



RAMA UNIVERSITY

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FACULTY OF COMMERCE AND MANAGEMENT

COURSE: B.COM III SEM.

SUBJECT: Direct Tax Laws and Practice

SUBJECT CODE: BCH 302

LECTURE: 18

NAME OF FACULTY: DR. PALASH BAIRAGI

LECTURE-18



PROFITS AND GAINS

- The tax is upon income, profits or gains; it is not a tax on gross receipts.
- The profit of a trade or business is the surplus by which the receipts from the trade or business exceeded the expenditure necessary for the purpose of earning those receipts.
- As accounting year is a self-contained year, taxable profit is the profit accrued or arising in that year. Anticipated or potential profits or losses, which may occur in future, are not considered for arriving at taxable income of a previous year.

Income from illegal business

- The income-tax law is not concerned with the legality or illegality of business or profession. The income of illegal business or profession is not exempt from tax.

Business Loss

- The business losses can be allowed as deduction only if the following conditions are satisfied –
 - The loss should be revenue in nature;
 - The losses should be incurred during the previous year;
 - The loss should be incidental to the business or profession carried on by the assessee;
 - The loss not be notional or fictitious;
 - The loss should have been actually incurred and not merely anticipated to incur in future;and
 - there should not be any, direct or indirect, restriction under the Act against the deductibility of such loss.

Instances of Losses deductible from Business Income

- Loss of stock-in-trade due to destruction by Fire,
- Loss of stock-in-trade by an act of God,
- Loss of stock-in-trade due to theft,

- Loss on account of advances given to employee's welfare co- operative stores which becomes irrecoverable,
- Loss of Cash due to theft,
- Depreciation in funds kept in foreign currency due to exchange fluctuation,
- Loss incurred due to devaluation of rupee in foreign country which is being utilized in course of business,
- Loss due to embezzlement by an employee,
- Loss incurred on account of insolvency of banker with which current account is maintained,
- Loss incurred due to sale of lands acquired from a business- debtor in satisfaction of debt,
- Loss on account of non-recovery of advances given by assessee-company to its 100% subsidiary company,
- Loss arising from sale of securities held in the regular course of business,
- Loss arising due to non-realisation of the loan advanced to the importer,
- Loss of cash and securities in a banking company on account of dacoity,
- Loss incurred due to forfeiture of deposits made for residential accommodation of employees of the assessee- company

Instances of Losses NOT deductible from Business Income

- Loss of advances made for setting up a new business which ultimately could not be started,
- Depreciation of funds kept in foreign currency for capital purpose,
- Loss arising from non-recovery of tax paid by an agent on behalf of the non-resident,
- Anticipated future losses,
- Loss relating to any business or profession discontinued before the commencement of previous year,
- Loss of security deposit made to obtain selling agency,
- Provision made by assessee in respect of non-performing assets