Profit and Gains from Business or Profession

Meaning of Business [Sec 2(14)]

Business means the purchase and sale of manufacture of a commodity with a view to make profit. It includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.

Meaning of profession [Sec 2(36)]

Profession means the activities for earning livelihood which require intellectual skill or manual skills. For example, the work of a doctor, lawyer, auditor, engineer etc., are in the nature of profession. Profession includes vocation. Vocation means activities which are formed in order to earn livelihood. For example: Music, dancing, brokerage, insurance agency etc.,

Expenses Expressly Allowed

While computing profits of business or profession the following deductions are expressly allowed by Sections 30 to 37:

1. Expenses in respect of business premises [sec 30]

The following deductions are allowed for premises used for the purpose of the business or profession.

a) Where the premises is occupied by the assessee as a tenet:
   - Rent paid for such premises.
   - Cost of repairs and maintenance to the premises.
   - Any sums paid on the account of land revenue, municipal taxes or local taxes.
   - The amount of any Insurance premium paid in respect of such premises

b) Where the premises are occupied by the assessee as owner:
   - Cost of repair and maintenance to the premises.
   - Any sums paid on account of land revenue, municipal taxes or local taxes.
   - The amount of any Insurance premium paid. In respect of such premises.

Note: if the premises belong to the assessee no deduction in respect of rent will be allowed to him.

2. Expenses in respect of plant and machinery and furniture [Sec 31]

In respect of plant and machinery and furniture used for the purposes of the business or profession the following deductions are allowable.

- The amount of expenditure incurred in respect of repairs of plant and machinery or furniture.
- The amount of any Insurance premium paid respect of plant and machinery or furniture.

3. Depreciation [Sec 32]

Depreciation means a decrease in the value of assets by wear and tear caused by their use in the business over a period of time. Its cost is spread over its anticipated life by charging depreciation every year against the profits of the business or profession.

Assets Eligible for Depreciation

- Tangible assets such as Building, plant & machinery, furniture, motor car etc.,
- Intangible assets such as know – how, patents, trade marks, copy rights etc.,

Conditions for allowance of depreciation

The two essential conditions to be fulfilled for claiming depreciation allowance are

- Asset should be owned by the assessee.
- It should be used for the purposes of assessee business or profession.

Block of Assets

The term block of assets means a group of assets falling within a class of assets for which a single rate of depreciation is applicable. For example:

- Tangible assets like plant & machinery type writer, surgical equipments etc.,
- Intangible assets like Know -how, patents, copy rights, trade marks etc.,

Methods of Depreciation:

a) In the case of assets of an undertaking engaged in the generation and Distribution of power may be claimed at the prescribed rates on the actual cost. i.e., on the basis of straight line method of depreciation.

b) In any other case on any on any block of assets at the prescribed rates on the written down value of such block assets.

Assets acquired and put to use during the previousyear:

In the case of an assets acquired and put to use in the business during the previous year, only *50%* of the normal depreciation will be allowed if it is used in business for less then *180* days during the previous year. If it is used for *180* days or more than, then 180 days then *100%* of the normal depreciation will be allowed.

Rates of depreciation on written down value method:

Tangible assets % of W. D. V.

• Residential building	5%
• Commercial building	10%
• Plant and machinery	15%
• Surgical equipments	15%
• Type writer	15%
• Motor car	15%
• Furniture and fittings	15%
• Computer including software	60%
• Books for professional use (annual publications)	100%
• Books for professional use (other publications)	60%

Intangible assets % of W. D. V.

- Know – how, patents and trade mark etc., 25%

4. Expenditure on scientific research [Sec 35]

The following deductions shall be allowed in respect of expenditure on scientific research.

a. Revenue expenditure incurred by the assessee on scientific research during the previous year.
b. Capital expenditure on scientific research incurred by the assessee during the previous year except expenditure on acquisition of any land.
c. Sums paid for social or statistical research to any approved university, college or other institutions shall be allowed at *125%* of sum paid.

5. Expenditure incurred on the acquisition of payment rights or copy rights [Sec 35A]:

Any capital expenditure incurred prior to 1st April *1998,* on the acquisition of the patent rights used for the business shall be allowed as a deduction in *14 e*qual annual installments commencing from the previous year in which the expenditure is incurred. Where such expenditure is incurred after *31st March, 1998***,** depreciation shall be allowed on it at *25%* on the basis of W. D. V method.

