

Presumptive Taxation under Income Tax Act

By

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Presumptive Taxation – For Resident & Non Resident

- ❑ **Meaning of presumptive taxation scheme**
- ❑ **As per the Income-tax Act, a person engaged in business or profession is required to maintain regular books of account and further, he has to get his accounts audited. To give relief to small taxpayers from this tedious work, the Income-tax Act has framed the presumptive taxation scheme under sections 44AD, 44ADA and 44AE.**
- ❑ **A person adopting the presumptive taxation scheme can declare income at a prescribed rate and, in turn, is relieved from tedious job of maintenance of books of account and also from getting the accounts audited.**
- ❑ **Sections 44AD, 44ADA & 44AE - Introduced to help small business men, Traders and Professionals**
 - ❖ **i. Section 44AD – Small Business/Traders for Turnover up to Rs. 2 Crores**
 - ❖ **ii. Section 44ADA – Professionals refer to section 44AA(1)– Gross receipts up to Rs. 50 Lakhs**
 - ❖ **iii. Section 44AE – Truck owners owning not more than 10 trucks**

Applicability of ITR – 4 (SUGAM)

Form ITR – 4 (SUGAM) can be used by an individual/HUF/Firm whose total income for the year includes :

- a) Business income computed as per the provisions of section 44AD or 44AE; or
- b) Income from profession computed as per the provisions of section 44ADA; or
- c) Income from salary/pension; or
- d) Income from one house property (excluding cases where loss is brought forward from previous years or losses to be carried forward); or
- e) Income from other sources (excluding winnings from lottery and income from race horses).

Further, in a case where the income of another person like spouse, minor child, etc., is to be clubbed with the income of the taxpayer, this return form can be used where income to be clubbed falls in any of the above categories.

Non-applicability of ITR – 4 (SUGAM)

Form ITR – 4 (SUGAM) cannot be used by a person:

1. Who is a Non-resident or Not Ordinarily Resident
2. Who is a Director of a company
3. Whose total income exceeds Rs. 50 lakhs
4. Who has income from more than one House Property
5. Who has held unlisted equity shares at any time during the previous year
6. Who claims deduction under section 80QQB or 80RRB in respect of royalty from patent or books
7. Who claims deduction under section 10AA or Part-C of Chapter VI-A
8. Who has brought forward loss or losses to be carried forward under any head
9. Person claiming deduction under Section 57 from income taxable under the head 'Other Sources' (other than deduction allowed from family pension)
10. Who wants to claim relief under Sections 90 or 91
11. Who wants to claim credit of tax deducted at source in the hands of any other person.
12. Who has any assets (including Financial Interest in an entity) located outside India.
13. Who has signing authority in any account outside India
14. Who has any income to be apportioned in accordance with provisions of Section 5A

Non applicable of ITR -4

15. Who has any of the following income:

- a) Income from Business or Profession
- b) Capital Gains or Loss
- c) Income taxable under the head 'Other sources' which is taxable at special rate
- d) Dividend income exceeding Rs. 10 lakhs taxable under Section 115BBDA
- e) Unexplained income (i.e., cash credit, unexplained investment, etc.) taxable at 60% under Section 115BBE
- f) Agricultural Income exceeding Rs. 5,000
- g) Income from any source outside India
- h) Income from speculative business and other special incomes.
- i) Income from agency business or commission or brokerage

16. Who has income of the nature specified in section 17(2)(vi) on which tax is payable/deductible under section 192(2) or 192(1C).

In case the assessee keeps and maintains all books of accounts and other documents referred to in section 44AA, and also gets his accounts audited and obtains an audit report as per section 44AB, filling up the Form ITR-4 (Sugam) is not mandatory. In such a case, other regular return forms viz. ITR-3 or ITR-5, as applicable, should be used.

Computation of Business Profit on Presumptive Basis [Sec. 44AD]

For whom the presumptive taxation scheme of section 44AD is designed?

The presumptive taxation scheme of section 44AD is designed to give relief to small taxpayers engaged in any business (except the business of plying, hiring or leasing of goods carriages referred to in section 44AE).

The presumptive taxation scheme of section 44AD can be adopted by following persons :

- 1) Resident Individual
- 2) Resident Hindu Undivided Family
- 3) Resident Partnership Firm (not Limited Liability Partnership Firm)

In other words, the scheme cannot be adopted by a non-resident and by any person other than an individual, a HUF or a partnership firm (not Limited Liability Partnership Firm).

This scheme cannot be adopted by a person who has made any claim towards deductions under section 10A/10AA/10B/10BA or under sections 80HH to 80RRB in the relevant year.

Businesses not covered under the presumptive taxation scheme of section 44AD

The scheme of section 44AD is designed to give relief to small taxpayers engaged in any business, except the following businesses:

- Business of plying, hiring or leasing of goods carriages referred to in section 44AE.
- A person who is carrying on any agency business.
- A person who is earning income in the nature of commission or brokerage

Apart from above discussed businesses, a person carrying on profession as referred to in section 44AA(1) is not eligible for presumptive taxation scheme.

An insurance agent cannot adopt the presumptive taxation scheme of section 44AD

A person who is earning income in the nature of commission or brokerage cannot adopt the presumptive taxation scheme of section 44AD. Insurance agents earn income by way of commission and, hence, they cannot adopt the presumptive taxation scheme of section 44AD.

