



Date: 15th March 2022

**LIVE COACHING CLASSES
BOARD OF STUDIES(A), ICAI**

**CA INTERMEDIATE
TOPIC NAME – HEADS OF INCOME
UNIT 2 – PROFITS AND GAINS OF BUSINESS OR
PROFESSION
PAPER 4: TAXATION
SEC – A: INCOME-TAX LAW**

Faculty Name: CA. Ridhima Bhatia

Section 32 - Depreciation

Carry forward and set off [Section 32(2)]

Current year
depreciation

Unabsorbed
depreciation



B/f business
loss

Section 35 - Expenditure of Scientific Research

Scientific research in the course of business

After commencement of business

Revenue
Expenditure = 100%
deduction

Capital
Expenditure =
100% deduction
(except on land)

Before commencement of business

(ALLOWED IN YEAR OF COMMENCEMENT OF BUSINESS)

Revenue Expenditure = 100%
deduction incurred within 3 years
immediately preceding the
commencement of business

Capital Expenditure
= 100% deduction
(except on land)

ONLY IN RELATION TO SALARY
OF RESEARCH PERSONNEL AND
RAW MATERIAL PURCHASED
FOR SCIENTIFIC RESEARCH

Section 35 - Expenditure of Scientific Research

Scientific research in the course of business (u/s 35(2AB) = 100% of weighted deduction for both revenue and capital expenditure (except in case of land and building****)

Company

Engaged in business of bio technology or in manufacture of any article*

Approved in house research and development facility

Section 35 - Expenditure of Scientific Research

Section	Expenditure incurred/contribution made	Deduction (as % of contribution)
35(1)(i)	Revenue expenditure laid out or expended on <u>scientific research related to the business</u>	100%
35(1)(ii)	Any sum <u>paid to a research association</u> which has as its object the undertaking of scientific research or to a university, college or other institution to be used <u>for scientific research</u>	100%
35(1)(iia)	Any sum <u>paid to approved Indian company for scientific research</u>	100%
35(1)(iii)	Any sum <u>paid to a research association</u> which has as its object the undertaking of research in social science or statistical research or to a university, college or other institution to be used <u>for research in social science or statistical research</u>	100%
35(1)(iv)	Capital expenditure (other than expenditure on acquisition of land) on scientific research related to the business carried on by the assessee	100%
35(2AA)	Any sum <u>paid to National Laboratory or a University or an Indian Institute of Technology</u> or a specified person to be used for scientific research undertaken under a programme approved in this behalf by the prescribed authority	100%
35(2AB)	Company engaged in the <u>business of bio-technology</u> or in any business of manufacture or <u>production of any article or thing</u> , not being an article or thing specified in the list of the Eleventh Schedule incurs any expenditure on scientific research (<i>not being expenditure in the nature of cost of any land or building</i>) on in-house research and development facility as approved by the prescribed authority	100%

Section 35AD - Deduction in respect of expenditure on specified business

100% deduction -

-of any capital expenditure incurred during the PY, wholly and exclusively, for the purposes of any specified business

- Expenditure incurred prior to commencement of operations will be allowed as deduction in year of commencement if the amount is capitalised in the books of account of the assessee on the date of commencement of its operations.

No deduction on –

- expenditure incurred on the acquisition of any land or goodwill or financial instrument
- any expenditure in respect of which the payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account or through such other prescribed electronic mode, exceeds Rs. 10,000

Section 35AD - Deduction in respect of expenditure on specified business

conditions-

- Specified business should be new business
- Plant and machinery should not be used previously for any purpose (upto 20% second hand allowed, imported P&M will be considered new)
- Books of account of the assessee should be audited

Consequences-

- no deduction under section 10AA or chapter VI-A 'Heading C' or under any other provisions
- Loss of specified business can be set off only with profit of specified business only*
- Section 28- Any sum received or receivable on account of any capital asset, in respect of which deduction has been allowed under section 35AD, being demolished, destroyed, discarded or transferred shall be treated as income of the assessee and chargeable to income-tax under the head "Profits and gains of business or profession"

Section 35AD - Deduction in respect of expenditure on specified business

Asset to be used for period of 8 years for specified business-

▪ An asset (in respect of which a deduction is claimed and allowed under section 35AD) shall be used only for the specified business for a period of 8 years beginning with the previous year in which such asset is acquired or constructed

If such asset is used for any purpose other than the specified business, the total amount of deduction so claimed and allowed in any previous year in respect of such **asset (as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction had been allowed under section 35AD)** shall be **deemed to be business income of the assessee of the previous year in which the asset is so used.**

However, this provision will not apply to a company which has become a sick industrial company under section 17(1) of the Sick Industrial Companies (Special Provisions) Act within the time period of 8 years as stated above.

Amortisation of Expenses

Section	Particulars	Other points to note
35D	Amortisation of certain preliminary expenses	<ul style="list-style-type: none"> - Deduction allowed : 1/5th of qualifying limit for each of 5 successive years - OVERALL LIMIT not exceeding preliminary expenses : - For resident non corporate assessee : 5% of the cost of project - For Indian company : 5% of cost of project or 5% of capital employed whichever is higher - Audit is mandatory in the first year
35DDA	Amortisation of expenditure incurred under voluntary retirement scheme	<ul style="list-style-type: none"> - Deduction allowed : 1/5th of the amount so paid for that previous year, and the balance shall be deducted in 4 equal instalments for each of the immediately succeeding PYs



THANK YOU