

A Study of Presumptive Taxation under Income Tax 1961-A case study of trading concerns in Pune and Pimpri Chinchwad area

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“ABSTRACT”

“Taxes play a vital role in the development of the country. There are two types of taxes direct tax and Indirect tax. Income tax is a direct tax. It is imposed on income of the persons. Therefore it plays very important role. Presumptive Tax is a one type of Income tax. It is calculated on the basis of turnover of the Assessee. The aim of this taxation is to increase tax base and increase in the number of tax payers. It also helps to the government to reduce compliance cost and administration cost. The researcher has studied the concept of presumptive taxation under The Income tax Act, 1961. The researcher has studied and found out how the presumptive tax provisions are tax friendly on various parameters to the Assessee.”

Introduction:

Government of India has to play an important role in all round development of society in the modern era. It has not only to perform its traditional functions (defence, maintenance of law and order) but also to undertake welfare and development activities such as health, education, sanitation, rural development, water supply etc. It has also to pay for its own administration. All these functions require huge public finance.

India is a developing country. Indian economy is based on agriculture which is dependent on monsoon. Due to the unpredictability of the monsoons agriculture suffered and slowly people started moving towards industrialization. Post independence, eradication of poverty was given utmost importance in the economic planning. But even after all the planning the country still faces the problem of poverty. For the economic growth and sustainability, India needs to concentrate more on education of the citizens and eradication of poverty. Indian economy is based on agriculture sector and service sector. The Government collects revenue by imposing different taxes and charges. Both the Central and State Governments collect charges and taxes from the public. The taxation structure in India is classified into two parts i.e. direct tax and indirect tax. Two different boards i.e. CBDT (Central Board of Direct Taxes) and CBIDT (Central Board of Indirect Taxes) help the Ministry of Finance to prepare

tax laws and also to implement the tax laws regarding collection and administration of taxes from the people of India.

There are two types of taxes in India, known as Direct and Indirect Taxes. Direct taxes are those taxes in which the burden of payment of taxes is own the person who is liable to pay the Tax. But in case of Indirect taxes, the burden of payment of taxes goes to another Person so that, the Dealer is not required to pay taxes in case of indirect taxes. A direct tax includes Income Tax, Wealth Tax and Gift Tax. Indirect Taxes include Excise Duty, Custom Duty, Sales tax, Octroi, Service tax, MVAT etc.

Income tax Act has introduced presumptive tax provisions in 2001. These provisions are applicable to small Trading and Transport concerns which have certain limit of turnover or receipt. As discussed in chapter I, different amendments have been introduced time to time by Finance Act.

STATEMENT OF PROBLEM:

The researcher wants to finding out the following things:

1. Provisions of presumptive taxation under the existing Income Tax Act, 1961 and different amendments.
2. Understanding the relevance, importance, significance of Presumptive Taxation Provisions for trading concerns under the Income Tax Act 1961.
3. Problems faced by assesseees regarding Presumptive Taxation Procedure.

NEED OF THE STUDY:

This study examines the changes made under Presumptive Taxation under the Income Tax Act, so it is relevant to Trading business Assesseees. Understanding the provisions of the Act the Assesseees can figure out how to maximize tax efficiency in their effort to meet them. This study helps to guide the assesseees how the law is tax friendly on various parameters and problems faced by the stakeholders. The study is also relevant to know the various approach of the Income Tax act, 1961 regarding presumptive tax provisions.

OBJECTIVES OF THE STUDY:

1. To study the provisions of Presumptive Taxation under the Income Tax Act 1961.

2. To understand the relevance and importance of Presumptive Taxation Provisions for trading concerns under the Income Tax Act 1961.
3. To study the provisions of maintenance of accounting system under the Presumptive Taxation Provisions.
4. To study the problems faced by Assessee regarding Presumptive Taxation Procedure.

RESEARCH PREMISE and STATEMENT OF HYPOTHESES:

The Presumptive Taxation is tax friendly and easy on following parameters and there are many problems faced by presumptive tax payers.

- a) Procedures of assessment and tax collection
- b) Maintenance of accounting System
- c) Filing of the Income tax returns.