6. Amortization of preliminary expenses [Sec 35D]

Any preliminary expenditure incurred by an assessee shall be allowed a deduction of an amount equal to *one-fifth* of such expenditure for each of the *5* successive previous year beginning with the previous year in which the business commences

Note: - Where such expenditure was incurred before 1st April 1998 then, *one-tenth* of such expenditure for each of the *10* successive previous years is deductible.

Maximum Limit

The maximum amount eligible for deduction under this section shall not exceed *5%* of the cost of the project.

The following expenditure is included in preliminary expenses:-

- Preparation feasibility report.
- Preparation of project report
- Conducting market survey or any other survey.
- Legal charges for drafting any agreement.

- Fee for registration.
- Printing charges etc.,

7. Expenditure on voluntary retirement [Sec 35DDA]

Where an assessee pays any sum to an employee in any previous year in connection with his voluntary retirement, he shall be allowed a deduction of *20%* of such expenditure for each of the *5* successive previous years beginning with the previous year in which the expenditure was incurred.

8. Other deductions [Sec 36]

The following other deductions are permissible while computing profits of business or profession.

a. ***Insurance premium***: The amount of any premium paid in respect of insurance, against risk of damage of stock -in –trade of the business.
b. ***Insurance premium for the health of employees***: The amount of any premium paid by cheque for insurance on the health of his employees is allowed as deductions.
c. ***Bonus or commission***: Any bonus or commission paid to an employee for services rendered shall be deductible.
d. ***Interest on borrowed capital –*** The amount of the interest paid in respect of capital borrowed for the purpose of the business or profession is allowed as deductions.
e. ***Contribution to provident fund*** - sum paid by the assessee as an employer by way of contribution towards a recognized provident fund is allowed as deduction.
f. ***Gratuity fund Approved*** - sum paid by the assessee as an employer by way of contribution towards an approved gratuity fund is allowed as deduction.
g. ***Bad debts*** – The amount of any debt which is written off as is recoverable in the accounts of the assessee for the previous year shall be allowed as deduction.

h. ***Expenditure on family planning*** - Any expenditure incurred by an assessee for the purpose of promoting family planning amongst the employees is allowed as a deduction. If such expenditure is of a capital nature it shall be allowed as a deduction in 5 equal annual installments commencing from the previous year in which the expenditure is incurred.

9. General Deductions [Sec 37(1)]

The following are the examples of admissible general deductions under Sec 37

a. Expenses incurred connection with any proceedings before the income tax authorities will be deducted as business expenditure.
b. Entertainment expenses, advertisement expenses, traveling expenses advertisement expenses and guest house are fully deductible.
c. Any amount of banking transaction tax paid during the previous year shall be allowed as deduction.
d. Expenses incurred in the purchase, manufacture and sale of goods.
e. General expenses incurred in day to day running of the business.
f. Expenses incurred in defending a case for damages for breach of trading contract.
g. Amount of sales tax paid.
h. Compensation paid to an undesirable employee for the retrenchment of his services.
i. Contribution made to provident fund maintained for the benefit of the employees.
j. Commission paid for procuring orders for the business
k. Reasonable expenses incurred on the occasion of Diwali, Dhasara, commencement of business etc.,
l. Legal expenses incurred in connection with the business or profession.
m. Welfare expenditure incurred by the assessee.
n. Payment of exercise duty, sales tax etc.,

o. Deposit under tatkal telephone deposit scheme or O.Y.T

Certain allowable losses:

a. ***Robbery or Dacoity*** – Loss caused by robbery or docoity is not deductible. But if is incidental to the business it will be allowed as a deduction.
b. ***Embezzlement/ theft etc***., - The loss of money due to embezzlement by the person who handling the funds of the business while discharging duties is allowed as deduction. It is deductible when discovered.
c. ***Loss due to non-recovery of advances*** – If it is the practice in business to give advance money to the suppliers and if the supplier neither supply the order nor refunds the advance money, the loss sustained by the assessee is incidental to business and is therefore allowed.

