



Section – 44AD – Presumptive Taxation

Applicability – This scheme shall be applicable to a resident individual, resident HUF & resident Partnership firm. The Eligible assessee should carry on any business (excluding Business covered U/S 44AE) & the turnover of the business should not exceed Rs 2 crores.

This Scheme is not applicable to:

- LLP firms, AOP/BOI & companies; or
- A person whose turnover exceeds Rs. 2 Crores; or
- A person Carrying on specified business (i.e. Legal, Medical, Engineering, Accountancy, Film artists, Company secretary); or
- A person earning income in the nature of commission or brokerage; or
- A person Desirous of claiming deduction U/S 10AA, 80-IA, 80-IB, 80-IAB, 80-IC, 80-ID, 80-IE, 80JJA, 80JJAA, 80QQB & 80RRB.

Example – Mr. Varun Runs a Factory and has a turnover of Rs 1.4 crores in P.Y. 2018-19. He can adopt the scheme of presumptive taxation under Section 44AD to Avoid a lot of paper work in filing income tax returns. Mr. Varun received all his turnover in cash now as per section 44AD his income will be 8% of 1.4 crores which is Rs. 11,20,000.

Income Computation & Applicable Rates

Rates - PGBP Income shall be deemed to be 6% or 8% of the gross turnover, or any other higher sum as may be declared by the assessee.

- 6% for the portion of gross turnover which has been received by account payee cheque/draft or use of electronic clearance system through bank account till the last date of filing of return of income as specified u/s 139(1) (it would be deemed that all expenses allowable u/s 30 to 38 have already been allowed).
- 8% for the portion of gross turnover which has been received in any other mode.

Example - Mr. Varun Runs a Factory and has a turnover of Rs 1.4 crores in P.Y. 2018-19. He can adopt the scheme of presumptive taxation under Section 44AD to Avoid a lot of paper work in filing income tax returns. Mr. Varun received Rs 40 lakhs a part of his turnover in cash & Rs 1 crore through account payee cheque/draft and Electronic clearance system through bank account. Now as per section 44AD his income will be 8% of Rs 40 Lakhs + 6% of Rs 1 crores i.e. $320000 + 600000 = \text{Rs } 920000$



Deduction of other expenditure

- Any other Expense u/s 30 to 38 is Not Allowed to be deducted. Further, a partnership Firm Is Not allowed to claim Deduction of remuneration to partners as given U/s 40(b).
- Current year depreciation as well as brought forward unabsorbed depreciation are not allowed to be deducted.
- Brought forward losses are Allowed to be set off against presumptive Income.
- Deductions U/s 80C-80U are allowed to be deducted from presumptive income. However, the deductions u/s 10AA, 80-IA, 80-IB, 80-IAB, 80-IC, 80-ID, 80-IE, 80JJA, 80JJAA, 80QQB & 80RRB are not allowed.

Section – 44AD (4)

Where an Eligible assessee declares profit for any year as per section 44AD, he is required to declare his profit for the next five years as per section 44AD.

If an Assessee declares profit for any year as per section 44AD and he doesn't declare profit for any of the next five consecutive years in accordance with the provisions of section 44AD, such assessee cannot claim the benefit of section 44AD for the next five years.

Example - An eligible assessee claims the benefit of section 44AD for PY 2018-19 & declares income of Rs 8 Lakhs on turnover of Rs 1 crore. For PY 2019-20 & PY 2020-21, he again offers income in accordance with provision of section 44AD. However for PY 2021-22, he offers Income of Rs 6 lakhs on a turnover of Rs 1.5 crores(ie less than 8%). Now, the assessee will not be allowed to claim the benefit of section 44AD from PY 2022-23 to PY 2026-27

Liability to Pay Advance Tax

- Where an assessee has opted for the scheme of presumptive taxation given u/s 44AD and the advance tax liability is Rs. 10000 or more, such assessee is required to pay the entire advance tax in one instalment on or before the 15th March of the relevant previous year. (~~Four instalments~~)
- Interest u/s 234C shall be calculated only for the last instalment.
Rate 1% per month
Time period- 1 month
Amount- Advance tax liability (-) tax actually paid till 15th March)
- Interest u/s 234B & 234A shall be calculated in the normal manner.