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INCOME-TAX ACT, 2025

D: Profits and gains of business or profession

Section 37 - Certain deductions allowed on actual payment basis only.

(1) The sums payable, as specified in sub-section (2), which are otherwise allowable as a deduction under this Act, shall be allowed as a deduction while computing the income chargeable under section 26 only in the tax year in which such sums are actually paid irrespective of––

(a) any provision to the contrary in this Act; or

(b) method of accounting regularly followed; or

(c) the tax year in which the liability was incurred.

(2) The sums payable for the purposes of sub-section (1), shall be––

(a) tax, duty, cess, surcharge or fee, by whatever named called, levied under any law in force;

(b) contribution of the employer to a provident fund or superannuation fund or gratuity fund or any fund for the welfare of employees;

(c) amount payable by employer *in lieu* of any leave at the credit of the employee;

(d) any sum referred to in section 32(a);

(e) interest on loans or advances or borrowings from specified financial entities as per the terms and conditions of the agreement governing such loans or advances or borrowings;

(f) amount payable to the Indian Railways for use of railway assets; or

(g) amount payable by the assessee to a micro or small enterprise beyond the time limit specified in section 15 of the Micro, Small and Medium Enterprises Development Act, 2006.

(3) In case the amounts specified in sub-section (2), except the sum referred to in clause (g) thereof, are paid after the end of the tax year in which the liability was incurred, but on or before the due date of filing of return of income under section 263(1) for such tax year, the deduction towards such sum shall be allowed in such tax year.

(4) If interest on loans or advances or borrowings specified in sub-section (2)(e) is converted into a loan or advance or debenture or any other instrument by which the liability to pay is deferred to a future date, then it shall not be deemed to have been actually paid.

(5) If a deduction in respect of any sum payable under sub-section (2) has already been allowed in any tax year when such liability was incurred, it shall not be allowed again in any subsequent tax year when it is paid.

(6) The provisions of this section shall not apply to a sum received by the assessee from any employee as contribution towards any of the funds referred to in section 2(49)(o).

(7) For the purposes of this section, “specified financial entities” means a public financial institution or State Financial Corporation or State Industrial Investment Corporation or such class of non-banking financial companies as may be notified by the Central Government or a scheduled bank or a co-operative bank (other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank).

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(8) For the purposes of sub-section (2)(a), “the sum payable” means a sum for which the assessee has incurred liability in the tax year even though such sum might not have been payable within that year under the relevant law.

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