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PRESUMPTIVE TAXATION

OF CERTAIN ELIGIBLE BUSINESSES OR PROFESSIONS UNDER THE INCOME TAX ACT 1961

Income Tax Department

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1. What is presumptive Taxation?

To give relief to small taxpayers from the tedious job of maintenance of books of account and getting the books of account audited, the Income tax Act has framed the Presumptive Taxation Scheme under sections 44AD, 44ADA and 44AE of the Income Tax Act, 1961.

2. Who is eligible for presumptive Taxation?

(i) A person resident in India and engaged in following professions-

a. Legal

b. Medical

c. Engineering

d. Architecture

e. Accountancy

f. Technical consultancy

g. Interior Decoration or

h. Other professions notified by CBDT,

whose gross receipts/turnover during the financial year does not exceed Rs. 50 Lakh (**Sec. 44ADA**)

(ii) Any Person (i.e. an individual, HUF, firm, company, etc) engaged in the business of plying, hiring or leasing of goods carriages and who does not own more than 10 goods vehicles at any time during the year. (**Sec. 44AE**);

(iii) Other resident small taxpayers (individual, HUF and Partnership Firms (LLP is not eligible) whose total turnover or gross receipts during the financial year does not excceed Rs. 2 Crore (**Sec. 44AD**).

Benefit of Sec 44AD cannot be claimed for business/profession mentioned at para 2(i) and 2(ii) above.

3. Persons not eligible for presumptive Taxation u/s 44AD

(i) Non residents;

(ii) Persons who have made any claims towards deductions under section 10A/10AA/10B/10BA or under sections 80HH to 80RRB in the relevant year;

(iii) Agency business ;

(iv) Commission & Brokerage/ Insurance Agents;

(v) Companies & LLPs.

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4. What are the benefits of disclosing income under the Presumptive Taxation Scheme?

(i) No need to maintain books of accounts as prescribed under section 44AA or carry out Income Tax audit of accounts.

(ii) Any person opting for the presumptive taxation scheme is liable to pay whole amount of advance tax on or before 15 March of the previous year. In other words, it is not necessary for such persons to pay due installments of Advance tax on 15th June, 15th of September and 15th of December of the previous year, as applicable to other taxpayers not covered under this scheme.

(iii) Income tax returns (ITRs) can be filed in simpler and shorter form ITR-4 (Sugam).

(iv) Reduces compliance burden and facilitates ease of doing business.

5. How to compute of Income under Presumptive taxation Scheme?

(i) 8% of the turnover or gross receipts of the eligible business during the financial year is deemed to be the total (taxable) income. In order to promote digital transactions and to encourage small unorganized business to accept digital payments, shall be computed at the rate of 6% instead of 8% for turnover/gross receipts which are received by account payee cheque or account payee bank draft or use of electronic clearing system through a bank account during the previous year or before the due date for filing of Return of income.

(ii) 50% of the total gross receipts.

(iii) For heavy goods vehicles-@ Rs. 1,000 per ton of gross vehicle weight for every month or part of a month.

For other vehicles - @ Rs. 7,500 for every month or part of a month.

(iv) The presumptive income computed as per the prescribed rate is the final income and no further deductions/expenditure for business/profession/ income are allowed.

(v) Option to declare income at higher rate than the prescribed rate.

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6. Deductions available under presumptive taxation scheme?

(i) Under the normal provisions of the Income-tax Act, taxable business/professional income will be computed after allowing deduction in respect of expenses which are deductible as per the Income-tax Act.

(ii) However, in the case of a person who is opting for the Presumptive Taxation Scheme, the presumptive income computed as per the prescribed rate is the final income and no further deductions/expenditure for business/profession/ income are allowed. The only exception is for partnership firm, claiming benefits of Presumptive Taxation Scheme under section 44AE, the firm can claim deduction on account of remuneration and interest paid to partners as allowable under Income Tax Act.

(iii) No separate deduction on account of depreciation is available. However, the written down value of any asset used in such business shall be calculated as depreciation as per section 32 is claimed and has been actually allowed.

7. Consequences if a person opts out from the presumptive taxation scheme u/s 44 AD.

If a person opts for presumptive taxation scheme, then he is also required to follow the same scheme for the next 5 years. If he fails to do so , then presumptive taxation scheme will not be available to him for the next 5 years.

Further, he would be required to maintain books of account and he will also or liable for Income Tax audit for the AY in which he opts out from the presumptive taxation scheme, if his total income exceeds the minimum taxable limits.

8. Can a higher or lower income be declared under presumptive taxation?

(i) A person may voluntarily disclose his business income at rates more than those prescribed under section 44AD, 44ADA and 44AE.

(ii) A person can declare his income at a rate lower than those prescribed under section 44AD, 44ADA and 44AE. However, then he is required to maintain the books of account and has to get his accounts audited .

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