- ❑ A person engaged in a profession as prescribed under section 44AA(1) cannot adopt the presumptive taxation scheme of section 44AD
- ❑ A person whose total turnover or gross receipts for the year exceed Rs. 2,00,00,000 cannot adopt the presumptive taxation scheme of section 44AD
- ❑ The presumptive taxation scheme of section 44AD can be opted by the eligible persons, if the total turnover or gross receipts from the business do not exceed Rs. 2,00,00,000. In other words, if the total turnover or gross receipt of the business exceeds Rs. 2,00,00,000 then the scheme of section 44AD cannot be adopted.
- ❑ However, if the amount of cash received during the previous year does not exceed 5% of the total turnover or gross receipt of such year then the threshold limit for total turnover or gross receipt shall be taken as Rs. 3,00,00,000 instead of Rs. 2,00,00,000. The receipts through the mode of cheque or a bank draft which is not an account payee, shall be considered a receipt in cash for this purpose. [Applicable w.e.f. Assessment Year 2024-25]

Manner of computation of taxable business income under the normal provisions of the Income-tax Act, i.e., in case of a person not adopting the presumptive taxation scheme of section 44AD

Generally, as per the Income-tax Act, the taxable business income of every person is computed as follows:

Particulars	Amount
Turnover or gross receipts from the business	XXXXXX
Less : Expenses incurred in relation to earning of the income	(XXXXXX)
Taxable Business Income	XXXXXX

Category	Previous limits	Revised limits - FA 2023
Sec 44AD: For small businesses	Rs. 2 crore	Rs. 3 crore*
Sec 44ADA: For professionals like doctors, lawyers, engineers, etc.	Rs. 50 lakh	Rs. 75 lakh*

*The increase in limits is subject to a condition that the 95% of the receipts must be through online modes.



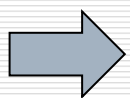
Computation of Business Profit on Presumptive Basis [Sec. 44AD]

Estimated income	<ul style="list-style-type: none">Where amount of turnover or gross receipts is received by an account payee cheque or account payee bank draft or use of ECS or through other prescribed electronic modes during the previous year or before the due date of filing return of income	6% of such turnover or receipts
	<ul style="list-style-type: none">In any other case	8% of such turnover or receipts
	However, a taxpayer can voluntarily declare a higher income in his return.	

Computation of Business Profit on Presumptive Basis [Sec. 44AD]

Notes:

1. **No Deduction in respect of expenses:** The estimated income is comprehensive and no further deductions relating to expenses shall be allowed.
2. **Depreciation:** Depreciation is deemed to have been already allowed. The written down value of asset will be calculated, as if depreciation has been allowed.
3. **Deductions:** The above estimated income is aggregated with other income of the assessee, from any other business or under any other heads of income. Further deduction under chapter VIA (other than those mentioned above) shall be available to the assessee as usual.
4. **Brought forward loss:** Brought forward loss (if any) shall be subtracted from such estimated income as per provisions of this Act.



Restriction on claiming deductions: The assessee has not claimed any deduction u/s 10AA or 80HH to 80RRB in the relevant assessment year.

Payment of advance tax in respect of income from business covered under section 44AD

Any person opting for the presumptive taxation scheme under section 44AD is liable to pay whole amount of advance tax on or before 15th March of the previous year. If he fails to pay the advance tax by 15th March of previous year, he shall be liable to pay interest as per section 234C.

Note: Any amount paid by way of advance tax on or before 31st day of March shall also be treated as advance tax paid during the financial year ending on that day.

Computation of Business Profit on Presumptive Basis [Sec. 44AD]

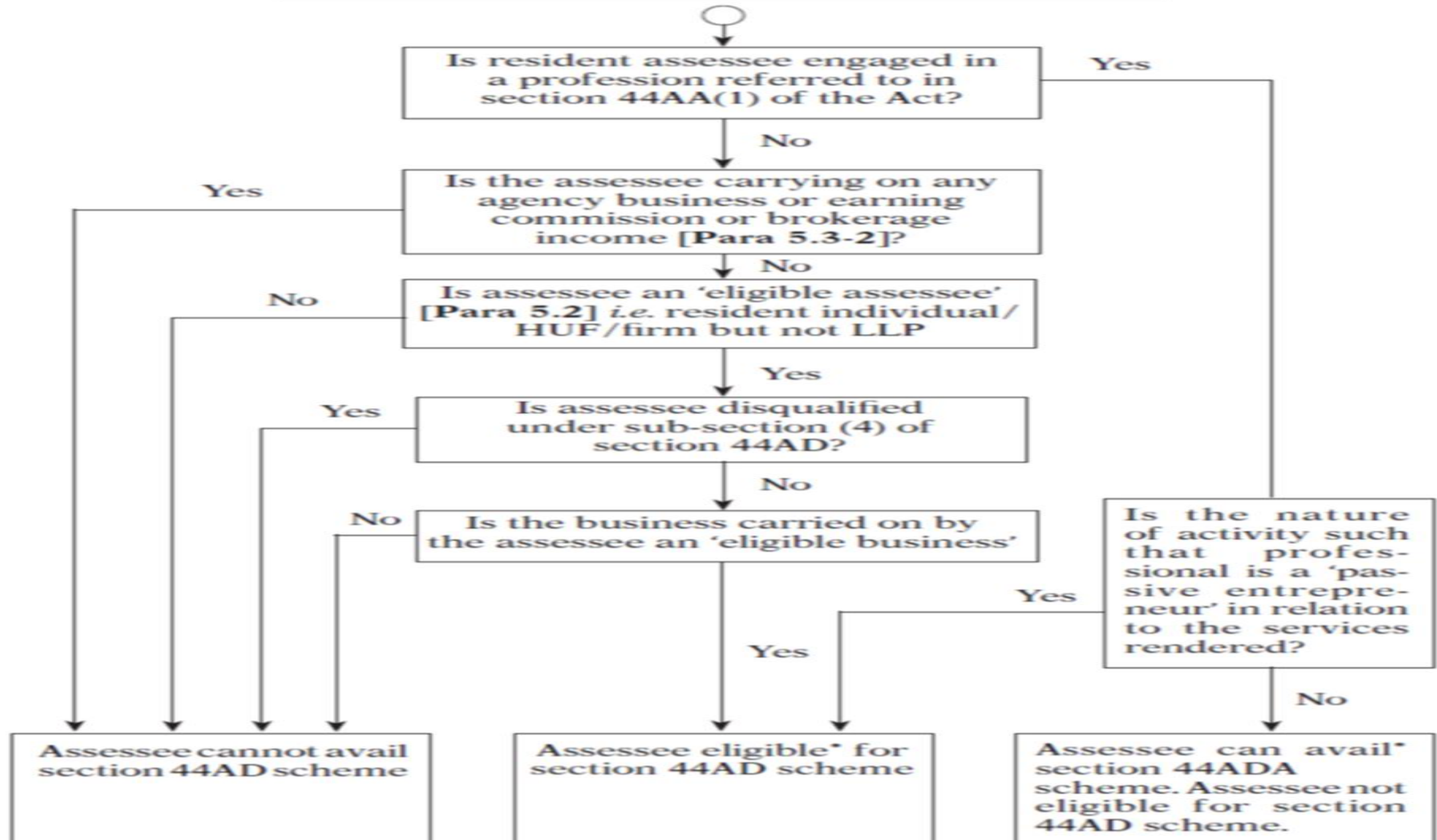
5. **Provision is not applicable [Sec. 44AD(4)]**: Where an eligible assessee:

- a. declares profit for any previous year in accordance with the provisions of this section (i.e., specified percentage of the turnover); &
- b. declares **lower** profit (i.e., less than specified percentage of the turnover) for **any** of the **5 assessment years** relevant to the previous year succeeding aforesaid previous,

then, he shall not be eligible to claim the benefit of the provisions of this section for 5 assessment years subsequent to the assessment year relevant to the previous year in which he has declared lower profit.

E.g. an assessee claims to be taxed on presumptive basis u/s 44AD for A.Y. 2019-20. For A.Y. 2020-21 and 2021-22, he offers income on the basis of presumptive taxation scheme. However, for A.Y. 2022-23, he did not opt for presumptive taxation Scheme. In this case, he will not be eligible to claim benefit of presumptive taxation scheme for next 5 A.Y.s, i.e. from A.Y. 2023-24 to 2027-28.

APPLICABILITY OF SECTION 44AD SCHEME



Computation of Business Profit on Presumptive Basis [Sec. 44AD]

Example:

Let us consider the following particulars relating to a resident individual, Mr. A, being an eligible assessee whose gross receipts do not exceed ₹ 2 crore in any of the assessment years between A.Y.2020-21 to A.Y.2022-23 -

Particulars	A.Y.2020-21	A.Y.2021-22	A.Y.2022-23
Gross receipts (₹)	1,80,00,000	1,90,00,000	2,00,00,000
Income offered for taxation (₹)	14,40,000	15,20,000	10,00,000
% of gross receipts	8%	8%	5%
Offered income as per presumptive taxation scheme u/s 44AD	Yes	Yes	No

In the above case, Mr. A, an eligible assessee, opts for presumptive taxation under section 44AD for A.Y.2020-21 and A.Y.2021-22 and offers income of ₹ 14.40 lakh and ₹ 15.20 lakh on gross receipts of ₹ 1.80 crore and ₹ 1.90 crore, respectively.

However, for A.Y.2022-23, he offers income of only ₹ 10 lakh on turnover of ₹ 2 crore, which amounts to 5% of his gross receipts. He maintains books of account under section 44AA and gets the same audited under section 44AB. Since he has not offered income in accordance with the provisions of section 44AD(1) for five consecutive assessment years, after A.Y. 2020-21, he will not be eligible to claim the benefit of section 44AD for next five assessment years succeeding A.Y.2022-23 i.e., from A.Y.2023-24 to 2027-28.

Computation of Business Profit on Presumptive Basis [Sec. 44AD]

6. **Effect on the assessee if sec. 44AD(4) is applicable:** An assessee to whom provision of sec. 44AD(4) is applicable and whose total income exceeds the maximum amount which is not chargeable to tax (i.e., basic exemption limit), he shall be required:
- To maintain books of account and other documents as required u/s 44AA; and
 - To get his accounts audited and furnish a report of such audit as prescribed u/s 44AB

Computation of Business Profit on Presumptive Basis [Sec. 44AD]

Higher threshold for non-audit of accounts for assessee opting for presumptive taxation under section 44AD: Section 44AB makes it obligatory for every person carrying on business to get his accounts of any previous year audited if his total sales, turnover or gross receipts exceed ₹ 1 crore.

However, if an eligible person opts for presumptive taxation scheme as per section 44AD(1), he shall not be required to get his accounts audited if the total turnover or gross receipts of the relevant previous year does not exceed ₹ 2 crore.

Advance tax: Further, since the threshold limit of presumptive taxation scheme has been enhanced to ₹ 2 crore, the eligible assessee is now required to pay advance tax by 15th March of the financial year.

Computation of Business Profit on Presumptive Basis [Sec. 44AD]

Mr. Praveen engaged in retail trade, reports a turnover of ₹ 1,98,50,000 for the financial year 2019-20. His income from the said business as per books of account is ₹ 13,20,000 computed as per the provisions of Chapter IV-D "Profits and gains from business or Profession" of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y. 2019-20 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation under section 44AD.

- (i) Is Mr. Praveen also eligible to opt for presumptive determination of his income chargeable to tax for the assessment year 2020-21?
- (ii) If so, determine his income from retail trade as per the applicable presumptive provision assuming that whole of the turnover represents cash receipts.
- (iii) In case Mr. Praveen does not opt for presumptive taxation of income from retail trade, what are his obligations under the Income-tax Act, 1961?
- (iii) What is the due date for filing his return of income under both the options?