Expenses expressly disallowed:

a. ***Advertisement in political magazine***: Any expenditure incurred by an assessee on advertisement in any souvenir, broacher, and pamphlet etc., published by a political party shall not be allowed as a deduction in computing the profits and gains of business or profession.
b. **Provision of gratuity**: Mere provision made for the payment of gratuity to employees on retirement from service will not be allowed as a deduction in computing taxable profits of the business or profession.
c. **Excessive payments** - Any payment of expenditure to a relative shall be disallowed if the assessing officer considers it to be excessive or unreasonable.
d. ***Payment in cash*** – Any expenditure in respect of which payment is made exceeding Rs.20000 otherwise than by a crossed cheque or crossed bank draft will be disallowed completely.

e. ***Payments made to the proprietor:*** Payments made to the proprietor such as proprietor's salary, interest on capital, rent for his own accommodation, proprietor's bonus etc., are disallowed.

f. ***Personal payments of the proprietors*:** Personal payments of the proprietor such as life insurance premium, house rent, drawings, house hold expenses, personal medical expenses etc., are disallowed.

g. ***Payment of taxes***: Such as Income tax, wealth tax, fringe benefit tax, advance income tax on last assessment, property tax, except sales tax paid are disallowed.

h. ***Provisions and reserves***: Such as provision on doubtful debts, provision for depreciation, provision for sales tax, provision for income tax, provision for future losses etc., are disallowed.

i. **Capital expenditure**: Such as acquisition of plant and machinery, furniture, extension of building, purchase of type writer, computers, motor cars, neon sign boards etc., are disallowed.

j. ***Charity or donations***: Amounts paid as charity or presents or donations during the previous year will not be allowed as a deduction in computing taxable profits of the business or profession.

k. ***Past losses***: Past losses charged to P/L A/c are also not allowed as deduction in computing the profits and gains of business or profession.

l. ***Fine or penalty***: Penalties paid by the assessee for infringement of law are not deductible.

m. ***Contribution to a political party***: *Contribution* to a political party where there is no direct relationship between contribution and the business of the assessee is disallowed.

n. ***Payments made outside India***: Any interest, royalty fee etc., which is payable outside India shall not be allowed as deduction in computing the profits and gains of business and profession unless tax has been deducted at sources.

Deductions allowed only on the actual payments [Sec 43 B]

The following deductions are allowable only on actual payment.

a. Any sum payable by the assessee by way of tax, duty, cess or fee
b. Any sum payable by the assessee to an employer by way of contribution to any provident fund, superannuation fund, gratuity fund or any other fund for the welfare of employees.
c. Any sum payable to an employee as bonus or commission for services rendered.
d. Any sum payable by the assessee as interest on any loan borrowed from financial corporations.
e. Any sum payable by the assessee as interest on any loan taken from scheduled banks.
f. Any sum payable by the assessee in lieu of earned leave.

FORMAT FOR COMPUTATION OF INCOME FROM BUSINESS

Net profit as per P&L a/c		**xxx**
ADD: Inadmissible expenses		
1. Personal expn like owners salary, bonus etc, rent of own house, losss from theft from residence, drawing	xxx	
2 Donations	xxx	
3 All reserves, for eg General reserve , sinking fund etc.	xxx	
4 All provisions, For eg, for taxation, dividend etc.	xxx	
5 All direct taxes like IT, FBT, WT	xxx	
6 All capital expenses except for scientific research. Eg, Purchase of fixed assets, patent rights, know how, preliminary expn,	xxx	
7 All capital losses.	xxx	
8 Any types of fine or penalty.	xxx	
9 Past losses.	xxx	
10 Personal life insurance premium	xxx	
11 Speculation losses.	xxx	
12 Expenses on illegal business.	xxx	
13 Under valuation of closing stock and over valuation of opening stock.	xxx	
14 Bad debts still recoverable.	xxx	
15 All expn relating to other head of income.	xxx	
16 Interest on capital	xxx	
17 All expn paid in cash or open cheque, exceeding Rs 20,000 100% of such expn is disallowed.	xxx	

