



# Presumptive Taxation under Income Tax Act, 1961 India

**Simplified Tax Compliance For Small Businesses, Professionals**

Presumptive taxation is a scheme under the Indian Income Tax Act, 1961, designed to simplify tax compliance for small businesses, professionals, and certain specified taxpayers. Under this scheme, income is presumed at a prescribed rate, and taxpayers are not required to maintain detailed books of accounts.



# Section 44AD – Presumptive Taxation for Businesses

- ◆ **Eligible taxpayers:** Individual, Hindu Undivided Family (HUF), or a Partnership Firm (excluding LLPs).
- ◆ **Eligible businesses: Any business except:**
  - Businesses covered under Section 44AE (transport businesses).
  - Commission-based businesses (e.g., insurance agents).
  - Agency businesses.
- ◆ **Turnover limit:** ₹3 crore (if 95% or more of transactions are digital) otherwise ₹2 crore.
- ◆ **Presumed income:**
  - 8% of total turnover or gross receipts (if cash transactions).
  - 6% of total turnover or gross receipts (if digital transactions).

**Example:** If a business has a turnover of

- ₹1.5 crore, the presumptive income will be:
  - 8% of ₹1.5 crore (if cash transactions) = ₹12 lakh
  - 6% of ₹1.5 crore (if digital transactions) = ₹9 lakh

## B Benefits of Section 44AD

- No need to maintain books of accounts.
- No need for a tax audit (if the scheme is opted).
- Lower compliance burden.
- Ease of tax calculation.

**Restriction:** If the taxpayer opts out of the scheme, they cannot re-enter for the next five years.



# Presumptive Taxation for Futures & Options (F&O) Trading

Futures and Options (F&O) trading is considered a business income under the Income Tax Act, 1961, and traders can opt for the presumptive taxation scheme under Section 44AD, subject to certain conditions.

## Applicability of Presumptive Taxation on F&O Trading

- ◆ **Eligible taxpayers:** Individuals, HUFs, and partnership firms (excluding LLPs).
- ◆ **Eligible turnover:** Up to ₹3 crore (if at least 95% of transactions are digital)  
Otherwise ₹2 crore.
- ◆ **Presumptive income:** Minimum 6% of turnover (since most F&O transactions are digital).

## How to Calculate Turnover for F&O Trading?

Unlike normal businesses, turnover for F&O trading is calculated as:

1. Total of positive and negative differences from trades (sum of absolute profits & losses).
2. Premium received from options trading.
3. Reverse trade differences (difference in buy & sell of the same contract).



# Section 44ADA – Presumptive Taxation for Professionals

## ◆ Eligible taxpayers:

- Resident individuals and Hindu Undivided Families (HUFs).
- Partnership firms
- Companies and LLPs are not eligible.

## ◆ Eligible professionals:

- Legal
- Medical
- Engineering
- Architecture
- Accountancy
- Technical consultancy
- Interior decoration, etc.

## ◆ Eligible Turnover limit: ₹75 lakh.

## ◆ Presumed income: 50% of total gross receipts.

Example: If a professional earns ₹50 lakh in gross receipts, the presumptive income will be: 50% of ₹50 lakh = ₹25 lakh (taxable income).

## Benefits of Section 44ADA

- No need to maintain detailed books of accounts.
- No need for a tax audit.
- Reduced compliance burden.
- Easy tax computation.







## Common Clauses for All Types of Presumptive Income (Under Sections 44AD, 44ADA & 44AE)

### 1. No Requirement to Maintain Books of Accounts

- Taxpayers opting for presumptive taxation do not need to maintain detailed books of accounts as per Section 44AA.
- This applies unless they declare lower income than the presumptive rate and their total income exceeds the basic exemption limit.

### 2. No Tax Audit Requirement

- Taxpayers are not required to get a tax audit under Section 44AB, provided they follow the presumptive scheme rules.
- However, a tax audit is mandatory if income is declared lower than the presumptive rate and total income exceeds the basic exemption limit

### 3. Advance Tax Payment

- Unlike regular businesses that pay advance tax in four installments (15%, 45%, 75%, 100%), presumptive taxpayers must pay the entire advance tax by March 15 in a single installment.

### 4. Restrictions on Deductions

- No separate deductions allowed under Sections 30-38 (e.g., rent, salaries, depreciation, etc.).
- All expenses are deemed included in the presumptive income percentage.

### 5. Five-Year Rule (For Section 44AD Only)

- If a taxpayer opts for Section 44AD but later chooses regular taxation, they cannot re-enter the presumptive scheme for the next five years.
- This restriction does not apply to Section 44ADA (professionals) or 44AE (transporters).

### 6. ITR Filing Requirement

- Taxpayers opting for presumptive taxation must file ITR-4 (Sugam) instead of ITR-3 or other forms.
- If they declare lower income than prescribed and their total income exceeds the basic exemption limit, they must file ITR-3 and maintain proper books.

## Conclusion

Presumptive taxation is beneficial for small taxpayers as it reduces compliance burdens and tax audits.

However, taxpayers should evaluate if actual profits are lower than the presumed income to decide whether to opt for regular taxation.

