17 Estimated Income Scheme

For Businessmen u/s 44 (AD):

With effect from April 1, 10 i.e. from FY 2010-11, the scope of presumptive taxation is extended to all businesses by substituting a new section 44AD. The salient features of the scheme are:

a. The scheme shall be applicable to individuals, HUFs and partnership firms who is resident excluding-
   - Limited liability partnership firms
   - A person earning income in nature of commission or brokerage, or
   - A Person carrying on any agency business
   - An assessee who is availing deductions under sections 10A, 10AA, 10B, 10BA or deduction under any provisions of Chapter VIA under the heading *C-Deductions in respect of certain incomes (80 IA to 80 RRB etc)* in the relevant assessment year.

b. The scheme is applicable for any business (excluding transporters already covered under Sec. 44AE) whose annual gross turnover / receipts does not exceed Rs.2

c. The presumptive rate of income is prescribed at 8% of gross turnover /gross receipts However, assessee may declare higher income in his return and then tax shall be calculated on such income.

   For Professionals (w/s44ADA) resident professional specified u/s 44 AA, whose total gross receipt do not exceed Rs 50lakhs, income from said profession will be computed at 50% gross receipt.

For small professionals u/s 44ADA: Estimated income scheme introduced

Estimate Income scheme for small professionals introduced having gross receipts in a financial year up to Rs. 50 lakh and Income to be estimated at 50% of the gross receipts.

For Transporters u/s 44(AE):

a. This scheme is for those transporters who have maximum 10 goods carriages and are using it for self-business for or saf have given it on lease or on rent during the previous year. From FY 2014-15 for all types of vehicle (heavy/light) the assessment of income shall be done @ Rs. 7500 p.m.(or part of a month) and then tax shall be calculated on such income.

Estimated income scheme is applicable subject to the following conditions :

- An assessee opting for the above scheme shall be exempted from payment of advance tax
- Deductions towards business expenses u/s 30 to 38 shall not be allowed (depreciation, rent, advertisement, interest, repairs etc.)
- Assessee need not maintain any books of Account under section 44AA of the *IT Act;* however the assessee must maintain some basic books such as cash memos /bills, cashbooks etc. which will be necessary to ascertain the amount of turn over / gross receipts.
- In case of partnership firm, deductions are allowed on salary of partners and interest on their capital . u/s 40(b).
- Deductions under provisions of chapter VIA under the heading B Deductions in respect of certain investment / expenditure (Sec 80C to 80GGC) and 80U are allowable.
- If the assessee has any other source of income apart from this business, then it shall be computed separately as per normal provisions, and then aggregated with estimated income and taxed accordingly.
- If the assesses is declaring income less than the above-prescribed rates, then they need to maintain account u/s 44(AA) and audit of the account shall be necessary.
- If needed, assessee can declare higher income than as calculated on presumptive basis as above.

Big Relief for Small Businessman

Under new provisions a business assessee (Proprietorship/ Partnership firms/ HUF) whose total turnover (from one or more business) is up to Rs. 2 crore will now have an option to declare income at 8% of their annual turnover and with better tax planning he can reduce the tax liability to ZERO.:

Example: *Mohanlal is a retailer. In the financial year 2016-17 his gross receipts against sales is Rs. 55 Lakh. He has spent Rs. 24,000 as rent of the shop & Rs. 36,000 on telephone. For tax saving he has invested Rs. 90,000 in PPF & paid Rs. 60,000 towards life insurance premium .Calculate the income tax payable for FY 2016-17?*

Solution: U/s 44(AD) of estimated income scheme:

(i)	Total Income = 8% of total receipts = 55,00,000 x 8%		= Rs.	4,40,000
(ii)	less : Deduction u/s 80C :		=	Rs. (-) 1,50,000
	(PPF 900,000 + LIC 60,000 = 1,50,000)			-------------------
	Total Taxable Income		=	Rs. 2,90,000
(iii)	Tax on Total Income			
	a) Up to 2,50,000	Zero		Zero
	b) Next 20,000	10%	=	4,000
	c) Less: Tax rebate u/s 87A		=	4,000

Formula of Zero Income Tax

When turnover is up to 37.5 Lakh	
1. Gross Total income = 8% of Rs.37.5Lakh	= Rs. 3,00,000
2. Basic Exemption Limit	= Rs. 2,50,000
3. Income tax payable	= Nil (considering tax rebate of Rs.5000 u/s 87A)
When turnover is 81.5 Lakh	
1. Gross Total income = 8% of Rs.81.5 Lakh	= Rs. 6,50,000
2. Less: Deduction towards Investment u/s 80 C	= Rs.1,50,000
3. Less: Interest due on house loan	= Rs.2,00,000
4. Taxable income	= Rs.3,00,000
5. Basic Exemption Limit	= Rs 2,50,000
6. Income tax payable	= Nil (considering tax rebate of Rs.5000 u/s 87A)
When turnover is 100 Lakh/ 1 crore	
1. Gross Total income = 8% of Rs.100 Lakh	= Rs. 8,00,000
2. Less: Deduction towards Investment u/s 80 C	= Rs.1,50,000
2. Less: Interest due on house loan (if any)	= Rs. 2,00,000
3. Less: Interest paid to partner for capital employed (Deduction towards payment of salary to partner, if any, can also be claimed)	= Rs. 1,80,000
5. Taxable income	= Rs. 3,00,000
6. Basic Exemption Limit	= Rs. 2,50,000
7. Income tax payable	= Nil (considering tax rebate of Rs.5000 u/s 87A)