next tax year. The return should be filed on or before the due date under section 263(1) for carry forward of such losses.

Question 7

(a) A Ltd. paid IDBI (a public financial institution) a lump sum pre-payment premium of **Rs.** 1.2 lacs on 7.4.2026 for restructuring its debts and reducing its rate of interest. It claimed the entire sum as business expenditure for the tax year 2026-27. The Assessing Officer, however, held that the pre-payment premium should be amortised over a period of 10 years (being the tenure of the restructured loan), and thus, allowed only 10% of the pre-payment premium in the tax year 2026-27. Discuss, with reasons, whether the contention of A Ltd. is correct or that of the Assessing Officer. *(☆☆☆☆)*

(b) Explain the tax treatment of emergency spares (of plant and machinery) acquired during the year which, even though kept ready for use, have not actually been used during the relevant tax year. *(☆☆☆)*

Answer

(a) This issue came up before the Delhi High Court in CIT v. Gujarat Guardian Ltd (2009).The Court observed that the assessee company's claim for deduction has to be allowed in one lump sum keeping in view the provisions of section 37, which provide that any sum payable by the assessee as interest on any loan or borrowing from any financial institution shall be allowed to the assessee in the year in which the same is paid, irrespective of the periods, in which the liability to pay such sum is incurred by the assessee according to the method of accounting regularly followed by the assessee. The High Court concurred with the Tribunal's view supporting the assessee that in terms of section 32(b) read with section 2(59), the deduction for pre-payment premium was allowable. Since there was no dispute that the pre-payment premium was nothing but interest and that it was paid to a public financial institution i.e. IDBI, the Court held that, in terms of section 37, the assessee's claim for deduction has to be allowed in the year in which the payment has actually been made.

Therefore, applying the ratio of the above case, the contention of A Ltd. is correct and not that of the Assessing Officer.

Note – Section 32(b) provides for deduction of interest paid in respect of capital borrowed for the purposes of business or profession. Section 2(59) defines interest to include, inter alia, any other charge in respect of the moneys borrowed or debt incurred. Section 37 provides for certain deductions to be allowed only on actual payment. From a combined reading of these three sections, it can be inferred that –

(i) pre-payment premium represents interest as per section 2(59);

(ii) such interest is deductible as business expenditure as per section 32(b);

(iii) such interest is deductible in one lump-sum on actual payment as per section 37.

Note: This case law is not there in ICAI Material in the explanation part, but it is covered as a part of question at the end of study material. You can ignore the name and remember the content.

(b) As per ICDS V on Tangible Fixed Assets, machinery spares shall be charged to the revenue as and when consumed. When such spares can be used only in connection with an item of tangible fixed asset and their use is expected to be irregular, they shall be capitalised. Where the spares are capitalised as per the above requirement, the issue as to provision of depreciation arises – whether depreciation can be provided where such spares are kept ready for use or is it necessary that they are actually put to use. This issue was dealt with by the Delhi High Court in CIT v. Insilco Ltd (2010). The Court observed that the expression "used for the purposes of business" appearing in section 33 also takes into account emergency spares, which, even though ready for use, yet are not consumed or used during the relevant period. This is because these spares are specific to a fixed asset, namely plant and machinery, and form an integral part of the fixed asset. These spares will, in all probability, be useless once the asset is discarded and will also have to be disposed of. In this sense, the concept of passive use which applies to standby machinery will also apply to emergency spares. Therefore, once the spares are considered as emergency spares required for plant and machinery, the assessee would be entitled to capitalize the entire cost of such spares and claim depreciation thereon.

Note – One of the conditions for claim of depreciation is that the asset must be "used **wholly & exclusively** for the purpose of business or profession". In the past, courts have held that, in certain circumstances, an asset can be said to be in use even when it is "kept ready for use". For example, depreciation can be claimed by a transport company on spare engines kept in store in case of need, though they have not actually been used by the company. Hence, in such cases, the term "use" embraces both active use and passive use for business purposes.

Question 8

"Easy Call Ltd.", to provide telecom services in Mumbai, obtained a licence on 1.4.2024 for a period of 10 years ending on 31.3.2034 against a fee of **Rs.** 27 lacs to be paid in 3 installments of **Rs.** 9 lacs each by April, 2024, April, 2025 and April, 2026, respectively. The company has commenced business on 1.4.2025.

Explain, how the payment made for licence fee shall be dealt with under the Income-tax Act, 2025 and the amount, if any, deductible for tax year 2026-27. ***(☆☆☆☆)***

Answer

The payment made for acquiring the licence to operate telecom services in Mumbai shall be subject to deduction as per the scheme in section 52. As per section 52, any amount actually paid for obtaining licence to operate telecommunication services shall be allowed as deduction in equal instalments during the number of years for which the license is in force.

<u>If the payment is made before the commencement of business</u>: The deduction shall be allowed beginning with the year of commencement of business.

<u>In any other case</u>: It will be allowed commencing from the year of payment. Deduction shall be allowed up to the year in which the license shall cease to be in force.

