

# Presumptive Tax on Small Enterprise

## 1. Provision governing Presumptive Tax on Small Enterprise

Presumptive Tax on Small Enterprise is governed by Sub-Part BD of Part VIII of the Income Tax act.

## 2. Operation of the Presumptive Tax System

Under the presumptive tax system, an eligible small enterprise pays tax at the rate of 1% of his gross income. He is not entitled to claim any deduction, Income Exemption Threshold, relief or allowance under Sub - parts B, C, D or E of Part III or Sub-part C of Part IV of the Income Tax act.

## 3. Eligibility to the Presumptive Tax System

The presumptive tax system is available to a person who satisfies the following criteria:

- a. he is engaged in any of the following activities:
  - i. Agriculture, forestry and fishing
  - ii. Manufacturing excluding restaurants
  - iii. Retail of goods, including sale of food to be consumed off premises
  - iv. Wholesale of goods;
- b. his gross income in a year does not exceed Rs 10 million; and
- c. his gross income from sources other than those mentioned above does not exceed Rs.400,000.

## 4. Election for the Presumptive Tax System

An eligible person may, by irrevocable notice made before the due date for filing of its income tax return, elect to pay presumptive tax .

## 5. Period to which presumptive tax applies

Presumptive tax applies to any year of assessment, starting from year of assessment 2020-2021.

#### **6. Submission of return and payment of presumptive tax**

The person has to submit a return not later than the due date for the filing of the annual return and at the same time pay the presumptive tax payable in accordance with the return after offsetting any Tax Deducted at Source (TDS).

#### **7. Penalty and Interest**

Where a small enterprise who has elected for presumptive tax fails to pay the presumptive tax by the due date, he will be liable to:-

- i. penalty of 2% of unpaid tax for late payment
- ii. interest on unpaid tax at the rate of 0.5% per month or part of the month during which the tax remains unpaid.

#### **8. CPS statement and payment of tax**

No CPS statement is to be submitted where a small enterprise is eligible to elect for presumptive tax and his gross income for the preceding year did not exceed 10 million rupees.

#### **9. Assessment under the Presumptive Tax System**

Where the Director General has reason to believe that an eligible person who has elected to pay presumptive tax has under declared his gross income, the Director General may make an assessment of the under declared gross income and impose presumptive tax on the undeclared gross income provided that the undeclared amount when aggregated to the declared gross income does not exceed 10 million rupees.

#### **10. Right of Objection under the Presumptive Tax System**

Where a person eligible to presumptive tax has been assessed, he may object to the assessment in accordance with Section 131A of the Income Tax act.

### **11. Non eligible person electing to pay presumptive tax**

Where a person who has elected to pay presumptive tax in a year is found not to be eligible because-

- a) he is not engaged in the activities listed in paragraph 3 above;
- b) his gross income is found to be above 10 million rupees; or
- c) his other income is found to exceed Rs 400,000

he will be assessed to income tax in accordance with the appropriate provisions of the Income Tax Act.

Moreover, an election to pay presumptive tax by a non-eligible person constitutes an offence for which the person is liable to prosecution and on conviction, to a fine not exceeding Rs 50,000 and imprisonment for a term not exceeding 2 years.

### **12. Can a person elect to pay presumptive tax in one year and submit a normal tax return in the following year?**

Yes. Each year, a person has the option to elect to pay presumptive tax or to submit a normal tax return.