18 Any expn charged in excess in trading and P&L A/c	xxx	
19 Any income charged less in trading and P&L A/c	xxx	
		xxx
Less:		
1 Any expn which is admissible as per IT act but not charged in P&L a/c	xxx	
2 Any expn charged less in trading and P&L A/c.	xxx	
3 Any income charged in excess in trading and P&L A/c	xxx	
4 Over valuation of closing stock and under valuation of opening stock.	xxx	
5 Income which are excempt from tax but taken in P&L a/c	xxx	
6 Income from other heads taken in P&L a/c	xxx	**xxx**
Total Income from Business.		**xxx**

Income from profession

Medical practitioner

A Professional receipts		
• Consultation fees	Xx	
• Visiting fees	Xx	
• Fees for conducting operations	Xx	
• Gifts received from patients for professional services	Xx	
• Sale of medicines	Xx	
• Nursing home/hospital receipts	Xx	
• Examiners fees	Xx	
• Any other professional receipts	Xx	
Total professional receipts		**xxxx**
B Professional expenditures		
• Rent, lighting taxes, telephone or any other expn of clinic/hospital.	Xx	
• Salary & remuneration paid to staff	xx	
• Cost of medicine	Xx	
• Depreciation on equipments, furniture, car, books etc	Xx	
• Car expn or traveling expenses	Xx	
• Subscription to professional journals	Xx	
• Fees of professional bodies	Xx	
• Any expenses incurred to increase professional knowledge.	Xx	
• Any other expenses in relation to profession.	Xx	
Total professional Expenses		**Xxxx**
Income from profession (A-B)		**xxxx**

Chartered accountant

A Professional receipts		
• Consultation fees	xx	
• Audit fees	xx	
• Fees for conducting accounting work	xx	
• Gifts received from clients for professional services	xx	
• Institute fees	xx	
• Examiners fees	xx	
• Any other professional receipts	xx	
Total professional receipts		xxxx
B Professional expenditures		
• Rent, lighting taxes, telephone or any other expn of office	Xx	
• Audit expn	Xx	
• Depreciation on furniture, car, books etc	Xx	
• Salary & remuneration paid to staff		
• Car expn or traveling expenses	Xx	
• Subscription to professional journals	Xx	
• Fees of professional bodies	Xx	
• Any expenses incurred to increase professional knowledge.	Xx	
• Any other expenses in relation to profession.	Xx	
Total professional Expenses		Xxxx
Income from profession (A-B)		Xxxx

Advocate

A Professional receipts		
• Consultation fees	xx	
• Practicing fees/ legal fees	xx	
• Special commission	xx	
• Gifts received from clients for professional services	xx	
• Examiners fees	xx	
• Any other professional receipts	xx	
Total professional receipts		xxxx
B Professional expenditures		
• Rent, lighting taxes, telephone or any other expn of office	Xx	
• Court fees , stamp paper etc	Xx	
• Depreciation on furniture, car, books etc	Xx	
• Salary & remuneration paid to staff		
• Car expn or traveling expenses	Xx	
• Subscription to professional journals	Xx	
• Fees of professional bodies	Xx	
• Any expenses incurred to increase professional knowledge.	Xx	
• Any other expenses in relation to profession.	Xx	
Total professional Expenses		Xxxx
Income from profession (A-B)		xxxx

Income from Capital Gains

Basic Charge U/S 45(1)

Any profits or gains arising from the transfer of capital assets during a previous year is chargeable to tax under the head capital gain. The gain on sale of a capital asset is called capital gain. This gain is not a regular income like salary, or house rent. It is a one-time gain; in other words the capital gain is not recurring, i.e., not occur again and again periodically. Thus, whenever there is a loss on sale of any capital asset it will be termed as loss under the head capital gain.

BASIS OF CHARGE

The capital gain is chargeable to income tax if the following conditions are satisfied:

1. There is a capital asset.
2. Assessee should transfer the capital asset.
3. Transfer of capital assets should take place during the previous year.
4. There should be gain or loss on account of such transfer of capital asset.

Capital Assets

Capital Asset means property of any kind held by the assessee, whether fixed or circulating, movable or immovable, tangible or intangible, held by the assesses, whether or not connected with his business or profession. It includes, L&B, P&M, Patents, goodwill, copy rights, Jewellery, Shares and debentures etc.