The amount of deduction available for tax year 2026-27 is worked out below:

(1)	(2)	(3)	(4) = (3)/(2)
Tax year of payment	**Unexpired period of license**	**Instalment paid (Rs.)**	**Deduction in respect of each instalment (Rs.)**
2024-25	9 years	9,00,000	1,00,000
2025-26	9 years	9,00,000	1,00,000
2026-27	8 years	9,00,000	1,12,500
		27,00,000	**3,12,500**

The deduction under section 52 from tax year 2026-27 shall be **Rs.** 3,12,500.

Question 9 *(☆☆☆)*

Alpha Ltd., a manufacturing company, has disclosed a net profit of **Rs.** 12.50 lacs for the year ended 31st March, 2027. You are required to compute the taxable income of the company for the tax year 2026-27, after considering the following information, duly explaining the reasons for each item of adjustment:

(i) Advertisement expenditure debited to profit and loss account includes the sum of **Rs.** 60,000 paid in cash to the sister concern of a director, the market value of which is **Rs.** 52,000.

(ii) Repairs of plant and machinery debited to profit and loss account includes **Rs.** 1.80 lacs towards replacement of worn out parts of machineries. Such expenditure does not increase the future benefit from the asset beyond its previously assessed standard of performance.

(iii) A sum of **Rs.** 6,000 on account of liability foregone by a creditor has been taken to general reserve. The original purchases was debited to the Profit & Loss Account in the tax year 2021-22.

(iv) Sale proceeds of import entitlements amounting to **Rs.** 1 lac has been credited to Profit & Loss Account, which the company claims as capital receipt not chargeable to income-tax.

(v) Being also engaged in the biotechnology business, the company incurred the following expenditure on in-house research and development as approved by the prescribed authority:

- **(a)** Research equipments purchased **Rs.** 1,50,000.
- **(b)** Remuneration paid to scientists **Rs.** 50,000.

The total amount of **Rs.** 2,00,000 is debited to the profit and loss account.

Answer

Computation of taxable income of Alpha Ltd. for the tax year 2026-27

Particulars	**Rs.**
Net profit as per profit and loss account	12,50,000
Add: Items debited to profit and loss A/c but not deductible or income to be taxed	
1. Payment of advertisement expenditure of Rs.60,000	
(i) Rs. 8,000, being the excess payment to a relative disallowed under section 36(2)	8,000
(ii) As the payment is made in cash and since the remaining amount of **Rs.** 52,000 exceeds **Rs.** 10,000, 100% shall be disallowed under section 36(4)	52,000
2. Under section 28, expenditure relatable to current repairs regarding plant, machinery or furniture is allowed as deduction. The test to determine whether replacement of parts of machinery amounts to repair or renewal is whether the replacement is one which is in substance replacement of defective parts or replacement of the entire machinery or substantial part of the entire machinery [CIT v. Darbhanga Sugar Co. Ltd. [1956]]. Here expenditure on repairs does not bring in any new asset into existence. Such replacement can only be considered as current repairs. Hence, no adjustment is required. Further, as per ICDS V on Tangible Fixed Assets, only an expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance has to be added to the actual cost.	
3. Liability foregone by creditor chargeable as business income but not credited to profit and loss account [taxable under section 38]	6,000
4. Sale proceeds of import entitlements. The sale of the rights gives rise to profits or gains taxable under section 26. As the amount has already been credited to profit and loss account, no further adjustment is necessary.	-
Less: Amount not debited to profit and loss account but allowable as deduction	
5. Expenditure on in-house research and development is entitled to a deduction of 100% of the expenditure (both capital and revenue) so incurred under section 45(2)(i) i.e.	-

Rs. 2,00,000. Since it is already debited we are not reducing it again.	
Taxable Income	**13,16,000**

Question 10 *(☆☆☆)*

(i) A corporation was set up by the State Government transferring all the buses owned by it for a consideration of **Rs.** 75 lacs, which was discharged by the Corporation by issue of equity shares. The Corporation in its assessment claimed depreciation. Can the depreciation be denied in the Corporation's hands on the ground that there was no registration of the buses in favour of the Corporation?

(ii) Ravi succeeded to his father's business in the year 2024. In the tax year ended 31.3.2027, Ravi has written off the balance in the name of 'Y' which relates to supply made by his father, when he carried on business. Ravi desires to know whether the write off could be eligible for deduction.

Answer

(i) The decision of the Supreme Court in Mysore Minerals Ltd v. CIT (1999) is relevant in the context of the facts stated. The term "asset used" in section 33 must be assigned a wider meaning and anyone in possession of property in his own title, exercising dominion over the property, to the exclusion of others and having the right to use and enjoy it, must be taken to be the owner.

Registration of the buses is only a formality to perfect the title and does not bar enjoyment. The Corporation cannot, therefore, be denied depreciation on the buses.

(ii) The deduction of bad debt is allowed if it is written off in the books of account of the assessee. In this case, Ravi has succeeded to the business carried on by his father. Under section 31(2) the amount which has been written off in the books of account as irrecoverable is eligible for deduction provided the debt has been taken into account in computing the income of the business in an earlier tax year.

