
A PRACTICAL GUIDE · INCOME TAX ACT 2025

Presumptive Taxation *for Professionals*

*Section 44ADA and Section 58
Under the Income Tax Act 2025*

For Doctors · Lawyers · Architects · Engineers
Chartered Accountants · Consultants · Freelancers
and All Specified Professionals in India

TAX YEAR 2026-27 | FINANCIAL YEAR 2026-27

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ABOUT THIS GUIDE

This guide is written for doctors, lawyers, architects, engineers, chartered accountants, consultants, freelancers, and all other specified professionals in India. It explains the Presumptive Taxation Scheme under the new Income Tax Act 2025, specifically Section 58, which replaces Section 44ADA of the old Income Tax Act 1961.

If you have questions about whether this scheme applies to you, whether it saves you tax, or how to file your return correctly. This guide answers all of that in plain language.

By the end of this guide, you will know:

- › Whether you qualify for presumptive taxation under Section 58 (previously Section 44ADA)
- › How your taxable income is actually calculated, and a very common misconception corrected
- › What business expenses professionals can legitimately claim
- › What documentation protects you if your return is ever questioned
- › Whether structuring your income as salary or professional fees is better for you
- › How and when to pay advance tax
- › How to file your return and when the simpler return form cannot be used
- › A step-by-step framework to decide whether the scheme genuinely benefits you

TABLE OF CONTENTS

Page numbers to be updated after PDF export.

| | | |
|---|--|---|
| 1 | What Is Presumptive Taxation and Why Should Professionals Care? | — |
| 2 | Who Is Eligible for the Presumptive Taxation Scheme for Professionals? | — |
| 3 | What Are the Gross Receipts Limits? | — |
| 4 | How Is Your Taxable Income Calculated Under Section 58? | — |
| 5 | Eligible Business Expenses for Professionals | — |
| 6 | Books of Accounts: What Professionals Need to Know | — |
| 7 | GST Registration for Professionals | — |
| 8 | Salary or Professional Fees: Which Is Better for You? | — |
| 9 | Should You Choose Presumptive Taxation? A Practical Decision Guide | — |

What Is Presumptive Taxation and Why Should Professionals Care?

Understanding the scheme, its purpose, and the key changes under the new Act

What Is Presumptive Taxation?

Running a professional practice in India comes with a real compliance burden. You must maintain books of accounts, prepare a Profit and Loss Account every year, and in many cases get your accounts audited by a Chartered Accountant, before filing your return.

For a doctor running a clinic, a lawyer with a solo practice, a freelance IT consultant, or an architect working independently. This process is time-consuming, costly, and often disproportionate to the size of the practice.

The Presumptive Taxation Scheme was designed to reduce this compliance burden. The scheme allows eligible professionals to compute their taxable income on a simplified basis, by comparing their actual profit against a deemed percentage of gross receipts and declaring whichever is higher. This removes the need for a detailed expense-by-expense profit computation for assessment purposes.

The primary benefit is **compliance simplicity, not a tax benefit**. Tax audit is not required in most cases, and the return is simpler to file. As you will see in Chapters 4 and 6, maintaining accounting records remains important even under this scheme, but the scheme removes the mandatory audit obligation and simplifies your annual filing significantly.

Whether the scheme also reduces your tax liability depends on your actual profit margin. We cover that carefully in Chapter 4, including a very common misconception that is causing many professionals to make costly errors.

The New Income Tax Act 2025: What Changed and What Did Not

Until 31st March 2026, presumptive taxation for professionals was governed by **Section 44ADA** of the Income Tax Act 1961. All existing guidance you may have read refers to this section.

From 1st April 2026, the new **Income Tax Act 2025** came into effect. The first Tax Year under the new Act is **Tax Year 2026-27**, which is the period 1st April 2026 to 31st March 2027.

