**Digitalise the receipts and pay presumptive tax at 6% instead of 8%**

We all are aware of demonetization in our country which is a fight against black money, terror activities etc. After [demonetization](http://www.caclubindia.com/articles/impact-of-demonetization-of-rs-500-and-rs-1000-currency-a-brief-analysis-28228.asp) we are hearing a slogan of creation of less-cash economy and Government of India has taken certain initiatives in this regard. This article talks on one of such initiatives.

We know that as per [section 44AD of the Income-tax Act, 1961](http://www.caclubindia.com/articles/section-44-ad-of-income-tax-act-17916.asp) the profit is deemed to be 8% of the total turnover in case of taxpayer (being individual, HUF or a partnership firm other than LLP) carrying on any business (other than transportation, agency, brokerage and commission) and having the turnover not more than two core.

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% under section 44AD of the Act to 6% in respect of the amount of total turnover or gross receipts received through banking channel / digital means for the financial year 2016-17. However, the existing rate of deemed profit of 8% referred to in section 44AD of the Act, shall continue to apply in respect of total turnover or gross receipts received in cash.

(Legislative amendment in this regard shall be carried out through the Finance Bill, 2017)

Above mentioned are the measures for promoting digital payments & creation of [less-cash economy](http://www.caclubindia.com/articles/yes-india-can-have-less-cash-economy-28408.asp). It provides appreciable benefit to traders and small businesses and the same is explained as follows:

Let us assume the 3 different scenarios as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **100% Cash Turnover (Rs.)** | **50% Cash Turnover (Rs.)** | **0% Cash Turnover (Rs.)** |
| Total Turnover | 2,00,00,000 | 2,00,00,000 | 2,00,00,000 |
| Cash Turnover | 2,00,00,000 | 1,00,00,000 | Nil |
| Digital Turnover | Nil | 1,00,00,000 | 2,00,00,000 |
| Profit on Cash Turnover @ 8% | 16,00,000 | 8,00,000 | Nil |
| Profit on Digital turnover @ 6% | Nil | 6,00,000 | 12,00,000 |
| Total Profit | 16,00,000 | 14,00,000 | 12,00,000 |
| Deduction u/s 80C | 1,50,000 | 1,50,000 | 1,50,000 |
| Taxable Income | 14,50,000 | 12,50,000 | 10,50,000 |
| Tax Payable | 2,67,800 | 2,06,000 | 1,44,200 |
| **Tax Saving** | **Nil** | **61,800** | **1,23,600** |

**In the above table we can observe the following:**

- When the businessmen make the entire transaction in cash [i.e., all receipts from sale is through cash], his income is presumed to be 16 lakhs being 8% of 2 crore, under section 44AD.His taxable liability would be 2,67,800 after availing the deduction of 1,50,000 under [section 80C](http://www.caclubindia.com/articles/section-80c-deduction-as-per-income-tax-act-21161.asp).

- However, if he make the entire transaction in digital mode as per new announcement [i.e., all receipts from sale is through Cheque or through any other digital means], his income is presumed to be 12 lakhs being 6% of 2 crore, under section 44AD. His taxable liability would be 1,44,200 after availing the deduction of 1,50,000 under section 80C.

- So we can conclude that when the trader and small businessmen who is opting for presumptive taxation scheme under section 44AD, shifts from cash transaction to digital transaction [here, digital transaction includes payment received by Cheque or through any other digital means], he can save almost 46% of tax [1,23,600 \* 100 / 2,67,800].

Government move towards the less- cash economy is appreciable in the best interest of the country. But we know that implantation of less-cash economy is not an easy task; it requires the people participation at large. To the extent possible, traders can adopt the digital made of transaction not only for the purpose of tax savings but also to serve the purpose of less-cash economy.

Let’s wait for Finance Bill, 2017 for ensuring actual implementation of amendments as mentioned above.

**Source: CA Club India**