On the basis of research premise the statistical Statements of hypotheses are as follows:

Hypothesis 1:

H₁: There is a significant impact of presumptive taxation provision on tax planning

Hypothesis 2:

H₁: There is a significant impact of presumptive taxation provisions on maintenance of books of accounts

Hypothesis 3:

H₁: There is a significant difference in the opinion of respondents regarding friendliness and easiness of presumptive taxation provision

Hypothesis 4:

H₁: There is a significant difference in the problems and benefits faced by the assessee under presumptive taxation provisions

Hypothesis 5:

H₁: There is a significant difference in the opinion of respondents regarding presumptive taxation assessment and procedures

LIMITATIONS OF THE STUDY:

The following are the limitations of the research study.

1. The study is restricted to Pune and Pimpri Chinchwad area only.
2. Only selective trading concerns are considered for the study.
3. Only those filing return under Section 44AD have been considered for the study

RESEARCH METHODOLOGY:

a) Research Design:

As per views of various experts and authors, analytical research, uses facts or information already available, and analyse them to make a critical evaluation of the material. While descriptive research, also known as statistical research, describes data and characteristics about the population or phenomenon being studied, descriptive research answers the questions i.e. who, what, where, when and how. Thus, on the basis of the above, researcher has used the tools which were appropriate for the study. This study is related to presumptive tax provisions. The following table no. 1 will explain the research design used for the study.

Table No. 1: Research Design

Research Design	Research Methodology	Details
Type of Research	Descriptive Research	It is concerned with condition, practices, structures, differences, or relationships that exist, opinions held, processes that are going on or trends that are evident.
	Analytical Research	It involves the identification and interpretation of data already existing in documents, pictures and arte facts.
Nature of the Study	Quantitative Study	Focuses on measurement and proof, based on scientific approach
Data Collection Approach	i) Primary Data	Questionnaire Method, Formal and Informal Discussion

	ii) Secondary Data	Related Published Books, Magazine, News Paper Articles, Journals, Published Report Articles and Manuals, Related web sites
Interview Type	Formal and Informal interviews and discussions	Verbal questioning for gaining relevant information related to research study
Measurement Technique	Questionnaire Design	Questionnaire 1: For Presumptive Tax Payers Opinion Survey: Questionnaire 2: For Tax Practitioners Questionnaire 3: For Office Bearers of Income Tax Department
Sampling	Population size	Population = 1880* (Presumptive Tax Payers)
	Sample Size	Presumptive tax payers Opinion Survey Tax Practitioner Office Bearers of Income Tax Department
Analysis of Data	Software, Statistical Tests and Statistical Tools	SPSS package used (Mean, Percentage Analysis)
Testing of Hypotheses	Statistical Tools	Correlation, Z test, Test of Reliability, Test of Normality
Presentation of Thesis	Software used	MS Word, MS Excel

[(Source: Field Work) (*Source: <https://incometaxindiaefiling.gov.in/>)]

FINDINGS OF THE STUDY:

The summary of major findings is based on the analysis, presentation and interpretation of data collected. The data for the research study was collected through questionnaire, interviews and formal and informal discussions. The important findings are presented below.

1. Findings of Presumptive Tax Payers:

1. Even though it is not compulsory to maintain the books of accounts 78.4 percent of the respondents always maintained their books of accounts.
2. The books of accounts of 58.4 percent of the presumptive tax payers were maintained by their chartered accountants.
3. The presumptive tax payers maintained cashbook (91.6 percent), ledger (92.2 percent), vouchers (77.8 percent), purchase book (99.4 percent) and sales book (97.5 percent). They did not maintain petty cash book (91.6 percent) and duplicate copies of bills (98.1 percent).
4. 85.4 percent of presumptive tax payers think that there is a high impact of PTP on maintenance of books of accounts and out of that 66.3 percent say that there is a very high impact.
5. The presumptive tax payers have strongly agreed that accounting is easier under PTP (80.9 percent), accounting under PTP is less time consuming (80.9 percent), document compliance is easier under PTP (80.6 percent) and maintenance of books of accounts is not compulsory under PTP (78.8 percent). The respondents have agreed that maintenance of detailed bills is not necessary (83.4 percent) and true profit is not disclosed due to PTP (79.1 percent).
6. Most of the respondents i.e. 97.5 percent file their income tax return regularly.
7. Around 3/5th of the respondents i.e. 58.8 percent file their return through chartered accountants.
8. Majority of the respondents i.e. 85 percent were only somewhat aware of the presumptive taxation provisions under the income tax act.
9. More than 3/5th of the respondents have been filing their IT return for a period of 3 to 6 years.
10. Majority of the respondents i.e. 93.8 percent were only somewhat aware of the due dates for filing of returns.
11. 96.9 percent of the respondents filed their IT return through electronic mode (online).