Therefore, Ravi is eligible for deduction in respect of the amount due in the name of Y which is written off in the books of account as bad debt, even though the debt represents the amount due for the supplies made by previous owner viz. deceased father of Ravi.[CIT v. T. Veerabhadra Rao, K. Koteswara Rao and Co (1985) (SC)].

Question 11 *(☆☆☆)*

Boat Club is an association governed by the provisions of Section 50 of the Income-tax Act, 2025.The subscription received from members for the year ended 31st March, 2027 was **Rs.** 2,00,000. The expenditures in the normal course of its activities were **Rs.** 3,85,000. Its other income taxable under the Act works out to **Rs.** 2,75,000. You are consulted as to how Boat Club's income would be determined for tax year 2026-27? (See after the Chapter of Mutual Concern)

Answer

As per section 50, the deficiency arising on account of income from members by way of, inter alia, subscriptions, falling short of the expenditure incurred solely for the protection or advancement of the interest of its members, shall first be set off against the association's income under the head "Profits and gains of Business or Profession". If there is no such income under this head, the deficiency shall be set off against income under any other head.

Particulars	**Rs.**
Income from subscription	2,00,000
Less: Expenses incurred in the course of its activities	3,85,000
Deficiency	(-)1,85,000
Other income	2,75,000
Less: Deficiency Rs.1,85,000 but limited to 50% of other income	1,37,500
Income of the Association	**1,37,500**

There is a ceiling on the deduction admissible by way of deficiency being that it shall not exceed one-half of the total income of the association computed before making any allowance under this section. This ceiling has been exceeded above and the deficiency hence is limited to **Rs.** 1,37,500 being one-half of **Rs.**2,75,000 [vide section 50].

Question 12 *(☆☆☆)*

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

	Particulars	Rs.
(1)	Opening WDV of plant and machinery as on 1.4.2026	30,00,000
(2)	New plant and machinery purchased and put to use on 08.06.2026	20,00,000
(3)	New plant and machinery acquired and put to use on 15.12.2026	8,00,000
(4)	Computer acquired and installed in the office premises on 2.1.2027	3,00,000

Compute the amount of depreciation and additional depreciation as per the Income-tax Act, 2025 for the tax year 2026-27. Assume that all the assets were purchased by way of account payee cheque.

Answer

Computation of depreciation and additional depreciation for tax year 2026-27

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

Notes:

1. As per section 33, where an asset acquired during the tax year is put to use for less than 180 days in that tax year, the amount of deduction allowable as normal depreciation and additional depreciation would be restricted to 50% of amount computed in accordance with the prescribed percentage.

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

2. As per section 33, the balance additional depreciation of **Rs.** 80,000 being 50% of **Rs.** 1,60,000 (20% of **Rs.** 8,00,000) would be allowed as deduction in the tax year 2027-28.

3. As per section 33(8), additional depreciation is allowable in the case of any new machinery or plant acquired and installed **and first put to use** by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, @20% of the actual cost of such machinery or plant.

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

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

Question 13 *(☆☆☆)*

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

S.N	Description	Date of acquisition	Date when put to use	Amount Rs.
1.	Computer including computer software	27 Sept., 26	1 Oct., 26	35,000
2.	Computer UPS	2 Oct., 26	8 Oct., 26	8,500
3.	Computer printer	1 Oct., 26	1 Oct., 26	12,500
4.	Books	1 Apr., 26	1 Apr., 26	13,000
5.	Office furniture(Acquired from a practising C.A.)	1 Apr., 26	1 Apr., 26	3,00,000
6.	Laptop	26 Sep., 26	8 Oct., 26	43,000

Answer

Computation of depreciation allowable for tax year 2026-27

	Asset	Rate	Depreciation
Block 1	Furniture **[See working note below]**	10%	30,000
Block 2	Plant (Computer including computer software, computer UPS, laptop, printers & books)	40%	34,500
Total depreciation allowable			**64,500**

Working Notes:

Computation of depreciation

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

Note - Where an asset is acquired by the assessee during the tax year and is put to use for the purposes of business or profession for a period of less than 180 days, the deduction on account of depreciation would be restricted to 50% of the prescribed rate. In this case, since Mr. Dhaval commenced his practice in the tax year 2025-26 and acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use for less than 180 days in that year, namely, laptop and computer UPS.

Question 14 *(☆☆☆)*

Sai Ltd. has a block of assets carrying 15% rate of depreciation, whose written down value on 01.04.2026 was **Rs.** 40 lacs. It purchased another asset (second-hand plant and machinery) of the same block on 01.11.2026 for **Rs.** 14.40 lacs and put to use on the same day. Sai Ltd. was amalgamated with Shirdi Ltd. with effect from 01.01.2027.

You are required to compute the depreciation allowable to Sai Ltd. & Shirdi Ltd. for the tax year ended on 31.03.2027 assuming that the assets were transferred to Shirdi Ltd. at Rs. 60 lacs. Also assume that the plant and machinery were purchased by way of account payee cheque.

