



CBDT explains the benefit of the reduction of deemed profit rate under Section 44AD of the Income-tax Act to taxpayers who will accept digital payments

Section 44AD of the Income-tax Act, 1961 (the Act) provides that if taxpayer is engaged in the any eligible business¹ and having a turnover of INR 2 crore or less, its profits are deemed to be 8 per cent of the total turnover or gross receipts.

Recently, the Central Board of Direct Taxes (CBDT) issued a press release² stating that in order to achieve the government's mission of moving towards a less cash economy and to incentivise small traders/businesses to proactively accept payments by digital means, it has been decided to reduce the existing rate of deemed profit of 8 per cent under Section 44AD of the Act to 6 per cent in respect of the amount of total turnover or gross receipts received through banking channels/digital means for the Financial Year (FY) 2016-17.

However, the existing rate of deemed profit of 8 per cent referred to in Section 44AD of the Act, shall continue to apply in respect of the total turnover or gross receipts received in cash. The legislative amendment in this regard shall be carried out through the Finance Bill, 2017.

Now, the CBDT has issued another press release³ to explain the benefits given under Section 44AD of the Act. It is explained that if a trader makes his transactions in cash on a turnover of INR 2 crore, then his income under the presumptive scheme will be presumed to be INR 6 lakhs at the rate of 8 per cent of turnover. After availing of INR 1.5 lakhs of deduction under Section 80C, his total tax liability will be INR 2,67,800. However, if he shifts to 100 per cent digital transactions under the new announcement made, his profit will be presumed to be at INR 12 lakhs at the rate of 6 per cent of turnover, and after availing of INR 1.5 lakhs under Section 80C, his tax liability now will be only INR 1,44,200. As per the press release, digital transactions include payment received by cheque or through any other digital means.

¹ Eligible business means –

(i) any business except the business of plying, hiring or leasing goods carriages referred to in Section 44AE; and
(ii) whose total turnover or gross receipts in the previous year does not exceed an amount of INR 2 crore.

² CBDT Press Release dated 19 December 2016

³ CBDT Press Release dated 20 December 2016

In the following example, the benefit to traders and small businesses is explained in three different scenarios:

Particulars	100% Cash Turnover (INR)	60% Digital Turnover (INR)	100% Digital Turnover (INR)
Total Turnover	2 Crore	2 Core	2 Crore
Cash Turnover	2 Crore	0.80 Crore	NIL
Digital Turnover	NIL	1.2 Crore	2 Crore
Profit on Cash Turnover @ 8%	16 Lakh	6.40 Lakh	NIL
Profit on Digital turnover @ 6%	NIL	7.20 Lakh	12 Lakh
Total Profit	16 Lakh	13.60 Lakh	12 Lakh
Deduction u/s 80C	1.5 Lakh	1.5 Lakh	1.5 Lakh
Taxable Income	14.50 Lakh	12.10 Lakh	10.50 Lakh
Tax Payable	2,67,800	1,93,640	1,44,200
Tax Saving	NIL	74,160	1,23,600

According to the press release, apart from making a tax saving of almost 46 per cent by migrating to the banking mode, small businesses would be able to build their books which may also help them get bank loans easily. Also, if transactions are carried out through banking channels, then anybody having annual turnover upto INR66 lakhs will have zero tax liability after availing the benefit of Section 80C, after amendment of this new rate structure.

Our comments

Recently, the government announced the benefit of lower rate of income-tax on digital turnover for small businesses up to a turnover of INR 2 crore under Section 44AD of the Act. However, the taxpayers needed clarity on this provision (i.e. Section 44AD of the Act) where transactions were partly made in cash and partly through banking channels/digital mode. Now the CBDT in this press release clarified that on partly cash transaction existing rate of deemed profit of 8 per cent referred to in Section 44AD of the Act, shall continue to apply.

The CBDT in this press release has provided an illustration which clarifies that the eligible businessmen under Section 44AD of the Act will get a substantial benefit if they opt for digital/banking mode for a majority of their transactions.

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