- (i) Yes. Since his total turnover for the F.Y.2019-20 is below ₹ 200 lakhs, he is eligible to opt for presumptive taxation scheme under section 44AD in respect of his retail trade business.
- (ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be ₹ 15,88,000, being 8% of ₹ 1,98,50,000.
- (iii) Mr. Praveen had declared profit for the previous year 2018-19 in accordance with the presumptive provisions and if he does not opt for presumptive provisions for any of the five consecutive assessment years i.e., A.Y. 2020-21 to A.Y. 2024-25, he would not be eligible to claim the benefit of presumptive taxation for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumptive provisions i.e. if he does not opt for presumptive taxation in say P.Y. 2019-20, then he would not be eligible to claim the benefit of presumptive taxation for A.Y. 2021-22 to A.Y. 2025-26

Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.

- iv) In case he opts for the presumptive taxation scheme under section 44AD, the due date would be 31st July, 2020.

In case he does not opt for presumptive taxation scheme, he is required to get his books of account audited, in which case the due date for filing of return of income would be 30th September, 2020.

Computation of Business Profit on Presumptive Basis [Sec. 44AD]

X Co., a firm, is engaged in the business of trading of cloth (turnover of 2019-20 being ₹ 57,80,000, out of which ₹25,00,000 has been received in account payee cheque). It wants to claim the following deductions:

Particulars	Amount
Salary and interest to partners [as permitted by sec. 40(b)]	60,000
Salary to employees	4,90,000
Depreciation	2,70,000
Cost of materials used	35,90,000
Other expenses	13,45,000
Total	57,55,000
Net profit (₹ 57,80,000 – ₹ 57,55,000)	25,000

Determine the net income of X & Co. for the assessment year 2020-21 assuming that (i) taxable interest income is ₹90,000; (ii) Long term capital gain is ₹ 1,40,000; and (iii) the firm is eligible for a deduction of ₹ 15,000 under sec. 80G.

Solution:

Since turnover from business does not exceed ₹ 2 crore, hence sec. 44AD is applicable. However, income computed as per provision other than provision of sec. 44AD is less than estimated income, hence, the firm may be assessed for such lesser income provided following conditions are satisfied –

- (a) Maintain books of account as prescribed u/s 44AA; and
- (b) Get accounts audited u/s 44AB.

Where it maintains accounts and gets it audited

Computation of total income of X & Co. for the A.Y. 2020-21

Particulars	Amount
Profits and gains of business or profession: Income from cloth business	25,000
Capital gains: Long term capital gain	1,40,000
Income from Other Sources: Interest Income	90,000
Gross Total Income	2,55,000
Less: Deduction u/s 80G	15,000
Total Income	2,40,000

It is assumed that all the expenditures are allowed.

Computation of Business Profit on Presumptive Basis [Sec. 44AD]

Where it does not maintain account or fails to get accounts audited

Computation of total income of X & Co. for the A.Y.2020-21

Particulars	Details	Amount
<u>Profits and gains of business or profession</u>		
<u>Income from cloth business (being 6% of ₹ 25,00,000)</u>	1,50,000	
<u>Income from cloth business (being 8% of ₹ 32,80,000)</u>	2,62,400	4,12,400
<u>Capital gains: Long term capital gain</u>		1,40,000
<u>Income from Other Sources: Interest Income</u>		90,000
<u>Gross Total Income</u>		6,42,400
<u>Less: Deduction u/s 80G</u>		15,000
<u>Total Income</u>		6,27,400

Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2020:

Trading and Profit and Loss Account for the year ended 31.03.2020

Particulars	₹	Particulars	₹
To Opening stock	90,000	By Sales	1,12,11,500
To Purchases	1,10,04,000	By Closing stock	1,86,100
To Gross Profit	3,03,600		-
	1,13,97,600		1,13,97,600
To Salary	60,000	By Gross profit b/d	3,03,600
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing & stationery	23,200		
To Postage & telegram	1,640		
To Loss on sale of shares (Short term)	8,100		
To Other general expenses	7,060		
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:

- It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:
 Opening stock ₹ 9,000
 Closing stock ₹ 18,000
- Salary includes ₹ 10,000 paid to his brother, which is unreasonable to the extent of ₹ 2,000.
- The whole amount of printing and stationery was paid in cash by way of one time payment.
- The depreciation provided in the Profit and Loss Account ₹ 1,05,000 was based on the following information:
 The written down value of plant and machinery is ₹ 4,20,000 as on 01.04.2019. A new plant falling under the same block of depreciation was bought on 01.7.2019 for ₹ 70,000. Two old plants were sold on 1.10.2019 for ₹ 50,000.
- Rent and rates includes GST liability of ₹ 3,400 paid on 7.4.2020.
- Other general expenses include ₹ 2,000 paid as donation to a Public Charitable Trust.

You are required to compute the profits and gains of Mr. Sivam under presumptive taxation under section 44AD and profits and gains as per normal provisions of the Act. Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the previous year.

Computation of business income of Mr. Sivam for the A.Y. 2020-21

Particulars	₹	₹
Net Profit as per profit and loss account		50,000
Add: Inadmissible expenses/ losses		
Under valuation of closing stock	18,000	
Salary paid to brother – unreasonable [Section 40A(2)]	2,000	
Printing and stationery -whole amount of printing & stationery paid in cash would be disallowed, since such amount exceeds ₹ 10,000 [Section 40A(3)]	23,200	
Depreciation (considered separately)	1,05,000	
Short term capital loss on shares	8,100	
Donation to public charitable trust	2,000	1,58,300
		2,08,300
Less: Deductions items:		
Under valuation of opening stock	9,000	
Income from UTI [Exempt under section 10(35)]	2,400	11,400
Business income before depreciation		1,96,900
Less: Depreciation (See Note 1)		66,000
		1,30,900

Computation of business income as per section 44AD -

As per section 44AD, where the amount of turnover is received, *inter alia*, by way of account payee cheque or use of electronic clearing system through bank account or through such other prescribed electronic modes, the presumptive business income would be 6% of turnover, i.e., ₹ 1,12,11,500 × 6 /100 = ₹ 6,72,690

Notes:

1. Calculation of depreciation

Particulars	₹
WDV of the block of plant & machinery as on 1.4.2019	4,20,000
Add : Cost of new plant & machinery	70,000
	4,90,000
Less : Sale proceeds of assets sold	50,000
WDV of the block of plant & machinery as on 31.3.2020	4,40,000
Depreciation @ 15%	66,000
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article.	

- Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible.

Computation of Professional Income on Presumptive Basis – Section 44ADA

Applicable to	Any resident assessee
Conditions	<p>a. Engaged in Profession: Assessee must be engaged in any profession referred to in sec. 44AA (i.e., Legal, medical, engineering, architectural profession or profession of accountancy, technical consultancy, interior decoration, etc.)</p> <p>b. Maximum Receipts: Gross receipts of the assessee in the previous year should not exceed ₹50 lakh. 75 lakhs from 2023-24 FY</p>
Estimated income	50% of the gross receipts. However, a taxpayer can voluntarily declare a higher income in his return.

Eligible persons who can take advantage of the presumptive taxation scheme of section 44ADA

A person resident in India engaged in following professions can take advantage of presumptive taxation scheme of section 44ADA:-

- 1) Legal
- 2) Medical
- 3) Engineering or architectural
- 4) Accountancy
- 5) Technical consultancy
- 6) Interior decoration
- 7) Any other profession as notified by CBDT

A eligible person whose total gross receipts for the year exceed Rs. 50,00,000 cannot adopt the presumptive taxation scheme of section 44ADA

- ❑ The presumptive taxation scheme of section 44ADA can be opted by the eligible persons, if the total gross receipts from the profession do not exceed Rs. 50,00,000. In other words, if the total gross receipt of the profession exceeds Rs. 50,00,000 then the scheme of section 44ADA cannot be adopted.
- ❑ However, if the amount of cash received during the previous year does not exceed 5% of the total gross receipt of such year then the threshold limit for total gross receipt shall be taken as Rs. 75,00,000 instead of Rs. 50,00,000. The receipts through the mode of cheque or a bank draft which is not an account payee, shall be considered a receipt in cash for this purpose. [Applicable w.e.f. Assessment Year 2024-25]

Computation of Professional Income on Presumptive Basis – Section 44ADA

Notes:

1. **Deduction u/s 30 to 38:** The estimated income is comprehensive and no further deductions u/s 30 to 38 shall be allowed.
2. **Depreciation:** Depreciation is deemed to have been already allowed. The written down value of asset will be calculated, as if depreciation has been allowed.
3. **Deductions:** The above estimated income is aggregated with other income of the assessee, from any other business or under any other heads of income. Further deduction under chapter VIA (other than those mentioned above) shall be available to the assessee as usual.
4. **Brought forward loss:** Brought forward loss (if any) shall be subtracted from such estimated income as per provisions of this Act.
5. **Effect if assessee declares lower income:** An assessee can declare his income lower than the estimated income as per provision of this section. In such case he will have to:
 - Maintain books of account and other documents as required u/s 44AA if his total income exceeds the maximum exemption limit; and
 - Get his accounts audited and furnish a report of such audit as prescribed u/s 44AB (*irrespective of amount of turnover or gross receipts*) if his total income exceeds the maximum exemption limit.

Note: Assessee can change his option from year to year

Computation of Professional Income on Presumptive Basis – Section 44ADA

Relief from maintenance of books of accounts and audit: The eligible assessee opting for presumptive taxation scheme will not be required to maintain books of account under section 44AA(1) and get the accounts audited under section 44AB in respect of such income

Option to claim lower profits: An assessee may claim that his profits and gains from the aforesaid profession are lower than the profits and gains deemed to be his income under section 44ADA(1); and if such total income exceeds the maximum amount which is not chargeable to income-tax, he has to maintain books of account under section 44AA and get them audited and furnish a report of such audit under section 44AB.

Advance Tax: Further, since the presumptive taxation regime has been extended for professionals also, the eligible assessee is now required to pay advance tax by 15th March of the financial year.

Computation of Business of Plying , Leasing or Hiring of Goods Carriage [Sec. 44AE]

Applicable to	All assessee engaged in the business of plying, hiring or leasing goods carriage.	
Condition	<p>Number of carriages: Assessee must not own more than 10 goods carriages at any time during the previous year.</p> <p>Owner of carriages includes a buyer under hire purchase or installment system even if the whole amount is unpaid.</p> <p><i>Goods carriage</i> means any motor vehicle constructed or adapted for use solely for the carriage of goods, or any motor vehicle not so constructed or adapted when used for the carriage of goods;</p>	
Estimated income	Income from each goods carriage shall be	
	Type of Goods Carriage	Presumptive Income (Per month or part of a month)
	Heavy	₹ 1,000 per ton of gross vehicle weight or unladen weight
	Other	₹ 7,500
<ol style="list-style-type: none">1. Income shall be calculated from the month when assessee acquired the property whether it has been put to use or not.2. An assessee can declare higher income.		