Answer

Statement showing computation of depreciation allowable to Sai Ltd. & Shirdi Ltd. for tax year 2026-27

Particulars	Rs.
Written down value (WDV) as on 1.4.2026	40,00,000
Addition during the year (used for less than 180 days)	14,40,000
Total	**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	4,52,054
Rs. 1,08,000 × 61/151	43,629
	4,95,683
(b) Amalgamated company, Shirdi Ltd.	
Rs. 6,00,000 × 90/365	1,47,946
Rs. 1,08,000 × 90/151	64,370
	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.

Question 15 *(☆☆☆)*

Lights and Power Ltd. engaged in the business of generation of power, furnishes the following particulars pertaining to tax year 2026-27. Compute the depreciation allowable under section 33 for tax year 2026-27, while computing his income under the head "Profits and gains of business or profession". The company has opted for the depreciation allowance on the basis of written down value. Assume that all the assets were purchased by way of account payee cheque.

	Particulars	(Rs.)
1.	Opening Written down value of Plant and Machinery (15% block) as on 01.04.2026 (Purchase value **Rs.** 8,00,000)	5,78,000
2.	Purchase of second hand machinery (15% block) on 29.12.2026 for business purpose	2,00,000
3.	Machinery Y (15% block) purchased and installed on 12.07.2026 for the purpose of power generation	8,00,000
4.	Acquired and installed for use a new air pollution control equipment on 31.7.2026	2,50,000
5.	New air conditioner purchased and installed in office premises on 8.9.2026	3,00,000
6.	New machinery Z (15% block) acquired and installed on 23.11.2026 for the purpose of generation of power	3,25,000
7.	Sale value of an old machinery X sold during the year (Purchase value **Rs.** 4,80,000, WDV as on 01.04.2026 **Rs.** 3,46,800)	3,10,000

Answer

Computation of depreciation allowance under section 33 for the tax year 2026-27

Particulars	(Rs.)	Plant and Machinery (15%) (Rs.)	Plant and Machinery (40%) (Rs.)
Opening WDV as on 01.04.2026		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 (**Rs.** 2,50,000 × 40%)		–	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 × 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%, being 50% of 20%)	32,500	1,92,500	-
- Air pollution control equipment (**Rs.**2,50,000× 20%)		**-**	**50,000**
Total depreciation		**4,37,075**	**1,50,000**

Notes:

(i) Power generation equipments qualify for claiming additional depreciation in respect of new plant and machinery.

(ii) Additional depreciation is not allowed in respect of second hand machinery.

(iii) No additional depreciation is allowed in respect of office appliances. Hence, no additional depreciation is allowed in respect of air conditioner installed in office premises.

(iv) The balance 50% additional depreciation in respect of Machinery Z of **Rs.** 32,500 (10% × **Rs.** 3,25000) can be claimed as deduction in subsequent tax year i.e. 2027-28.

(v) Whereever additional depreciation is claimed, it is assumed that the new plant & machinery is first put to use by the assessee for such business.

Question 16 *(☆☆☆)*

A Ltd., engaged in the business of manufacturing, furnishes the following particulars for the tax year 2026-27. Compute the deduction allowable under section 45 for tax year 2026-27, while computing its income under the head "Profits and gains of business or profession".

	Particulars	Rs.
1.	Amount paid to Indian Institute of Science, Bangalore, for scientific research	1,00,000
2.	Amount paid to IIT, Delhi for an approved scientific research programme	2,50,000
3.	Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority	4,00,000
4.	Expenditure incurred on in-house research and development facility as approved	

	by the prescribed authority	
	(a) Revenue expenditure on scientific research	3,00,000
	(b) Capital expenditure (including cost of acquisition of land **Rs.** 5,00,000) on scientific research	7,50,000

Answer

Computation of deduction under section 45 for the tax year 2026-27

Particulars	Rs.	Section	% of weighted deduction	Amount of deduction (Rs.)
Payment for scientific research				
Indian Institute of Science	1,00,000	**45(3)(a)(i)**	100%	1,00,000
IIT, Delhi	2,50,000	**45(3)(c)**	100%	2,50,000
X Ltd.	4,00,000	**45(3)(b)**	100%	4,00,000
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	**45(2)(i)**	100%	3,00,000
Capital expenditure (excluding cost of acquisition of land **Rs.** 5,00,000)	2,50,000	**45(2)(i)**	100%	2,50,000
Deduction allowable under section 45				**13,00,000**

Question 17 *(☆☆☆☆)*

Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2026. He incurred capital expenditure of Rs. 80 lakh, Rs. 60 lakh and Rs. 50 lakh, respectively, on purchase of land and building during the period January, 2026 to March, 2026 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2026. The cost of land included in the above figures are Rs. 50 lakh, Rs. 40 lakh and Rs. 30 lakh, respectively. Further, during the tax year 2026-27, he incurred capital expenditure of Rs. 20 lakh, Rs. 15 lakh & Rs. 10 lakh, respectively, for extension/ reconstruction of the building purchased and used exclusively for the above businesses.