12. The respondents strongly agreed that the ITR form under PTP is simple and easy to fill (81.3 percent), submission of IT return under PTP is easy (80.9 percent) and the filing of IT return under PTP is annexure less (80.9 percent). But the respondents disagreed on the Statement that, the assesses do not have to depend on consultants for filing of return.
13. In more than 3/5th of the cases i.e. 60.9 percent cases the chartered accountants do the work of payment of tax to the Government.
14. Regarding the payment of tax under PTP the respondents strongly agreed that due to PTP the amount of tax has reduced (80.9 percent), the procedure of payment of tax is simple and easy under PTP (89.1 percent) and calculation and payment of advance tax is not a compulsion under PTP (55.6 percent). The respondents strongly disagreed on the Statement that the Assessee can himself calculate the tax to be paid under PTP since it is easy to calculate (66.9 percent).
15. In majority of the cases i.e. 96.9 percent of the cases the respondents have not received any notice regarding scrutiny of the return filed under PTP.
16. Regarding the assessment and procedures under the PTP the respondents strongly agreed that the assessment of tax return under PTP is easier than normal assessment of tax under other procedures (80.9 percent), there are less scrutiny cases in the case of return filed under PTP when compared with other procedures (80.3 percent) and refund of tax is easier under PTP (79.7 percent).
17. With respect to the friendliness and easiness of PTP the respondents said that the maintenance of books of accounts under PTP is not at all difficult (83.4 percent), procedure of filing of return under PTP is not at all difficult (83.1percent), assessment procedures under PTP is not at all difficult (84.1 percent) and the interest provisions under PTP is also not at all difficult (72.8 percent). Also the respondents said that the payment of tax under PTP is not difficult (95.3percent). Overall it can be said that the PTP is friendly and easy.
18. The problems of the provisions for presumptive taxation are that the visits to the consultants and chartered accountants has not reduced due to PTP (59.4percent) and there is need for tax planning while filing return under PTP (81.3 percent). The benefits of provisions for presumptive taxation are that the consultancy fees has reduced due to PTP since it is an uncomplicated process (83.4percent), there is an increase in the number of tax payers due to PTP (85.7 percent), tax evasion is easy under PTP (94.1 percent), the Government revenue from income tax has increased

due to PTP (98.1 percent) and PTP is the best solution for the tax payers who come under the purview of PTP (98.7 percent).

SUGGESTIONS and RECOMMENDATIONS:

Any research study has its own findings. On the basis of findings certain conclusions are derived. The researcher has given some suggestions on basis of such findings, experiences and observations.

1. The rate of declaration of income must be different for different type of dealers for example wholesalers, retailers, labour contractors etc.
2. The concept of gross turnover in presumptive tax must be properly elaborated i.e. the inclusions and exclusions must be clearly specified.
3. The income tax return filing form under PTP must be in a single page format so that it will be easier for assesseees to file their return.
4. The PTP should be applicable to all assesseees except cooperative credit societies, housing societies, banks etc.
5. The consumer co-operative societies should be brought under the purview of PTP.
6. The scheme should also cover all Small Scale Industries and Small and Medium Enterprises registered with the District Industrial Centres.
7. Agriculture oriented businesses like poultry farming, goat farming, fish farming, pig farming, milk business etc. should also be covered under the scheme.
8. The Government must take steps to create more awareness regarding the provisions of Presumptive Taxation so that tax evasion and tax avoidance can be reduced. Also the rural assesseees are not much aware of the PTP and hence the Government must take steps to ensure that the rural assesseees are made aware of the presumptive taxation provisions.
9. The Government must take efforts to remind the presumptive tax payers about their obligation to pay their income tax through various types of media like radio, television, newspapers, internet, SMS on phones etc. The Government must also conduct workshops, seminars, programmes etc. to increase the public awareness regarding PTP at local, district, State and national levels.
10. As per the existing presumptive taxation provisions depreciation, purchases of goods, purchase of fixed assets, land and building etc. are not covered. Such income and expenditure need to be included in the PTP.