Computation of Business of Plying , Leasing or Hiring of Goods Carriage [Sec. 44AE]

Meaning of certain terms

S.No	Term	Meaning
(1)	Heavy goods vehicle	any goods carriage, the gross vehicle weight of which exceeds 12,000 kilograms.
(2)	Gross vehicle weight	total weight of the vehicle and load certified and registered by the registering authority as permissible for that vehicle.
(3)	Unladen weight	the weight of a vehicle or trailer including all equipment ordinarily used with the vehicle or trailer when working but excluding the weight of driver or attendant and where alternative parts or bodies are used the unladen weight of the vehicle means the weight of the vehicle with the heaviest such alternative body or part

Computation of Business of Plying , Leasing or Hiring of Goods Carriage [Sec. 44AE]

Notes:

1. **Heavy goods vehicle** means any goods carriage, the gross vehicle weight of which exceeds 12000 kilograms
2. **Deduction u/s 30 to 38:** The estimated income is comprehensive and no further deductions u/s 30 to 38 shall be allowed.
3. **Deduction u/s 40(b):** In the case of a firm, deduction in respect of remuneration and interest to partner u/s 40(b) shall be further deductible from income so computed.
4. **Depreciation:** Depreciation is deemed to have been already allowed. The written down value of asset will be calculated, as if depreciation has been allowed.
5. **Deductions:** The above estimated income is aggregated with other income of the assessee, from any other business or under any other heads of income. Further deduction under chapter VIA shall be available to the assessee as usual.
6. **Brought forward loss:** Brought forward loss (if any) shall be adjusted from such estimated income.

Computation of Business of Plying , Leasing or Hiring of Goods Carriage [Sec. 44AE]

7. **Maintenance of books of account and audit:** An assessee, who estimates income from such business as per section 44AE, or a higher income, is not required to -

- Maintain books of account u/s 44AA; and
- Get his accounts audited u/s 44AB

- in respect of his income from such business.

However, he has to comply with the requirements of both sec. 44AA and 44AB in respect of his other businesses. Further to note that in computing the monetary limits u/s 44AA and 44AB, the gross receipts or income from the said business shall be excluded.

8. **Effect if assessee declares lower income:** An assessee can declare his income lower than the estimated income as per provision of this section. In such case he will have to

- Maintain books of account and other documents as required u/s 44AA; and
- Get his accounts audited and furnish a report of such audit as prescribed u/s 44AB *irrespective of amount of turnover or gross receipts.*

Note: Assessee can change his option from year to year.

Computation of Business of Plying , Leasing or Hiring of Goods Carriage [Sec. 44AE]

Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2019, he owns 10 trucks (out of which 6 are heavy good vehicles of (unladen weight of each is 20 ton)). On 2/5/2019, he sold one of the heavy goods vehicles & purchased a light goods vehicle on 6th May, 2019. This new vehicle could however be put to use only on 15-6-2019.

Compute the total income of Mr. Sukhvinder for the A.Y. 2020-21, taking note of the following data:

Particulars	Amount	Amount
Freight Charges collected		8,70,000
Less: Operational expenses	6,25,000	
Depreciation as per Sec. 32	1,85,000	
Other Office expenses	15,000	8,25,000
Net Profit		45,000
Other business and non-business income		70,000

Solution:

Alternative 1) Direct estimation of income u/s 44AE

Vehicle	No. of vehicle	Details	Amount
Light	4	₹ 7,500 * 4 vehicles * 12 months	3,60,000
Heavy	5	₹ 1,000 * 5 vehicles * 12 months * 20 ton	12,00,000
Heavy	1	₹ 1,000 * 1 vehicle * 2 [#] months * 20 ton	40,000
Light	1	₹ 7,500 * 1 vehicles * 11 [#] months	82,500
<u>Income from business of plying goods carriage</u>			16,82,500
<u>Add: Other business and non-business income</u>			70,000
Total Income			17,52,500

* Income shall be calculated from the month when assessee acquired the property whether it has been put to use or not. For this purpose, any fraction of the month shall be considered as month.

Alternative 2) Computation of income as per the provision of sec. 28 to 38

Particulars	Amount	Amount
Freight charges collected		8,70,000
<u>Less: Expenditure related to business</u>		
Operational expenses	6,25,000	
Depreciation u/s 32	1,85,000	
Other office expenses	15,000	8,25,000
<u>Income from business of plying goods carriage</u>		45,000
<u>Add: Other business and non-business income</u>		70,000
Total Income		1,15,000

Since Mr. Sukhvinder has lower taxable income in alternative 2 hence his total income is ₹ 1,15,000. But to claim such lower income than the estimated income (computed in alternative 1) as per provision of section 44AE, he will have to —

- Maintain books of account as required u/s 44AA; and - Get his accounts audited.

Computation of Business of Plying , Leasing or Hiring of Goods Carriage [Sec. 44AE

Mr. X commenced the business of operating goods vehicles on 1.4.2019. He purchased the following vehicles during the P.Y.2019-20. Compute his income under section 44AE for A.Y.2020-21.

	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04.2019
(2)	6,500	1	15.03.2020
(3)	10,000	3	16.07.2019
(4)	11,000	1	02.01.2020
(5)	15,000	2	29.08.2019
(6)	15,000	1	23.02.2020

Would your answer change if the goods vehicles purchased in April, 2019 were put to use only in July, 2019?

SOLUTION

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2019-20, he is eligible to opt for presumptive taxation scheme under section 44AE. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1) Number of Vehicles	(2) Date of purchase	(3) No. of months for which vehicle is owned	(4) No. of months × No. of vehicles [(1) × (3)]
For Heavy goods vehicle			
2	29.08.2019	8	16
1	23.02.2020	2	2
			18
For goods vehicle other than heavy goods vehicle			
2	10.4.2019	12	24
1	15.3.2020	1	1
3	16.7.2019	9	27
1	02.1.2020	3	3
			55

The presumptive income of Mr. X under section 44AE for A.Y.2020-21 would be - ₹ 6,82,500, i.e., 55 × ₹ 7,500, being for other than heavy goods vehicle + 18 × ₹ 1,000 × 15 ton being for heavy goods vehicle .

