

Decode the Concept of Business Under Income tax Act,1961

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Understanding the concept of business under income tax is a cornerstone for CA students, as it forms the foundation for accurate tax computation and compliance. This article provides an in-depth exploration of business income, its classification, and the essential principles for determining whether an activity qualifies as trade, empowering students to navigate the complexities of income tax with confidence."

Definition of Business Under Income Tax

Section 2(13) of the Income Tax Act defines "business" as including any trade, commerce, manufacture, or adventure in the nature of trade, commerce, or manufacture. Essentially, any profit-driven activity can be classified as business income.

Case Studies

Case Study 1: X's Land Development

X inherited 60 acres of land worth ₹100 crores. After plotting and marketing, he sold 12 acres in two years and the balance in the third year. This activity will be classified as business income due to its profit-driven nature.

Case Study 2: Y's Seasonal Sales

Y sells mangoes in May and crackers during Diwali. This activity is classified as business income, as Y aims to earn a profit from these sales.

Case Study 3: Z's Trading Activities

Z engages in intraday buying and selling of shares and Nifty with a transaction turnover of ₹100 crores. This activity can be classified as business due to its volume and profit objective.

Principles for Determining Trade

The Supreme Court's decision in P.M. Mohammed Meerakhan v. CIT (1969) and English decisions outline the following principles:

1. An adventure in the nature of trade need not be a business itself.
2. A single transaction can constitute an adventure in the nature of trade.
3. Each case's facts and circumstances determine whether a transaction is in the nature of trade.

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4. The activity need not be allied to the assessee's existing activity.
5. The activity must be aimed at earning a profit.
6. Assessee intention is significant.
7. The objective of the activity must be profit.
8. Risk analysis is crucial in determining the nature of business.
9. A single or isolated transaction can be considered business.
10. Two parties – buyer and seller – are involved.
11. Income needs to be correctly classified.

G. Venkataswami Naidu & Co. v. CIT (1959): The Supreme Court held that the nature of an activity, including its volume, frequency, and continuity, determines whether it constitutes business.

Janki Ram Bahadur Ram v. CIT (1965): The court held that a single transaction can be considered an adventure in the nature of trade if it is undertaken with the intention of making a profit.

Saroj Kumar Mazumdar v. CIT (1959): The court ruled that the repetition of transactions is not necessary to constitute business, and a single transaction can be considered business if it is part of a larger scheme.

Yum! Restaurants (Marketing) Private Limited v. Commissioner of Income Tax, Delhi 2022: The Supreme Court held that the excess of income over expenditure in the hands of a company is taxable as income from business or profession and not as income from other sources. The court applied the strict interpretation of the doctrine of mutuality and found that the assessee company failed to prove the existence of mutuality with its parent company and franchisees.

Profession vs. Vocation

Classifying a Profession: Key Characteristics and Examples

A profession is a type of occupation that requires specialized knowledge, skills, and training, often accompanied by government licensing or certification. Professions are typically characterized by a high level of expertise, a code of ethics, and a commitment to serving the public interest.

Key Characteristics of a Profession

1. **Specialized Knowledge and Skills:** Professions require a high level of knowledge and skill, often acquired through formal education and training.

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2. Government Licensing or Certification: Many professions require government licensing or certification to practice, ensuring that individuals meet certain standards of competence.
3. Code of Ethics: Professions often have a code of ethics that guides the behavior of practitioners and ensures that they serve the public interest.
4. Commitment to Public Service: Professions are often characterized by a commitment to serving the public interest, rather than solely pursuing personal gain.
5. Accountability: Professionals are often accountable to regulatory bodies, clients, or patients, and may face disciplinary action if they fail to meet certain standards.

Examples of Professions

1. Medicine: Doctors, surgeons, and other medical professionals require specialized knowledge and skills, and are licensed to practice by government authorities.
2. Law: Lawyers and judges require specialized knowledge and skills, and are licensed to practice by government authorities.
3. Chartered Accountancy: Chartered accountants require specialized knowledge and skills in accounting and finance, and are certified by professional bodies.
4. Architecture: Architects require specialized knowledge and skills in design and construction, and are licensed to practice by government authorities.

Distinction from Vocation

A vocation, on the other hand, is a type of occupation that involves personal skill-based activities, such as teaching, carpentry, or singing. While vocations may require specialized knowledge and skills, they often do not require government licensing or certification. Vocations may also be more focused on personal fulfillment and creative expression, rather than serving a specific public interest.

Importance of Classifying a Profession

Classifying a profession is important for several reasons:

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1. Regulation: Professions are often regulated by government authorities, and classification helps to ensure that practitioners meet certain standards of competence.
2. Public Protection: Classification helps to protect the public by ensuring that professionals meet certain standards of knowledge, skill, and ethics.
3. Professional Development: Classification helps to promote professional development by establishing clear standards and expectations for practitioners.

Penal Consequences

Incorrect declaration of the source of income may attract penalty under Section 270A for misreporting, applicable from AY 2017-18.

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