Two Important Terminology Changes Under the New Act

First: "Previous Year" is now "Tax Year." Tax Year is the same as Financial Year. Tax Year 2026-27 means the year in which you earn income: 1st April 2026 to 31st March 2027.

Second: "Assessment Year" has been abolished entirely. Under the old Act, income earned in Previous Year 2026-27 was filed under Assessment Year 2027-28. Under the new Act, income earned in Tax Year 2026-27 is filed and referenced under Tax Year 2026-27 itself. All ITR forms, tax notices, and assessment orders now carry only the Tax Year reference.

The old separate sections (44ADA for professionals, 44AD for businesses, and 44AE for transport operators) have been consolidated into a single **Section 58** under the new Act. The substance of the scheme has not

changed significantly. What has changed is the section numbering, structure, and year terminology.

The table below maps the old provisions to the new ones.

| OLD ACT 1961 | NEW ACT 2025 | WHAT IT COVERS |
|-----------------|-----------------------|---|
| Section 44ADA | Section 58, Sl. No. 3 | Presumptive taxation: specified professionals |
| Section 44AD | Section 58, Sl. No. 1 | Presumptive taxation: small businesses |
| Section 44AE | Section 58, Sl. No. 2 | Presumptive taxation: transport operators |
| Section 44AA | Section 62 | Maintenance of books of accounts |
| Section 44AB | Section 63 | Tax audit requirements |
| Previous Year | Tax Year | Year in which income is earned |
| Assessment Year | Abolished | No longer used under the new Act |

Note: *If you are searching for guidance on Section 44ADA, this guide covers exactly that provision. Section 58 Sl. No. 3 of the Income Tax Act 2025 is the direct equivalent of Section 44ADA under the old Act.*

Who Is Eligible for the Presumptive Taxation Scheme for Professionals?

Section 58 of the New Act / Section 44ADA of the Old Act

Condition 1: Who Can Use This Scheme

The scheme is available to:

- › **Resident individuals:** a doctor, lawyer, architect, or any other specified professional practicing in individual capacity
- › **Partnership firms:** a firm of doctors, a law firm, a CA firm structured as a partnership. The firm as an entity can opt for the scheme.

The scheme is NOT available to the following, under any circumstances:

| ENTITY | WHY NOT ELIGIBLE |
|-------------------------------------|--|
| Limited Liability Partnership (LLP) | Specifically excluded (regardless of profession) |
| Company | Not eligible |
| Non-resident professionals | Scheme available to residents only |
| HUF (Hindu Undivided Family) | Not eligible under the professional scheme (Sl. No. 3). HUF may be eligible under the business scheme (Sl. No. 1) if other conditions are met. |

Important: The LLP Exclusion

In practice, many partners of professional LLPs incorrectly file under the presumptive scheme. This is an error. If your firm is structured as an LLP, even if it is a firm of CAs, doctors, or architects, this scheme does not apply to the firm.

Condition 2: You Must Carry On a Specified Profession

Your profession must be listed under Section 62 of the Income Tax Act 2025 (previously Section 44AA of the old Act).

Information Technology professionals and Company Secretaries are included in the specified profession list under Section 62(4). They were part of the profession definition under the old Act as well and continue under the new Act.

| PROFESSION | EXAMPLES |
|------------------------|---|
| Legal | Advocates, lawyers, solicitors |
| Medical | Doctors, surgeons, physicians, dentists |
| Engineering | Consulting engineers, independent engineers |
| Architecture | Architects, architectural consultants |
| Accountancy | Chartered Accountants, Cost Accountants |
| Technical Consultancy | Specialised technical advisors |
| Interior Decoration | Interior designers, decorators |
| Information Technology | IT professionals, software consultants |

| PROFESSION | EXAMPLES |
|--|--|
| Company Secretary | Practising Company Secretaries |
| Film Artists (CBDT Notified) | Actors, directors, producers, singers, lyricists, cameramen and others |
| Authorised Representatives (CBDT Notified) | Persons representing others before government authorities or tribunals |
| Any other profession notified by CBDT | Updated as the Board notifies further professions |

If your profession is not in this list, you are not a specified professional. Your income is treated as business income and Section 58 Sl. No. 1 (old Section 44AD) may apply instead, subject to its own conditions and limits.