The answer would remain the same even if the two vehicles purchased in April, 2019 were put to use only in July, 2019, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

Computation of Business of Plying , Leasing or Hiring of Goods Carriage [Sec. 44AE

Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2019, he owns 10 trucks (out of which 6 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 15,000 kg each). On 2nd May, 2019, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2019. This new vehicle could however be put to use only on 15th June, 2019.

Compute the total income of Mr. Sukhvinder for the assessment year 2020-21, taking note of the following data:

Particulars	₹	₹
Freight charges collected		12,70,000
Less : Operational expenses	6,25,000	
Depreciation as per section 32	1,85,000	
Other office expenses	15,000	8,25,000
Net Profit		4,45,000
Other business and non- business income		70,000

Answer

Section 44AE would apply in the case of Mr. Sukhvinder since he is engaged in the business of plying goods carriages and owns not more than ten goods carriages at any time during the previous year.

Section 44AE provides for computation of business income of such assessee on a presumptive basis. The income shall be deemed to be ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by the assessee in the previous year or such higher sum as declared by the assessee in his return of income.

Mr. Sukhvinder’s business income calculated applying the provisions of section 44AE is ₹ 13,72,500 (See Notes 1 & 2 below) and his total income would be ₹ 14,42,500.

However, as per section 44AE(7), Mr. Sukhvinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 44AA and gets the same audited and furnishes a report of such audit as required under section 44AB. If he does so, then his income for tax purposes from goods carriages would be ₹ 4,45,000 instead of ₹ 13,72,500 and his total income would be ₹ 5,15,000.

Notes:

1. Computation of total income of Mr. Sukhvinder for A.Y. 2020-21

Particulars	Presumptive income ₹	Where books are maintained ₹
Income from business of plying goods carriages [See Note 2 Below]	13,72,500	4,45,000
Other business and non-business income	70,000	70,000
Total Income	14,42,500	5,15,000

2. Calculation of presumptive income as per section 44AE

Type of carriage	No. of months	Rate per ton per month/ per month	Ton	Amount ₹
(1)	(2)		(3)	(4)
Heavy goods vehicle				
1 goods carriage upto 1 st May	2	1,000	15 (15,000/1,000)	30,000
5 goods carriage held throughout the year	12	1,000	15 (15,000/1,000)	9,00,000
Goods vehicle other than heavy goods vehicle				
1 goods carriage from 6 th May	11	7,500	-	82,500
4 goods carriage held throughout the year	12	7,500	-	3,60,000
Total				13,72,500

Summery of Computation of Income from Business – Presumptive Basis

	Particulars	Section 44AD	Section 44ADA	Section 44AE
(1)	Eligible Assessee	Resident individual, HUF or Partnership firm (but not LLP) engaged in eligible business and who has not claimed deduction under section 10AA or Chapter VIA under "C – Deductions in respect of certain incomes"	Resident assessee engaged in any profession specified u/s 44AA(1), namely, legal, medical, engineering, architectural profession or profession of accountancy or technical consultancy or interior decoration or notified profession (authorized representative, film artist, company secretary, profession of information technology)	An assessee owning not more than 10 goods carriages at any time during the P.Y..
		<p>Non-applicability of section 44AD in respect of the following persons:</p> <ul style="list-style-type: none"> - A person carrying on profession specified u/s 44AA(1); - A person earning income in the nature of commission or brokerage; - A person carrying on any agency business. 		

Summary of Computation of Income from Business – Presumptive Basis

	Particulars	Section 44AD	Section 44ADA	Section 44AE
(2)	Eligible business/profession	Any business, other than business referred to in section 44AE, whose total turnover/gross receipts in the P.Y. \leq ₹ 200 lakhs	Any profession specified under section 44AA(1), whose total gross receipts \leq ₹ 50 lakhs in the relevant P.Y.	Business of plying, hiring or leasing goods carriages

