What is the meaning of presumptive taxation scheme?

As per sections 44AA of the Income-tax Act, 1961, a person engaged in business is required to maintain regular books of account under certain circumstances. To give relief to small taxpayers from this tedious work, the Income-tax Act has framed the presumptive taxation scheme under sections 44AD 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.
For small taxpayers the Income-tax Act has framed two presumptive taxation schemes as given below:
1) The presumptive taxation scheme of sections 44AD.
2)The presumptive taxation scheme of sections 44ADA.
3) The presumptive taxation scheme of sections 44AE.

Who is eligible to take advantage of the presumptive taxation scheme of section 44AD?

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).
Further, 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.

Which businesses are not eligible for presumptive taxation scheme?

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 goods carriages referred to in sections 44AE.
- A person who is carrying on any agency business.
- A person who is earning income in the nature of commission or brokerage
- Any business whose total turnover or gross receipts exceeds two crore rupees.

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

Can an insurance agent 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 44D. Insurance agents earn income by way of commission and, hence, they cannot adopt the presumptive taxation scheme of section 44D.

Can a person engaged in a profession as prescribed under section 44AA(1) adopt the presumptive taxation scheme of section 44AD?

A person who is engaged in any profession as prescribed under section 44AA(1) cannot adopt the presumptive taxation scheme of section 44AD.

However, he can opt for presumptive taxation scheme under section 44ADA and declare 50% of gross receipts of profession as his presumptive income. Presumptive Scheme under section 44ADA is applicable only for resident assessee whose total gross receipts of profession do not exceed fifty lakh rupees.

Can a person whose total turnover or gross receipts for the year exceed Rs. 2,00,00,000 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 the limit prescribed under section 44AB (i.e., 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.

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

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

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

For the purpose of computing taxable business income in the above manner, the taxpayers have to maintain books of account of the business and income will be computed on the basis of the information revealed in the books of account.

What is the manner of computation of taxable business income in case of a person adopting the presumptive taxation scheme of section 44AD?

In case of a person adopting the provisions of section 44AD, income will be computed on presumptive basis, i.e., @ 8% of the turnover or gross receipts of the eligible business for the year.

In other words, in case of a person adopting the provisions of section 44AD, income will not be computed in normal manner as discussed in previous FAQ (i.e., Turnover less Expense) but will be computed @ 8% of the turnover.

Income at higher rate, i.e., higher than 8% can be declared if the actual income is higher than 8%.

As per the presumptive taxation scheme of section 44AD, income of a taxpayer will be computed @ 8% of the turnover or gross receipt and from the income of 8% can the taxpayer claim any further deductions?

Under the normal provisions of the Income-tax Law, taxable business income will be computed after allowing deduction in respect of expenses which are deductible as per the Income-tax Actand after disallowing expenses which are not deductible as per the Income-tax Act.

In case of a person who is opting for the presumptive taxation scheme of section 44AD, the provisions of allowance/disallowances as provided under the Income-tax Law will not apply and income computed at the presumptive rate of 8% will be the final taxable income of the business covered under the presumptive taxation scheme and no further expenses will be allowed or disallowed.

While computing income as per the provisions of section 44AD, separate deduction on account of depreciation is not available, however, the written down value of any asset used in such business shall be calculated as if depreciation as per section 32 is claimed and has been actually allowed.

If a person adopts the presumptive taxation scheme of section 44AD, then is he required to maintain books of account as per section 44AA?

Section 44AA deals with provisions relating to maintenance of books of account by a person engaged in business/profession. Thus, a person engaged in business/profession has to maintain books of account of his business/profession according to the provisions of section 44AA.

In case of a person engaged in a business and opting for the presumptive taxation scheme of section 44AD, the provisions of section 44AA relating to maintenance of books of account will not apply. In other words, if a person adopts the provisions of section 44AD and declares income @ 8% of the turnover, then he is not requiredto maintain the books of account as provided under section 44AA in respect of business covered under the presumptive taxation scheme of section 44AD.

Source: Income Tax India Website

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