But Capital assets does not include, i.e., Capital Assets exclude:

1. Stock in trade held for business
2. Agricultural land in rural areas
3. Items of personal effects, i.e., Car, TV, Clothing, Paintings,excluding jewellery, costly stones, silver, gold.

4. Special bearer bonds 1991, 6.5%, 7% Gold bonds & National Defence Bonds 1980 & Gold Deposit Bonds 1999.

TYPES OF CAPITAL ASSET

1. Short Term Capital Assets (STCA): An asset, which is held by an assessee for less than 36 months, immediately before its transfer, is called Short Term Capital Assets. In other words, an asset, which is transferred within 36 months of its acquisition by assessee, is called Short Term Capital Assets.

2. Long Term Capital Assets (LTCA): An asset, which is held by an assessee for 36 months or more, immediately before its transfer, is called Long Term Capital Assets. In other words, an asset, which is transferred on or after 36 months of its acquisition by assessee, is called Long Term Capital
Assets.

The period of 36 months is taken as 12 months under following cases:

- Equity or Preference shares,
- Securities like debentures, government securities, which are listed in recognised stock exchange,
- Units of UTI
- Units of Mutual Funds
- Zero Coupon Bonds

TYPES OF CAPITAL GAIN

The profit on transfer of STCA is treated as Short Term Capital Gains (STCG) while that on LTCA is known as Long Term Capital Gains (LTCG).

TRANSFER

The word transfer under income tax act is defined under section 2(47). As per section 2 (47) Transfer, in relation to a capital asset, includes sale, exchange or relinquishment of the asset or extinguishments of any right therein or the compulsory acquisition thereof under any law.

In simple words **Transfer** includes:

- Sale of asset
- Exchange of asset
- Relinquishment of asset (means surrender of asset)
- Extinguishments of any right on asset (means reducing any right on asset)
- Compulsory acquisition of asset.

Transaction not considered as transfer

- Transfer of assets on liquidatation of a company.
- Transfer of assets under gift or will
- Transfer of assets by subsidiary company to parent company and vice versa.
- Transfer of assets on amalgamation, de-merger etc.
- Transfer of assets of historical importance to museums or universities etc.
- Conversion of debentures in to shares.
- Transfer of membership of stock exchanges.

Computation of Capital Gain

Short term Capital Gain

Sale Consideration	XXX
Less: Expn incurred wholly and exclusively in connection with such transfer	XXX
Net Sale consideration	XXX
Less: Cost of acquisition	XXX
Less: Cost of improvement	XXX
STCG	XXX
Less: Deduction U/S 54	XXX
Taxable STCG	XXX

Long term Capital Gain

Sale Consideration	XXX
Less: Expn incurred wholly and exclusively in connection with such transfer	XXX
Net Sale consideration	XXX
Less: Indexed Cost of acquisition Original cost of Acquisition X CII of yr of transfer/ CII yr of acquisition	XXX
Less: Indexed Cost of improvement Original cost of Improvement X CII of yr of transfer/ CII yr of improvement	XXX
LTCG	XXX
Less: Deduction U/S 54	XXX
Taxable LTCG	XXX

New Cost Inflation Index (CII) From FY 2001-02 To FY 2018-19

Financial Year (FY)	Assessment Year (AY)	Cost Inflation Index
2001-02	2002-03	100
2002-03	2003-04	105
2003-04	2004-05	109
2004-05	2005-06	113
2005-06	2006-07	117
2006-07	2007-08	122
2007-08	2008-09	129
2008-09	2009-10	137
2009-10	2010-11	148
2010-11	2011-12	167
2011-12	2012-13	184
2012-13	2013-14	200
2013-14	2014-15	220
2014-15	2015-16	240
2015-16	2016-17	254
2016-17	2017-18	264
2016-17	2017-18	264
2017-18	2018-19	272
2018-19	2019-20	280

Cost of acquisition in some special cases.

1 Goodwill, Patent rights, Trade marks, Brand name, Manufacturing rights etc.

A) Purchased by paying a price --- COA is Amount paid by the assessee.

B) Self generated --- COA is Nill

2 Bonus Shares

3 Conversion of debentures in to shares --- COA is cost of debentures.

4 Assets acquired under gift, will succession inheritance (without paying any price)

COA is what paid by the previous owner for the asset.