The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction under section 46 and section 33) for the tax year 2026-27 is Rs. 16 lakhs, Rs. 14 lakhs and Rs. 31 lakhs, respectively.

Compute the income under the head "Profits and gains of business or profession" for the tax year 2026-27 and the loss to be carried forward, assuming that Mr. A has fulfilled all the conditions specified for claim of deduction under section 46 and has not claimed any deduction under Chapter VIII under the heading "C. – Deductions in respect of certain incomes". Assume in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.

Answer

Computation of profits and gains of business or profession for tax year 2026-27

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

Computation of income/loss from specified business under section 46

Particulars	Food Grains	Sugar	Total
	Rs. (in lakhs)		
(A) Profits from the specified business of setting up a warehousing facility (before providing deduction under section 46)	16	14	30
Less: Deduction under section 46			
(B) Capital expenditure incurred prior to 1.4.2026 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2026 (excluding the expenditure incurred on acquisition of land) = **Rs.** 30 lakh (**Rs.** 80 lakh – **Rs.** 50 lakh) and **Rs.** 20 lakh (**Rs.** 60 lakh – **Rs.** 40 lakh)	30	20	50
(C) Capital expenditure incurred during the tax year 2026-27	20	15	35
(D) Total capital expenditure (B + C)	**50**	**35**	**85**
(E) Deduction under section 46			
100% of capital expenditure	50	35	85
Total deduction u/s 46 for tax year 2026-27	**50**	**35**	**85**
(F) Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 46) to be carried forward as per section 114 (A-E)	**(34)**	**(21)**	**(55)**

Notes:

(i) Deduction of 100% of the capital expenditure is available under section 46 for tax year 2026-27 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 01.04.2012 or on or after 01.04.2009, respectively.

(ii) However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 46 in respect of capital expenditure incurred in respect of such business.

(iii) Mr. A can, however, claim depreciation@10% under section 33 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the tax year 2026-27.

(iv) Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of **Rs.** 55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of **Rs.** 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

Question 18 *(☆☆☆☆)*

XYZ Ltd. commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2026. The company incurred capital expenditure of **Rs.** 50 lakh during the period January, 2026 to March, 2026 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2026. Further, during the tax year 2026-27, it incurred capital expenditure of **Rs.** 2 crores (out of which **Rs.** 1.50 crore was for acquisition of land) exclusively for the above business.

Compute the income under the head "Profits and gains of business or profession" for the tax year 2026-27, assuming that XYZ Ltd. has fulfilled all the conditions specified for claim of deduction

under section 46 and has not claimed any deduction under Chapter VIII under the heading "C. – Deductions in respect of certain incomes".

The profits from the business of running this hotel (before claiming deduction under section 46) for the tax year 2026-27 is **Rs.** 25 lakhs. Assume that the company also have another existing business of running a four-star hotel in Coimbatore, which commenced operations ten years back, the profits from which are **Rs.** 120 lakhs for the tax year 2026-27. Also, assume that expenditure incurred during the tax year 2026-27 were paid by account payee cheque or use of ECS through bank account.

Answer

Computation of profits and gains of business or profession for tax year 2026-27

Particulars		Rs.
Profits from the specified business of new hotel in Madurai (before providing deduction under section 46)		25 lakh
Less: Deduction under section 46		
Capital expenditure incurred during the tax year 2026-27(excluding the expenditure incurred on acquisition of land) = **Rs.** 200 lakh – **Rs.** 150 lakh	50 lakh	
Capital expenditure incurred prior to 1.4.2026 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2026	50 lakh	
Total deduction under section 46 for tax year 2026-27		100 lakh
Loss from the specified business of new hotel in Madurai		**(75 lakh)**
Profit from the existing business of running a hotel in Coimbatore		120 lakh
Net profit from business after set-off of loss of specified business against profits of another specified business under section 114		**45 lakh**

Question 19 *(☆☆☆☆☆)*

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

Unit A commenced operations on 1.4.2026 and it claimed deduction of **Rs.** 100 lacs incurred on purchase of two buildings for **Rs.** 50 lacs each (for operating a warehousing facility for storage of sugar) under section 46 for tax year 2026-27. However, in February, 2028, Unit A transferred one of its buildings to Unit B.

Examine the tax implications of such transfer in the hands of ABC Ltd.

Answer

Since the capital asset, in respect of which deduction of **Rs.** 50 lacs was claimed under section 46, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in the tax year 2027-28, the deeming provision under section 46 is attracted during the tax year 2027-28.

Particulars	Rs.
Deduction allowed under section 46 for tax year 2026-27	50,00,000
Less: Depreciation allowable u/s 33 for tax year 2026-27 [10% of **Rs.** 50 lacs]	5,00,000
Deemed income under section 46	**45,00,000**

ABC Ltd., however, by virtue of section 39(4) & its Table: Sl. No. 12 can claim depreciation under section 33 on the building in Unit B for tax year 2027-28. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	Rs.
Actual cost to the assessee	50,00,000
Less: Depreciation allowable u/s 33 for tax year 2026-27 [10% of **Rs.** 50 lacs]	5,00,000
Actual cost in the hands of ABC Ltd. in respect of building in its Unit B	**45,00,000**

Question 20 *(☆☆☆☆☆)*

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

Compute the amount of deduction allowable under section 29(1)(b), if the basic salary of the employees aggregate to **Rs.** 10 lakhs. Would disallowance be attracted, and if so, to what extent?