11. The payment of advance tax under PTP should be made compulsory. As per the amendment made in the financial budget of 2016, the advance tax has been made compulsory with effect from the assessment year 2017-18. It should not be applicable.
12. In order to increase the tax coverage the Government must increase the coverage of PTP from the maximum income limit of 2 crores to 5 crores. In the past three –four years the Government has been taking steps to increase the number of tax payers. The PTP taxation system can help in improving the number of tax payers as well as the tax collections.
13. Under the PTP the maintenance of books of accounts is not compulsory. But with respect to the other taxes like service tax, VAT, excise etc. there is compulsion of maintaining books of accounts. There is no synchronization among the taxation provisions since one does not require maintenance of books of accounts while the other does require the maintenance of books of accounts. So invariably the assessee has to maintain the books of accounts. The Government must take steps to relieve the PTP assessees from the dilemma of whether to maintain the books of accounts or not. They can either make maintenance of books of accounts compulsory under PTP or relax the rule of maintenance of books of accounts under the other taxes.
14. The cost of maintenance of books of accounts should be allowed as expenditure under PTP.
15. Business invariably runs on loans. The assessees under the PTP do not require maintenance of books of accounts and hence they do not prepare P&L account and Balance Sheet etc. In such cases it becomes difficult for such assessees to avail loan facility from banks since the banks require the financial Statements in order to process the loans. Hence the Government must make provisions to provide loans based on the IT return filed by the assessees.
16. In order to increase the voluntary compliance no scrutiny should be imposed on the assessees filing return under PTP.
17. The Government should frame the policy of treatment of export turnover under the PTP scheme.
18. The PTP should not violate the principle of horizontal equality which means that the businesses of same characteristics need to be taxed similarly.
19. The proposed GST would be expected to expand the tax base and simplify the taxation system at all levels. The PTP compliance will increase the tax base in the GST regime.

20. The Government can appoint a commission agent to find out whether the PTP Assessee has filed his return or not.
21. The Government can also introduce amnesty scheme for small and medium tax payer under PTP. This will increase the tax collection.
22. The effective tax rate under PTP should be reduced so that the coverage of the PTP can be increased and indirectly the Government revenue will increase.
23. The provisions under Presumptive Taxation should be simplified in line with the other requirements of the act.
24. Effective administration and implementation of the act should be done.
25. The punishment for the tax evaders must be strengthened.
26. Promotional schemes should be introduced for those assesseees who file their return under PTP regularly and sincerely.

SCOPE FOR FURTHER RESEARCH:

1. An industry wise study of the Presumptive Taxation Provisions and its impact can be done.
2. A separate study can be done with respect to section 44AE under PTP can be done.
3. The legal decisions and implications regarding PTP can be studied in detail.
4. It is possible to do further study of presumptive tax payers only Trading Business of single category like Automobile, electrical, Hardware, Medicals, Medicine etc.
5. Study of presumptive Tax payers like Civil Contractors, Labour Contractors etc.
6. Comparative study of Indian presumptive tax payers with any other country or countries in the world.
7. Study of presumptive Tax payers under Wholesale category Business Only.
8. Study of presumptive Tax payers under Retail category Business Only.
9. Study of presumptive Tax payers Individuals, Partnership firms and HUF, in each category separately.
10. Study of presumptive Tax payers As Professionals like Doctors, Advocate, Chartered accounts, Cost accountants, Company secretary, architects, Engineers etc, in each category separately.(as amended by finance Act 2016)
11. Study of presumptive Tax payers As all types of transporters under section 44 AE of the Income Tax Act, 1961.
12. Study of presumptive Tax payers based on agriculture Business like Poultry farming, fish farming, Goat farming, Pig farming Nursery etc.

13. Study of presumptive tax payers under indirect taxes.

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