A Note for Gig Economy and Independent Professionals

If you are a doctor consulting at multiple hospitals, a lawyer taking independent briefs, an architect retained by different developers, or a freelancer working across multiple clients, you are in professional practice. The Presumptive Taxation Scheme is specifically designed for independent professionals like you. You do not need a fixed office or a single employer to qualify.

Section 44AD vs Section 44ADA: Which One Applies to You?

This is one of the most frequently searched questions on this topic. Section 44AD (now Section 58 Sl. No. 1) covers **small businesses**. Section 44ADA (now Section 58 Sl. No. 3) covers **specified professionals**. The two schemes have different limits, different income calculation rates, and different lock-in rules.

| | SECTION 58 SL. NO. 1 (OLD 44AD) | SECTION 58 SL. NO. 3 (OLD 44ADA) |
|---------------------------|------------------------------------|-------------------------------------|
| Covers | Small businesses | Specified professionals |
| Receipts limit | ₹2 crore / ₹3 crore (95% digital) | ₹50 lakh / ₹75 lakh (95% digital) |
| Deemed income rate | 6% digital / 8% cash | 50% of gross receipts |
| Five-year lock-in | Yes, applies strictly | No, opt in and out freely |
| LLP eligible | No | No |

If you are a specified professional, *Section 58 Sl. No. 3 (old Section 44ADA)* is the provision that applies to you. This guide covers that provision in full.

What Are the Gross Receipts Limits?

Turnover Limit for Presumptive Taxation Under Section 44ADA / Section 58

What Are Gross Receipts?

Gross receipts mean the total amount received from your professional practice during the Tax Year, before deducting any expenses.

It is important to know what is included and what is not, because the limit applies only to professional receipts, not to every rupee that comes into your bank account.

This includes any amounts received as reimbursement of out-of-pocket expenses from your clients. If you bill a client for travel costs, consumables, court fees, or any other expenses incurred on their behalf and receive those amounts as part of your professional engagement, they form part of your gross receipts.

| INCLUDED IN GROSS RECEIPTS | NOT INCLUDED IN GROSS RECEIPTS |
|---|--|
| Professional fees and consultation charges | Sale of professional equipment or office furniture |
| Retainer fees | Interest income from bank deposits |
| Reimbursements and out-of-pocket expenses recovered from clients (travel, consumables, court fees, site visit costs etc.) | Rental income from property |
| | |

| INCLUDED IN GROSS RECEIPTS | NOT INCLUDED IN GROSS RECEIPTS |
|----------------------------|---------------------------------|
| | Capital gains on sale of assets |

The Two-Tier Limit

The gross receipts limit under Section 58 Sl. No. 3 (old Section 44ADA) depends on how you receive your payments: digital or cash.

| CASH RECEIPTS AS % OF TOTAL RECEIPTS | APPLICABLE LIMIT |
|--|------------------|
| 5% or less: predominantly digital practice | ₹75 lakh |
| More than 5%: significant cash receipts | ₹50 lakh |

If your gross receipts are within the applicable limit, you are eligible for the scheme. If your gross receipts exceed the applicable limit, you must maintain books of accounts and file under regular provisions. The presumptive scheme is not available to you for that Tax Year.

What Counts as Digital Receipts?

To qualify for the higher ₹75 lakh limit, at least 95% of your total receipts must come through digital or banking modes.

| ACCEPTED AS DIGITAL | NOT ACCEPTED AS DIGITAL |
|---------------------|---|
| NEFT, RTGS, IMPS | Cash payments |
| UPI payments | Non-account payee cheques (treated as cash under Section 58(9)) |

ACCEPTED AS DIGITAL

NOT ACCEPTED AS DIGITAL

Cheque or demand draft

Debit card or credit card
payments

Most professionals today, particularly doctors, lawyers, architects, and IT consultants, receive the majority of their fees through banking channels. If you are already working in a largely cashless manner, the ₹75 lakh limit is likely the one that applies to you.