Answer

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

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

Question 21 *(☆☆☆☆☆)*

The following are the particulars in respect of a scheduled bank incorporated in India -

	Particulars	Rs. in lakh
(i)	Provision for bad and doubtful debts under section 31(1) upto tax year 2025-26	100
(ii)	Gross Total Income of tax year 2026-27 [before deduction under section 31(1)]	800
(iii)	Aggregate average advances made by rural branches of the bank	300
(iv)	Bad debts written off (for the first time) in the books of account (in respect of urban advances only) during the tax year 2026-27	210

Compute the deduction allowable under section 31(2) for the tax year 2026-27.

Answer

Compute the deduction allowable under section 31(2) for the tax year 2026-27.

Particulars		Rs. in lakh	
Bad debts written off (for the first time) in the books of account			210
Less: Credit balance in the "Provision for bad and doubtful debts" under section 31(1) as on 31.3.2027			
(i)	Provision for bad and doubtful debts u/s 31(1) upto tax year 2025-26	100	
(ii)	Current year provision for bad and doubtful debts u/s 31(1) [8.5% of **Rs.** 800 lakhs + 10% of **Rs.** 300 lakhs]	98	198
Deduction under section 31(2) in respect of bad debts written off for tax year 2026-27			**12**

Question 22 *(☆☆☆)*

Isac limited is a company engaged in the business of biotechnology. The net profit of the company for the financial year ended 31.03.2027 is **Rs.** 35,25,890 after debiting the following items:

S. N	Particulars	Rs.
1.	Purchase price of raw material used for the purpose of in-house research and development	11,80,000
2.	Purchase price of asset used for in-house research and development wrongly debited to profit and loss account:	
	(1) Land	5,00,000
	(2) Building	3,00,000
3.	Expenditure incurred on notified agricultural extension project	25,50,000
4.	Expenditure on notified skill development project:	
	(1) Purchase of land	40,00,000

	(2) Expenditure on training for skill development	32,50,000
5.	Expenditure incurred on advertisement in the souvenir published by a political party	75,000

Compute the income under the head "Profits and gains of business or profession" for the tax year 2026-27 of Isac Ltd.

Answer

Computation of income under the head "Profits and gains of business orprofession" for the tax year 2026-27

Particulars		**Rs.**	**Rs.**
Net profit as per profit and loss account			35,25,890
Add:	**Items debited to profit and loss account, but to be disallowed**		
	Purchase price of Land used in in-house research and development - being capital expenditure not allowable as deduction under section 45	5,00,000	
	Purchase price of building used in in-house research and development - being capital expenditure, 100% of which is allowable as deduction u/s 45	-	
	Expenditure incurred on notified agricultural extension project (to be treated separately)	25,50,000	
	Expenditure incurred on notified skill development project - Purchase of land - being capital expenditure not qualifying for deduction under section 47	40,00,000	
	Expenditure incurred on notified skill development project - Expenditure on training for skill development (to be treated separately)	32,50,000	
	Expenditure incurred on advertisement in the souvenir published by a political party not allowed as deduction as per section 34	75,000	1,03,75,000
			1,39,00,890
Less:	Expenditure incurred on notified agricultural extension project qualifies for 100% deduction under section 47.	25,50,000	
Less:	Expenditure incurred on training for skill development in a notified skill development project qualifies for 100% deduction under section 47.	32,50,000	58,00,000
	Profit and gains from business		**81,00,890**

Note: The expenditure incurred on advertisement in the souvenir published by a political party is disallowed as per section 34 while computing income under the head "Profit and Gains of Business or Profession" but the same would be allowed as deduction under section 136 from the gross total income of the company.

Question 23 *(☆☆☆☆)*

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

	Particulars	**Amount (Rs.)**
(1)	Salary to its employees (credited and paid in March, 2027)	12,00,000
(2)	Directors' remuneration [other than Salary] (credited in March, 2027 and paid in April, 2027)	28,000

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

Answer

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

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible under section 392 or any sum credited or paid by way of directors' remuneration on which tax is deductible under section 393(1) & its Table: Sl. No. 6(iii), would attract disallowance@30% under section 35(b)(i). Whereas in case of salary, tax has to be deducted under section 392 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 tax year 2026-27, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed under section 35(b)(i) while computing business income for tax year 2026-27 is as follows –

	Particulars	**Amount paid in Rs.**	**Disallowance u/s 35(b)(i) @ 30% in Rs.**
(1)	Salary [Tax is deductible under section 392]	12,00,000	3,60,000
(2)	Directors' remuneration [Tax is deductible under section 393(1) & its Table: Sl. No. 6(iii) without any threshold limit]	28,000	8,400
Disallowance under section 35(b)(i)			**3,68,400**

If the tax is deducted on directors' remuneration in the next year i.e., tax year 2027-28 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 tax year 2027-28.