Summery of Computation of Income from Business – Presumptive Basis

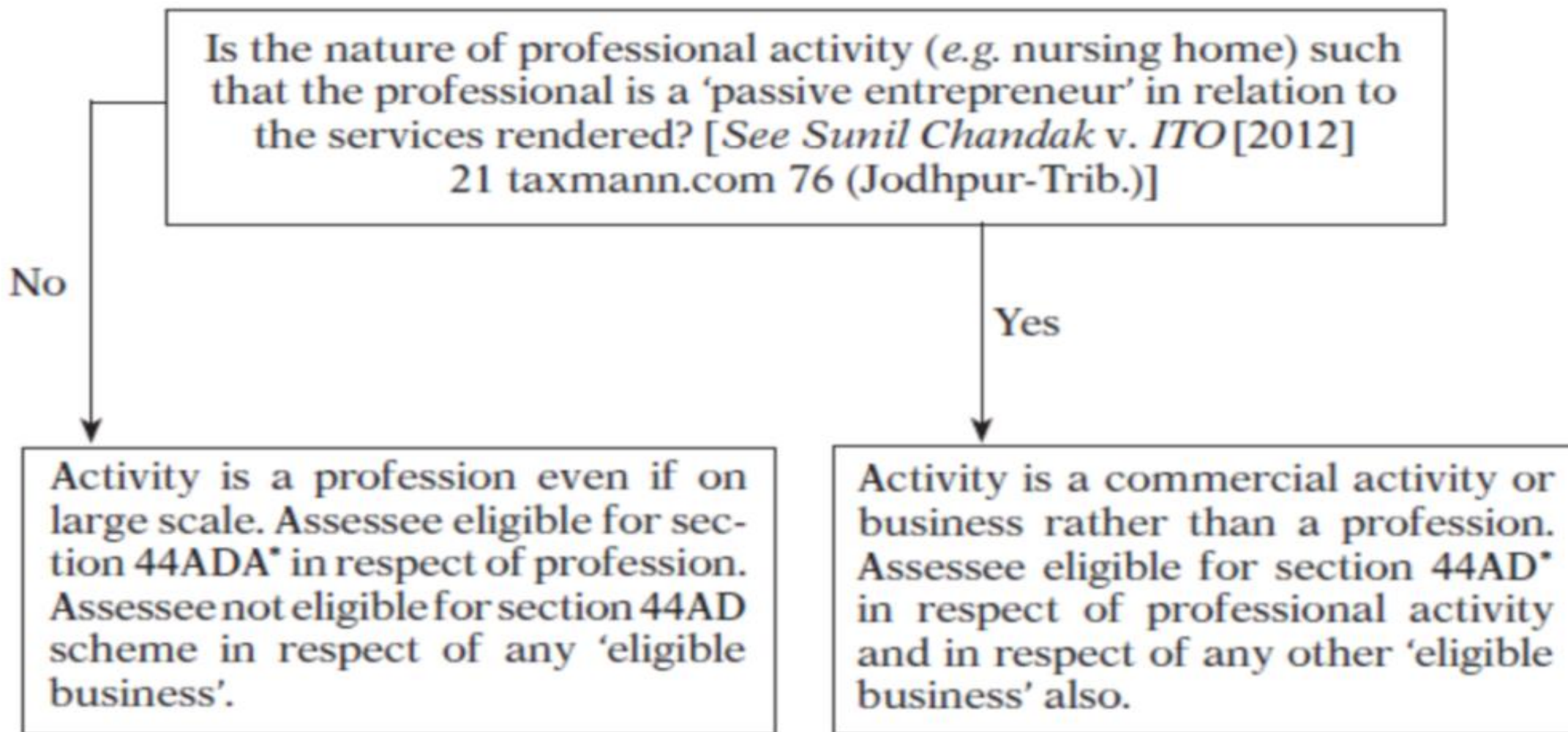
	Particulars	Section 44AD	Section 44ADA	Section 44AE
(3)	Presumptive income	8% of total turnover/sales/gross receipts or a sum higher than the aforesaid sum claimed to have been earned by the assessee. 6% of total turnover/gross	50% of total gross receipts of such profession or a sum higher than the aforesaid sum claimed to have been earned by the assessee.	For each heavy goods vehicle ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, for every month or part of a month
		receipts in respect of the amount of total turnover/sales/gross receipts received by A/c payee cheque/ bank draft/ECS through a bank account or through such other prescribed electronic modes during the P.Y. or before due date of filing of return u/s 139(1) in respect of that P.Y.		and for other than heavy goods vehicle, ₹ 7,500 per month or part of a month during which such vehicle is owned by the assessee or an amount claimed to have been actually earned from such vehicle, whichever is higher.

Summery of Computation of Income from Business – Presumptive Basis

	Particulars	Section 44AD	Section 44ADA	Section 44AE
(4)	Non-allowability of deductions while computing presumptive income	Deductions allowable under sections 30 to 38 shall be deemed to have been given full effect to and no further deduction shall be allowed		
		Even in case of a firm, salary and interest paid to partners is not deductible.	Even in case of a firm, salary and interest paid to partners is not deductible.	In case of a firm, salary and interest paid to partners is deductible subject to the conditions and limits specified in section 40(b)
(5)	Written down value of asset	WDV of any asset of an eligible business/profession shall be deemed to have been calculated as if the eligible assessee had claimed and had been actually allowed depreciation for each of the relevant assessment years		

Summery of Computation of Income from Business – Presumptive Basis

	Particulars	Section 44AD	Section 44ADA	Section 44AE
(6)	Requirement of maintenance of books of account u/s 44AA and audit u/s 44AB	After declaring profits on presumptive basis u/s 44AD, say, for A.Y.2020-21, non-declaration of profits on presumptive basis for any of the 5 successive A.Y.s thereafter (i.e., from A.Y.2021-22 to A.Y.2025-26), say, for A.Y. 2022-23, would disentitle the assessee from claiming profits on presumptive basis for five successive AYs subsequent to the AY relevant to the PY of such non-declaration (i.e., from A.Y.2023-24 to A.Y.2027-28). In such a case, the assessee would have to maintain books of account and other documents u/s 44AA(2) and get his accounts audited u/s 44AB, if his total income exceeds the basic exemption limit in those years.	If the assessee claims his profits to be lower than the profits computed by applying the presumptive rate, he has to maintain books of account and other documents u/s 44AA(1) and get his accounts audited u/s 44AB, if his total income > basic exemption limit for that year.	If the assessee claims his profits to be lower than the profits computed by applying the presumptive rate, he has to maintain books of account u/s 44AA(2) and get his accounts audited u/s 44AB.



*Conditions apply

How to file ITR Offline Mode

<https://www.youtube.com/watch?v=naIvEN0I1WY&list=RDCMUC-le1Uh6DI1oHjVxKck6Hpw&index=3>

How to file ITR-4

<https://www.youtube.com/watch?v=CsK2ynL7ghQ>

☐ **How to e- Verify E- return**

<https://youtu.be/rYN8DK9wiAQ>

☐ **How to down load ITR V**

<https://www.youtube.com/watch?v=ESyb0eIH4ZE>

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- ❑ **How to Make Tax Payment Using E-pay Tax Functionality.**
 - ❑ <https://www.youtube.com/watch?v=jtuoi7FQilc>
 - ❑ **How to Generate EVC**
 - ❑ <https://www.youtube-nocookie.com/embed/eOGHchsdjF8?hl=en#3>
 - ❑ **Co-Browsing Facility**
 - ❑ <https://www.youtube.com/watch?v=wGSnoI66bhU>

Q&A