What If You Cross the Limit Mid-Year?

If your gross receipts cross the applicable limit at any point during the Tax Year, you lose eligibility for the presumptive scheme for that **entire** Tax Year. As a specified professional, you are required to maintain books of accounts under Section 62 regardless of the scheme. Crossing the limit removes the Section 58 procedural exemption, meaning you must now file under regular provisions and tax audit may become applicable. If you have not been maintaining books from April 1, you will need to reconstruct records from the beginning of the year.

If your practice is growing and receipts are approaching the limit, monitor your gross receipts every quarter. An early awareness gives you time to plan and put basic records in place before the year ends.

Two Examples to Make This Clear

EXAMPLE 1: ELIGIBLE FOR THE SCHEME

Architect Priya Nair has gross receipts of ₹72 lakh for Tax Year 2026-27. Of this, ₹70 lakh was received through UPI and bank transfers. Only ₹2 lakh was received in cash, which is 2.8% of total receipts. Since her cash receipts are below 5%, the ₹75 lakh limit applies. Her receipts are within this limit.

✓ **She is eligible for the presumptive taxation scheme.**

EXAMPLE 2: NOT ELIGIBLE FOR THE SCHEME

Dr. Suresh Patel has gross receipts of ₹68 lakh for Tax Year 2026-27. Of this, ₹50 lakh was received digitally and ₹18 lakh in cash. His cash receipts are 26.5% of total receipts, which is well above 5%. The applicable limit for him is ₹50 lakh. His receipts of ₹68 lakh exceed this limit.

X He is not eligible for the presumptive scheme for this Tax Year. As a specified professional, he is required to maintain books of accounts under Section 62 regardless. Crossing the limit removes the Section 58 procedural exemption and he must file under regular provisions. Tax audit may also apply.

How Is Your Taxable Income Calculated Under Section 58?

Section 44ADA (Old Act)

The Basic Rule

Under Section 58 Sl. No. 3 (previously Section 44ADA), your taxable professional income is the **higher** of:

- › 50% of your gross receipts, or
- › Your actual profit

This is not a choice you make. The law mandates that whichever figure is higher, that is your taxable income.

What "Actual Profit" Means

Actual profit is simply your gross receipts minus your eligible business expenses.

To know whether your actual profit is above or below 50%. You must know what your expenses are and whether they are legitimately deductible. This is why Chapter 5 of this guide lists all eligible expenses in detail.

This matters even if you intend to stay on the presumptive scheme. If you do not compute your actual profit, you cannot correctly apply Section 58 at all. You may end up declaring less than your actual profit thinking the 50% figure applies, when in fact it does not.

The Legal Position: Old Act and New Act

Both under the old Act and the new Act, the position has always been clear. The provision states that taxable income is 50% of gross receipts or actual profit, whichever is higher. If your actual profit exceeds 50% of gross receipts, you must declare actual profit. The 50% figure is a floor, not a ceiling.

Despite this, the misconception that 50% can always be declared regardless of actual profit remains widespread in practice. The consequences of underreporting are serious, as explained in the next section.

A Very Common Misconception About the 50% Deduction

This question comes up constantly in practice. Let me address it directly.

What many professionals believe:

Section 58 (old Section 44ADA) gives a flat 50% deduction on gross receipts, automatically, without needing any actual expenses. Earn ₹60 lakh, declare ₹30 lakh as taxable income, no questions asked.

This is incorrect.

The 50% figure in Section 58 is not a deduction. It is a **deemed income floor**, which is the minimum taxable income the government will accept from a professional under this scheme.