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

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

(ii) has taken into account such sum for computing income in 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.

it would be deemed that the assessee has deducted and paid the tax on such sum.

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 **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 35(b)(i) in the year in which the said expenditure is incurred. However, 30% of such expenditure will be allowed as deduction in the subsequent year in which the return of income is furnished by the resident payee, since tax is deemed to have been deducted and paid by the payer in that year.

Question 24 ***(☆☆☆)***

During the financial year 2026-27, the following payments/expenditure were made/incurred by Mr. Yuvan Raja, a resident individual (whose turnover during the year ended 31.3.2026 was **Rs.** 99 lacs):

(i) Interest of **Rs.** 55,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;

(ii) **Rs.** 16,00,000 was paid as salary to a resident individual without deduction of tax at source;

(iii) Commission of **Rs.** 16,000 was paid to Mr. Vidyasagar on 2.7.2026 without deduction of tax at source.

Briefly discuss whether any disallowance arises under the provisions of section 35(b)(i) of the Income-tax Act, 2025 assuming that the payees in all the cases mentioned above, have not paid the tax, if any, which was required to be deducted by Mr. Raja? **(See later after TDS)**

Answer

Disallowance under section 35(b)(i) of the Income-tax Act, 2025 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

(i) The obligation to deduct tax at source from interest paid to a resident arises under section 393(1) & its Table: Sl. No. 5(iii) in the case of an individual, whose total turnover in the immediately preceding tax year, i.e., tax year 2025-26 exceeds **Rs.** 100 lakhs. Thus, in present case, since the turnover of the assessee is less than **Rs.** 100 lakhs, he is not liable to deduct tax at source. Hence, disallowance under section 35(b)(i) is not attracted in this case.

(ii) The disallowance of 30% of the sums payable under section 35(b)(i) would be attracted in respect of all sums on which tax is deductible under Chapter XIX-B. Section 392, which requires deduction of tax at source from salary paid, is covered under Chapter XIX-B. The obligation to deduct tax at source under section 392 arises, in the hands of all assessee - employer even if the turnover amount does not exceed **Rs.**100 lacs in the immediately preceding tax year.

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

(iii) The obligation to deduct tax at source under section 393(1) & its Table: Sl. No. 1(ii) from commission paid in excess of **Rs.** 15,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding tax year, i.e., tax year 2025-26 exceeds **Rs.** 100 lakhs. Thus, in present case, since the turnover of the assessee is less than **Rs.** 100 lakhs, he is not liable to deduct tax at source. Therefore, disallowance under section 35(b)(i) is not attracted in this case.

Question 25 *(☆☆☆)*

Rao & Jain, a partnership firm consisting of two partners, reports a net profit of **Rs.** 7,00,000 before deduction of the following items:

(1) Salary of **Rs.** 20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).

(2) Depreciation on plant and machinery under section 33 (computed) **Rs.** 1,50,000.

(3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest **Rs.** 5,00,000.

Compute:

(i) Book-profit of the firm under section 35(e) of the Income-tax Act, 2025.

(ii) Allowable working partner salary for the tax year 2026-27 as per section 35(e).

Answer

(i) As per section 35(e), "book profit" shall mean the net profit as per the profit and loss account for the relevant tax 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:

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

Particulars	Rs.	Rs.
Net Profit (before deduction of depreciation, salary and interest)		7,00,000
Less: Depreciation under section 33	1,50,000	
Interest @ 12% p.a. [being the maximum allowable as per section 35(e)] (**Rs.** 5,00,000 × 12%)	60,000	2,10,000
Book Profit		**4,90,000**

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

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

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

Therefore, the maximum allowable working partners salary for the tax year 2026-27 in this case would be:

Particulars	Rs.
On **Rs.** 4,90,000 of book profit [(**Rs.** 3,00,000 or 90% of **Rs.** 4,90,000) whichever is more]	4,41,000
Maximum allowable partners' salary	**4,41,000**

Hence, allowable working partners' salary for the tax year 2026-27 as per the provisions of section 35(e) is **Rs.** 4,41,000.

Question 26 *(☆☆☆☆)*

Hari, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat, etc. He borrowed loans from Andhra Pradesh State Financial Corporation (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

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

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2026-27, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During the year ended 31.3.2027, Hari paid 5 installments to APSFC and 3 installments to Indian Bank.

Hari claimed the entire interest of **Rs.** 45,00,000 as an expenditure while computing the income from business of purchase and sale of agricultural commodities. Discuss whether his claim is valid and if not what is the amount of interest, if any, allowable.

Answer

According to section 37, any interest payable on the loans to specified financial institutions and any interest payable on any 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. Where there is default in the payment of interest by the assessee, such unpaid interest may be converted into loan. Such conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 37. The amount of unpaid interest so converted as loan shall be allowed as deduction only in the year in which the converted loan is actually paid.

