



RAMA UNIVERSITY

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FACULTY OF COMMERCE AND MANAGEMENT

COURSE: B.COM III SEM.

SUBJECT: Direct Tax Laws and Practice

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LECTURE: 15

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LECTURE-15



INCOME FROM PROFITS AND GAINS OF A BUSINESS OR PROFESSION

Profit and gains of business or profession” is one of the heads of income under the Income Tax Act. For the purpose of ascertaining the tax liability of a taxpayer, the Income Tax Act divides the taxable income of an assessee into five categories or heads of income. Business profits is the third head of income under the Act, after salaries and house property income. This head is used to classify or aggregate income which the taxpayer generates through business or professional activities. While filing an income tax return, the taxpayer must declare the amount of profits and gains of business or profession in case the assessee is having any such income. In this article, we mention the procedure for calculating Profits and Gains of Business or Profession.

List of Incomes Classified under Profits and Gains of Business or Profession

The following incomes will be chargeable to income tax under the head “Profits and gains of business or profession”:

1. Profits and gains of any business which was carried on by the assessee at any time during the financial year
2. Any compensation or other payment due to or received by:
 - Any person in connection with termination/modification of an agreement for managing the whole or substantially the whole of affairs of an Indian company or any other company.
 - Any person holding an agency in India for any part of the activities relating to the business of any other person at or in connection with the termination or modification of the terms of the agency.
 - Any person for or in connection with the vesting in the Government, or in any corporation owned by or controlled by the Government, under any law for the time being imposed, of the management of any property or business.
3. Income derived by trade, professional or similar association from specific services performed for its members. This is an exception to the general principle that a surplus arising to a mutual association cannot be regarded as income chargeable to tax.
4. Export incentives which include:
 - Profits on sales of import licenses granted under Imports (Control) Order on account of exports.
 - Cash assistance, by whatever name called, received or receivable against export.
 - Duty drawbacks of Customs and Central Excise duties.
 - Any profit on the transfer of the Duty Entitlement Pass Book Scheme.
 - Any profit on the transfer of the Duty Free Replenishment Certificate.

5. Value of any benefit or perquisite, whether convertible into money or not, arising during the course of the carrying on of any business or profession.
6. Any interest, salary, bonus, commission or remuneration due to or received by a Partner of a Firm from the firm in which he is a partner.
7. Any sum received or receivable in cash or in kind under an agreement for:
 - Not carrying out activity in relation to any business or profession.
 - Not sharing any know-how, patent, copyright, trademark, license, franchise or any other business or commercial right of similar nature or information or technique likely to assist in the manufacture or processing of goods or services.
8. Any sum received under a Keyman Insurance Policy including the sum allocated by way of bonus on such policy.
9. Any sum whether received or receivable, in cash or kind, on account of any capital asset being demolished, destroyed, discarded or transferred, if the whole of the expenditure on such capital asset has been allowed as a deduction under Section 35AD.