Here is what the provision actually means in plain terms:

- If your actual profit is **above 50%**: you must declare actual profit. You cannot use the 50% floor to reduce your taxable income below what you actually earned.
- If your actual profit is **below 50%**, the scheme deems your income at 50%. You pay tax on more than you actually earned, but you save on compliance.
- If your actual profit is **exactly 50%**: the result is the same either way.

Why this error is costly:

A doctor with gross receipts of ₹60 lakh and actual profit of ₹48 lakh (80% margin) who declares only ₹30 lakh is underreporting by ₹18 lakh. Under the new Act this is not a grey area. It is a clear violation. It exposes the professional to penalty, interest, and scrutiny.

What the misconception gets wrong:

The scheme does not give you 50% worth of notional expenses to claim. It gives you the option to pay tax on a deemed 50% of receipts without having to prove your actual expenses. That is compliance simplicity, not a licence to underreport.

The Break-Even Table

This table shows five different scenarios for a professional with gross receipts of ₹60 lakh. It illustrates exactly when the scheme works in your favour and when it does not.

| GROSS RECEIPTS | ACTUAL EXPENSES | ACTUAL PROFIT | PROFIT % | TAXABLE UNDER SECTION 58 | VERDICT |
|----------------|-----------------|---------------|----------|--------------------------|---|
| ₹60 lakh | ₹8 lakh | ₹52 lakh | 87% | ₹52 lakh | Declare actual: higher than 50% |
| ₹60 lakh | ₹20 lakh | ₹40 lakh | 67% | ₹40 lakh | Declare actual: higher than 50% |
| ₹60 lakh | ₹30 lakh | ₹30 lakh | 50% | ₹30 lakh | Equal: scheme is neutral |
| ₹60 lakh | ₹38 lakh | ₹22 lakh | 37% | ₹30 lakh | Scheme costs extra tax, but saves audit |
| ₹60 lakh | ₹48 lakh | ₹12 lakh | 20% | ₹30 lakh | Significant extra tax. Opt out worth evaluating |

Key insight: *The presumptive scheme reduces your tax only when your actual expenses exceed 50% of gross receipts. This means your actual profit margin is below 50%. For most specified professionals with relatively low overhead, actual profit margins are well above 50%. In those cases the scheme provides compliance simplicity, not tax savings. Knowing which situation you are in requires computing your actual profit, which is what Chapter 5 helps you do.*

What the 50% Presumption Actually Gives You

To be clear about what the scheme does and does not offer:

- › **Freedom from tax audit:** in most cases, no audit is required when you stay within the scheme
- › **Simpler return filing:** the presumptive scheme allows filing through a simpler, shorter return form

The scheme gives you **compliance simplicity**. Whether it also saves you tax depends entirely on your actual expense ratio. That is a calculation worth doing before you decide.

Eligible Business Expenses for Professionals

What You Can Legitimately Claim to Compute Your Actual Profit

Why This Chapter Matters

As explained in Chapter 4, your taxable income under Section 58 (old Section 44ADA) is the higher of 50% of gross receipts or your actual profit. To know your actual profit, you must know which expenses are legitimately deductible.

This chapter lists all major eligible expenses for professionals.

Important clarification: Under the presumptive scheme, when you declare 50% of gross receipts, no separate expense deductions are permitted. Section 58(4) explicitly states that no loss, allowance, or deduction shall be allowed against income computed under the presumptive scheme. The expenses listed in this chapter are relevant only when you are computing your *actual profit*: either because your actual profit exceeds 50% (and you must declare actual), or because you are opting out to declare actual profit below 50%. Understanding your actual expenses is still essential to deciding which approach gives you the better outcome.