In the given case of Hari, the unpaid interest of **Rs.** 15,00,000 due to APSFC and of **Rs.** 30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari that the entire interest of **Rs.** 45,00,000 is to be allowed as deduction in the year of conversion is not tenable. The deduction shall be allowed only to the extent of repayment made during the financial year. Accordingly, the amount of interest eligible for deduction for the tax year 2026-27 shall be calculated as follows:

	Interest outstanding (Rs.)	Number of Installments	Amount per installment (Rs.)	Installments paid	Interest allowable (Rs.)
APSFC	15 lakhs	60	25,000	5	1,25,000
Indian Bank	30 lakhs	60	50,000	3	1,50,000
Total amount eligible for deduction					**2,75,000**

Question 27 *(☆☆☆)*

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

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

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

Answer

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

A person carrying on a notified profession shall be required to maintain **specified books of accounts, only if**:

(i) his gross receipts in all the three years immediately preceding the relevant tax year has exceeded **Rs.** 1,50,000; or

(ii) it is a new profession which is setup in the relevant tax year, it is likely to exceed **Rs.** 1,50,000 in that tax year.

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

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

Question 28 *(☆☆☆☆☆)*

Mr. Praveen engaged in retail trade, reports a turnover of Rs. 2,98,50,000 for the financial year 2026-27. Amount received in cash during the tax year 2026-27 is Rs. 14,00,000 and balance through prescribed electronic modes on or before 31st July 2027. His income from the said business as per books of account is Rs. 15,00,000 computed as per the provisions of Chapter IV-D "Profits and gains from business or Profession" of the Income-tax Act, 2025. Retail trade is the only source of income for Mr. Praveen. Tax year 2025-26 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 58.

(i) Is Mr. Praveen also eligible to opt for presumptive determination of his income chargeable to tax for the tax year 2026-27?

(ii) If so, determine his income from retail trade as per the applicable presumptive provisions.

(iii) In case Mr. Praveen wants to declare profits as per books of account from retail trade, what are his obligations under the Income-tax Act, 2025?

(iv) What is the due date for filing his return of income under both the options?

Answer:

(i) Yes. Since his cash receipts during the tax year does not 5% of the total turnover (14,00,000/2,98,50,000 x 100) and his total turnover for the tax year 2026-27 is below Rs. 300 lakhs, he is eligible for presumptive taxation scheme under section 58 in respect of his retail trade business.

(ii) His income from retail trade, applying the presumptive tax provisions under section 58, would be Rs. 18,19,000 (Rs. 1,12,000, being 8% of Rs. 14,00,000 + Rs. 17,07,000, being 6% of Rs. 2,84,50,000).

(iii) Mr. Praveen had declared profit for the tax year 2025-26 in accordance with the presumptive provisions and if he wants to declare profits as per books of account which is lower than the presumptive income for any of the five consecutive tax years i.e., tax year 2026-27 to tax year 2030-31, he would not be eligible to claim the benefit of presumptive taxation for five tax years

subsequent to the tax year in which the profit has not been declared in accordance the presumptive provisions i.e. if he declares profits lower than the presumptive income in say tax year 2026-27 , then he would not be eligible to claim the benefit of presumptive taxation for tax year 2027-28 to tax year 2031-32.

Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 63, since his income exceeds the basic exemption limit.

(iv) ***In case he opts for the presumptive taxation scheme under section 58, the due date would be 31st August, 2027.***

In case he does not opt for presumptive taxation scheme, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2027.

Question 29 *(☆☆☆☆)*

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

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

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

Answer

Since Mr. X does not own more than 10 vehicles at any time during the tax year 2026-27, he is eligible to opt for presumptive taxation scheme under section 58. **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)]**
Heavy goods vehicle			
2	29.08.2026	8	16
1	23.02.2027	2	2
			18
Goods vehicle other than heavy goods vehicle			
2	10.4.2026	12	24
1	15.3.2027	1	1
3	16.7.2026	9	27
1	2.1.2027	3	3
			55

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

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

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

Question 30 *(☆☆☆)*

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

S.N	Particulars	Rs.
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
(ii)	Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.	1,00,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded, in Colombo. Sale consideration was received at Chennai.	2,50,000
(iv)	Income from sale of tea grown and manufactured in Shimla.	4,00,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

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

Answer

Computation of business income and agricultural income of Ms. Vivitha for the tax year 2026-27

Sr. No.	Source of income	Gross (Rs.)	Business income		Agricultural income
			%	Rs.	Rs.
(i)	Sale of centrifuged latex from rubber plants grown in India.	3,00,000	35%	1,05,000	**1,95,000**
(ii)	Sale of coffee grown and cured in India.	1,00,000	25%	25,000	**75,000**
(iii)	Sale of coffee grown, cured, roasted and grounded outside India. **(See Note 1 below)**	2,50,000	100%	2,50,000	**-**
(iv)	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	**2,40,000**
(v)	Saplings and seedlings grown in nursery in India **(See Note 2 below)**	80,000		Nil	**80,000**
	Total			**5,40,000**	**5,90,000**

Notes:

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

"START EACH DAY WITH A POSITIVE THOUGHT AND A GRATEFUL HEART"