6 Allotment of shares under Esops

Deduction U/S 54

1 Sec 54 (LT)

LTCG arising out of transfer of residential house is eligible for this deduction. If following conditions are satisfied

- **Purchase of new house within 1 year before or 2 years after the transfer of old house.**
- **construction of new house within 3 years from transfer of old house.**

Amount of deduction

LTCG

or

Amount invested in new house WEL

- **Deduction is revoked if new house is transferred within 3 years from acquisition.**
- **Scheme of deposit is available**

2 Sec 54 B (LT/ST)

CG arising out of transfer of agricultural land which is used by assessee for at least 2 years is eligible for this deduction. If following conditions are satisfied

- **Purchase of new agricultural land within 2 year from transfer of old land.**

Amount of deduction

CG

or

Amount invested in new house WEL

- **Deduction is revoked if new house is transferred within 3 years from acquisition.**
- **Scheme of deposit is available**

<u>3 Sec 54 D (LT/ST)</u>

CG arising out of transfer of land and building forming part of industrial undertaking which is used by assessee for at least 2 years is compulsorily acquired by the government. If following conditions are satisfied

- **New L&B is acquired within 3 years from receipt of compensation**

<u>Amount of deduction</u>

CG

or

Amount invested in new L&B WEL

- **Deduction is revoked if new L&B is transferred within 3 years from acquisition.**
- **Scheme of deposit is available**

<u>4 Sec 54 EC (LT)</u>

Any LTCG arising is eligible for this deduction. If following conditions are satisfied

- **Purchase of Bonds of National Highway Authority of India and Rural Electrification Corporation within 6 months from transfer of old assets.**

<u>Amount of deduction</u>

LTCG

or

Amount invested Bonds WEL

- **Deduction is revoked if Bonds are sold or converted in to cash within 3 years from acquisition.**
- **Scheme of deposit is NOT available**

<u>5 Sec 54 F (LT)</u>

Any LTCG (except from transfer of residential house) is eligible for this deduction. If following conditions are satisfied

- **Purchase of new house within 1 year before or 2 years after the transfer of old house.**
- **construction of new house within 3 years from transfer of old house.**

<u>Amount of deduction</u>

Investment in New asset/ Net sale consideration X LTCG

- **Deduction is revoked if new house is transferred within 3 years from acquisition.**
- **Scheme of deposit is available**

<u>6 Sec 54 G (LT/ST)</u>

CG arising out of transfer of land and building, P& M forming part of industrial transferred for shifting the industrial undertaking from Urban area to rural area.

If following conditions are satisfied

- **New L&B, P& M is acquired within 1 year before or 3 years after from transfer of old assets**

<u>Amount of deduction</u>

CG

or

Amount invested in new assets WEL

- **Deduction is revoked if new assets is transferred within 3 years from acquisition.**
- **Scheme of deposit is available**

6 Sec 54 GA (LT/ST)

CG arising out of transfer of land and building, P & M forming part of industrial transferred for shifting the industrial undertaking from Urban area to SEZ.

If following conditions are satisfied

- **New L&B, P& M is acquired within 1 year before or 3 years after from transfer of old assets**

Amount of deduction

CG

or

Amount invested in new assets WEL

- **Deduction is revoked if new assets is transferred within 3 years from acquisition.**
- **Scheme of deposit is available**

INCOME FROM OTHER SOURCES

It is a residuary head of income which must satisfy the following criteria. Any income which is not taxable under first four heads is taxable under this head.

The following conditions have to be taken into account while taxing any income under this head.

1. There must be an income;
2. Which is NOT exempt under the IT Act 1961;
3. It is not chargeable to tax under the other heads of income viz."Salary","House property","Business or Profession" and 'Capital Gains'.

Income taxable Under the head Income from Other Sources.