The Master Expenses Table

| EXPENSE CATEGORY | ELIGIBLE? | KEY CONDITION / NOTE |
|----------------------------------|-----------------------|--|
| Office rent | Yes, fully | Rent agreement and bank payment records required |
| Home office expenses | Yes, proportionate | Deduct the portion attributable to the area used for professional work. Formula: area used divided by total home area, multiplied by total home expenses |
| Electricity and utilities | Yes, business portion | Full amount if separate office. Proportionate if home office. |
| Internet and telephone | Yes, business portion | Separate business line: 100%. Mixed use: reasonable split, typically 50 to 75% |
| Staff salaries | Yes, fully | TDS compliance required on salary payments where applicable |
| Professional fees paid to others | Yes, fully | Fees to associates, locum doctors, junior advocates, assistants. TDS compliance where applicable. |
| Depreciation on equipment | Yes, as per Schedule | Medical equipment, computers, instruments, office furniture. Rates as per Schedule to the new Act. |
| Software subscriptions | Yes, fully | Practice management software, legal databases, design tools, cloud storage |
| Books and professional journals | Yes, fully | Medical journals, legal databases, architectural standards, technical references |
| | | |

| EXPENSE CATEGORY | ELIGIBLE? | KEY CONDITION / NOTE |
|----------------------------------|----------------------------|--|
| Seminar, conference and CPE fees | Yes, fully | Must be directly related to your profession. Registration fees and direct travel to venue are deductible. Personal travel attached to a conference is not. |
| Professional membership fees | Yes, fully | Bar Council fees, ICAI membership, IMA membership, Institution of Engineers fees |
| Vehicle expenses | Yes, business portion | Fuel, maintenance, insurance, depreciation for business use. A mileage log is strongly recommended: date, destination, purpose, kilometres. |
| Interest on business loan | Yes, fully | Loan must be taken for professional purpose. Keep the loan agreement. |
| Bank charges | Yes, fully | Professional account charges, payment gateway fees, cheque book charges |
| Professional indemnity insurance | Yes, fully | Strongly recommended for doctors, lawyers, architects and engineers |
| Website and digital marketing | Yes, fully | Domain, hosting, SEO, social media promotion for the practice |
| Stationery and office supplies | Yes, fully | Keep purchase receipts |
| Repairs and maintenance | Yes, fully | Office or clinic maintenance. Not personal property repairs. |
| Health insurance premium | No, not a business expense | Claim separately under Section 138 of the new Act (old Section 80D) as a personal deduction |

| EXPENSE CATEGORY | ELIGIBLE? | KEY CONDITION / NOTE |
|---------------------------------------|-----------|--|
| Personal groceries and clothing | No | Not professional expenses under any circumstance |
| Personal vehicle used partly for work | Partially | Claim only the business use portion. A mileage log is essential. |

A Note on Depreciation Under the Presumptive Scheme

Even if you are on the presumptive scheme and do not claim depreciation as a separate deduction, the Written Down Value (WDV) of your assets reduces every year as if depreciation had been claimed.

This has a practical consequence when you eventually sell an asset. The capital gains on sale are computed on the reduced WDV, not on the original cost. A doctor who bought a diagnostic machine for Rs. 10 lakh and never claimed depreciation under the presumptive scheme may be surprised to find that the tax department computes capital gains on sale as if depreciation was already allowed every year.

Practical advice: *Maintain a simple asset register regardless of which scheme you follow. Record the purchase date, cost, and nature of each asset. This protects you at the time of sale.*

The Cash Payment Restriction

Any professional expense paid in cash above **Rs. 10,000 to the same person in a single day** is disallowed as a deduction. This is the equivalent of old Section 40A(3) of the Income Tax Act 1961, carried forward under the new Act.

Three things to know about this rule:

- > **The full amount is disallowed**, not just the excess above Rs. 10,000. If you pay Rs. 12,000 in cash to a vendor in one day, the entire Rs. 12,000 is disallowed.
- > **Splitting does not help**. If you pay the same person Rs. 5,000 in the morning and Rs. 6,000 in the evening on the same day, the tax department aggregates both payments. The total Rs. 11,000 is treated as a single cash payment exceeding the limit.
- > **The solution is simple**: pay all professional expenses above Rs. 10,000 through bank transfer, UPI, cheque, or any other banking mode and keep the payment confirmation.

