

PGBP- Allowances and Disallowances of Expenses

Section 36, 37 & 43B of
The Income Tax Act, 1961

Sec 43B : Expenses allowed on Payment Basis

Following expenses are allowed only if they are PAID up to the due date of return filing as per Sec. 139(1)

- Any Tax, duty, Cess or fee
- Employer's contribution towards SPF, RPF, Approved Gratuity Fund, Approved Super annuation Fund, New pension scheme, any fund as per Law
- Bonus or Commission to Employees
- Interest on loan to any PFI, State Financial corp, state industrial Investment Corp, Scheduled Banks [scheduled bank include co- operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank

- Interest on any loan or borrowing from a deposit taking non -banking financial Company or systemically important non-deposit taking NBFC.
- Leave encashment to employees
- Any sum payable to indian railways for use of railway assets.
- any sum payable by the assessee to a micro or small enterprise beyond the time limit specified in section 15 of MSME Development Act, 2006

Sec 37: General Deductions

Any expenditure [other than covered u/s 30 to 36] shall be allowed as deduction if following conditions are satisfied:

- Expenses should be incurred wholly or exclusively for the purpose of Business or Profession.
- Expenses should be revenue in nature.
- Expenses should be legal

Important points

- CSR expenses are not allowed.
- No deduction of advertisement in any souvenir, brochure, tract pamphlet of a political party
- Tax audit fees or litigation exp in relation income tax cases- Allowed
- Gift to employee- Allowed
- Penalty – Breach of law – Not Allowed
- Breach of Contract- Allowed

Sec 36: Other Deductions

- Premium paid for insurance of **stocks or stores**.
- Premium paid by Federal Milk Co-op Society for **life of cattles of its members**
- Premium paid for **health** insurance of employees in any mode except cash
- **Bonus or commission** to employees (not dividend or profit) subject to section 43B. There is no restriction on the amount of bonus and it may exceed the bonus payable under the Payment of Bonus Act, 1965
- **Interest on loan**
- **Pro-rata amount of discount** on zero coupon bonds

- Employer's contribution to recognised provident fund, approved superannuation fund, approved gratuity fund (subject to 43B)
- Employer's contribution to Pension scheme referred u/s 80CCD. (subject to 43B)
- Sum received by employer from employee to which sec 2(24)(x) applies, if such sum is deposited before due date of the respective fund under relevant Act (sec 43B not applicable)
- Animals used in business other than stock in trade when they become useless or have died.
Deduction= Cost of animal – carcasses/sale value

Section 36(1)(vii): Bad Debts

- the amount of any bad debt or part thereof which is written off
- Bad debts should be written off in the books of A/c's of Assessee in the P. Y. in which deduction is claimed.
- The debt should have been taken into account for computing income for P.Y. or earlier PY
- Where the amount of such debt has been taken into account in computing the income for PY or earlier PY (on the basis of ICDSs without recording the same in the accounts), such debt shall be allowed in the previous year in which such debt becomes bad and it shall be deemed that such debt has been written off as irrecoverable in the accounts.

Section 36(1)(viiia): Provision of Bad Debts of Banks

- For Indian Banks (other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank)

Amount of deduction $\leq 8.5\%$ of GTI (before this dedn) + 10% of aggregate Avg. Advance made by rural branches

- For Foreign Banks, PFIs, state fin. Corporations, State Industrial Investment Corp., NBFCs

Amount of deduction $\leq 5\%$ of GTI (before this dedn)

- If credit balance of Prov for bad debts account is less than actual bad debts, then remaining bad debts allowed us 36(1)(vii)
- Actual Bad debts should be debited to Prov. for Bad debts A/c
- if the amount ultimately recovered on any such debt or part of debt is less than the difference between the debt or part and the amount so deducted, the deficiency shall be deductible in the previous year in which the ultimate recovery is made (sub section 2)

Section 36: Continued..

- Securities Transaction Tax/Commodities Transaction Tax paid in the course of business and income should be computed under PGBP
- Expenditure incurred by company for promoting family planning amongst its employees

Section 36: Continued..

- any expenditure (not being in the nature of capital expenditure) incurred by a corporation or a body corporate, by whatever name called, if,—
 - it is constituted or established by a Central, State or Provincial Act;
 - such corporation or body corporate, having regard to the objects and purposes of the Act referred to in sub-clause (a), is notified by the Central Government in the Official Gazette for the purposes of this clause; and
 - the expenditure is incurred for the objects and purposes authorised by the Act under which it is constituted or established;

THANKYOU!