

Easy way out for small business

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For people engaged in small and unorganized business the Income Tax Act has special provisions whereby they can file their income tax returns on estimation basis and are relieved of maintenance of detailed accounts and will also not undergo detailed scrutiny at the hands of the Income tax department.

Major Privileges available for estimating income as per Sec 44AD,44AE and 44AF are as under :

- Assessee covered under these schemes need not maintain books of accounts according to the provisions of section 44AA in respect of business mentioned in respective section. However he should maintain the bill files in order to facilitate the estimation.
- He is not required to get his books of accounts audited under section 44AB in respect of the business mentioned in respective section .
- The tax payers may be an individual, HUF, AOB , BOI, firm, company, co-operative society or any other person. He or it ,may be a resident or non-resident.
- Rates mentioned under respective sections for estimation of income are Comprehensive i.e. All deductions under sections 30 to 38 including depreciation are deemed to have been already allowed and no further deduction is allowed under these sections .However in case of firms ,normal deduction in respect of salary and interest to partners u/s 40(b) shall be allowed.The written down value of assets is calculated where necessary ,as if depreciation as applicable has been allowed.

BUSINESS OF CIVIL CONSTRUCTION OR SUPPLY OF LABOUR FOR CIVIL CONSTRUCTION WORK(SECTION 44AD)

- The expression “civil construction” includes the construction (or repair) of buildings, dams, bridges or other structures, or of roads or canals. It also includes the execution of any other work contract. It thus includes work related to electrical fittings, plumbing job, landscaping work, etc. The taxpayer may be a contractor or sub-contractor.
- Gross receipts from the above business should not exceed Rs. 40 lakhs. Gross receipts are the amount received from the clients for the contract and will not include the value of material supplied by the client.
- The income from the above mentioned business is estimated at 8 per cent of the gross receipts paid or payable to a taxpayer.

BUSINESS OF PLYING,HIRING OR LEASING GOOD CARRIAGES(SECTION 44AE)

- The taxpayers owns not more 10 goods carriages at any time during the previous year. For this purpose, a taxpayer who is in possession of a goods carriage, whether taken on hire purchase or on instalments and for which the whole or part of the amount payable is still due, shall be deemed to be the owner of such goods carriage.
- The Income from the above business is estimated as follows :

Heavy good vehicle : Rs. 3,500 for every month (or part of a month) during which the goods carriage is owned by the taxpayer

Other than heavy good vehicle : Rs. 3,150 for every month (or part of a month) during which the goods carriage is owned by the taxpayer

BUSINESS OF RETAIL TRADE IN ANY GOODS OR MERCHANDISE (SECTION 44AF)

- Total turnover from the above business does not exceed Rs. 40 lakh.
- Income from the above business is estimated at 5% of the total turnover.

After calculating income in accordance with the aforesaid provisions, one has to follow the following steps :-

- The income as calculated above will be aggregated with income of the assessee from any other business or under other heads of income in accordance with the normal provisions of the Income tax Act.
- The brought forward business losses and other losses shall be deducted according to the normal provisions of the Income-tax Act.
- All deductions permissible under section 80CCC to 80U shall be allowed.
- Tax on net income shall be calculated according to the normal provisions and rebate under section 88, 88B, 88C, 88D and 88-E shall be allowed.

NO SCRUTINY

Assessees who are covered under these provisions may never face a scrutiny assessment, mainly because they are exempted from maintaining books of accounts, because of which there is nothing to "scrutinize". However the figure of total turnover/total receipts may be subjected to scrutiny.