Some examples of certain incomes normally taxed under this head are given below:-

- Interest on bank deposits, loans or company deposits,
- Family pension (received by legal heirs of an employee),
- Income from sub-letting of house property by a tenant,
- Ground rent
- Remuneration received from a person other than employer.
- Agricultural income from agricultural land situated outside India,
- Interest received from IT Dept. On delayed refunds,
- Remuneration received by Members of Parliament,
- Casual receipts and receipts of non-recurring nature,
- Insurance commission,
- Examiner-ship fees received by a teacher (not from employer),
- Directors Fees
- Income from royalty,
- Director's commission for standing as guarantor to bankers,

- Winnings from Lotteries,Crossword Puzzles,Horse Races and Card Games, (Casual income) Exempted upto Rs 5,000 in case of Horse Race and 10,000 in case of other Incomes.
- Interest on securities,
- Income from letting out of machinery, plant or furniture,etc.

Deduction U/S 57

Income from this source is computed after deducting the following :-

1. Expenditure incurred during the previous year;
2. Expenditure incurred wholly and exclusively for the purposes of earning the said income;
3. After deducting allowances and deductions provided in sections 57 of the IT Act 1961;

1 Commission or remuneration for realizing the Dividend or interest on securities.

2 Repair, depreciation in case of letting of plant, machinery, furniture , building etc.

3 Standard deduction in case of Family pension.

Rs 15,000 or 1/3 of family pension WEL

4 Any other expenditure incurred wholly and exclusively for earning income which are taxed under this head.

SET-OFF AND CARRY FORWARD OF LOSSES

Set-Off of Losses:

Set-off of losses means setting off losses against income of the same year. The provisions regarding Set-off of losses are as under:

1) **Set-off under the same head (Sec. 70):**

   The loss from one source of income can be set-off against income from other source of income under the same head. It is also known as inter source set-off. However, the following are the exceptions to the above rule – loss from speculation business, long term capital loss, loss from the activity of owning and maintaining race horses, and losses of lottery, gambling, card games, betting etc.

2) **Set-off against income under other heads (Sec. 71):**

   Loss from one head of income can be set-off against income under other head of income is known as inter head set-off. However, the following losses cannot be set-off against income under other heads.

a) Speculation Losses
b) Loss from activity of owning and maintaining racehorses.
c) Loss under the head capital gains.
d) Loss under the head business or profession cannot be set-off against income under the head salaries.
e) Any loss is not allowed to set-off against winning from races, lotteries, etc.

3) **Loss from business or profession :**

   Any loss from business or profession can be set-off against any other income falling under the same head as well as under any other head of income except salaries.

4) **Speculation Loss:**

Losses in respect of Speculation Business can be set-off only against profits and gains from any other speculation business carried on by the assessee.

5) **Losses from activity of owning and maintaining race horses:**

Losses from the activity of owning and maintaining racehorses in any assessment year shall be set-off only against income from owning and maintaining racehorses and not against any other income.

6) **Capital Losses:**

a) Short term capital losses: Such losses can be set-off against any other short term capital gains or long term capital gains only.

b) Long term capital losses: Such losses can be set-off against long term capital gains only.

7) **Losses of Lottery, Crossword Puzzles etc:**

Losses of Lottery, Crossword Puzzles, Gambling, Card Games, Betting, etc. cannot be set-off against any income.

8) **Loss of association of persons:**

The loss of association of persons or body of individuals or a firm cannot be apportioned among the members/partners and the members/partners are not entitled to set-off their share of loss from their personal incomes.

Carry Forward & Set-Off of Losses:

The following losses can be carried forward to be set-off in subsequent years if they cannot be set-off fully in the year in which they occur.

1) **Loss of house property:**

   It can be carried forward for 8 years and it can be set-off only against income from house property.

2) **Losses of business or profession:**

   They can be carried forward for 8 years and can be set-off against any business income. They can be set-off against speculation profit also.

3) **Losses of Speculation Business:**

   They can be carried forward for 4 years and can be set-off against speculation profits only.

4) **Short term capital losses:**

   They can be carried forward for 8 years and can be set-off against short term capital gains or long term capital gains only.

5) **Long term capital losses:**

   They can be carried forward for 8 years and can be set=off against long term capital gains only.

6) **Loss from the activity of owning and maintaining race horses**:

   It can be carried forward for 4 years and can be set-off only against income from owning and maintaining racehorse.

7) **Losses of firms:**

   The firm can carry forward and set-off its losses as discussed under 1 to 5.