There are exceptions under Rule 6DD of the Income Tax Rules, covering payments to government bodies, banks, and situations where banking facilities are genuinely unavailable. These are narrow exceptions designed for specific circumstances. In day-to-day professional practice, the straightforward rule is: pay digitally for any expense above Rs. 10,000.

Books of Accounts: What Professionals Need to Know

Section 62 of the Income Tax Act 2025

The Default Position for Specified Professionals

Most professionals assume that books of accounts are only required once their income crosses a certain level. This assumption is incorrect for specified professionals.

Under Section 62 of the Income Tax Act 2025, persons carrying on a specified profession must maintain books of account. There is no income threshold and no turnover threshold for this obligation. A doctor, lawyer, CA, architect, or any other specified professional is required to maintain books from the moment they begin professional practice, regardless of how much they earn.

This is fundamentally different from the position for persons carrying on business or non-specified professions under Section 62(1)(b), where books are required only when income exceeds Rs. 1,20,000 or turnover exceeds Rs. 10,00,000 in any of the three preceding tax years. For individuals and HUFs in such business or non-specified profession, these thresholds are higher at Rs. 2,50,000 income and Rs. 25,00,000 turnover.

These threshold-based conditions do not apply to specified professionals. Their obligation under Section 62(1)(a) is unconditional.

The Section 58 Scheme and Books: The Correct Position

A common misunderstanding is that the presumptive scheme exempts professionals from maintaining books entirely. This is incorrect.

The rule under Section 58 is: taxable income equals 50% of gross receipts or actual profit, whichever is higher. To apply this rule correctly, you must first know your actual profit. And to know your actual profit, you need books of accounts.

The Correct Sequence

- Maintain books of accounts
- Compute actual profit from those books
- Compare actual profit with 50% of gross receipts
- Declare whichever figure is higher

This sequence cannot be reversed. Declaring 50% without first computing actual profit means you have no way of knowing whether your actual profit is above or below 50%. If it is above 50%, declaring 50% is underreporting, which is a clear violation of the Act.

The Section 58 procedural exemption means the tax department cannot compel you to produce books if you have declared 50% and your return is accepted without scrutiny. That is the practical relief the scheme provides. It is not permission to operate without accounting records.

Summary: When Are Books Required?

| SITUATION | BOOKS POSITION |
|--|---|
| On presumptive scheme, declaring 50%, within gross receipts limit | Section 58 provides a procedural exemption for assessment purposes. Books are still practically necessary to compute actual profit correctly. |
| Actual profit above 50% | Must declare actual profit. Books mandatory to compute this. |
| Actual profit below 50% AND total income exceeds basic exemption limit | Books and audit mandatory under Section 58(3) read with Section 62. Both conditions must be met. |
| Gross receipts exceed the applicable limit | Books mandatory. |
| GST registered | Books mandatory under GST law, independent of income tax position. See Chapter 7. |

What Maintaining Books Actually Means

Maintaining books of accounts does not mean keeping a cash register, an expense notebook, or an Excel sheet. It means maintaining a full accounting system capable of generating the following records at any point:

- > Cash book
- > Bank book
- > Ledgers for all accounts
- > Trial balance
- > Profit and Loss Account
- > Balance Sheet

The two accounting software packages most widely used by professionals and their CAs in India are **Tally** and **Zoho Books**. Both generate all the above records and are accepted by the tax department.

Electronic books are permitted, but records must be accessible in India and maintained with daily backups on Indian servers.

*Two practical points: Set up your accounting system at the start of the financial year, not when you receive a notice. Reconstructing a full year of records after the fact is significantly more difficult and less reliable. Books must also be retained for **seven tax years** from the end of the relevant tax year.*

Penalty for Non-Maintenance

Failure to maintain books as required under Section 62 attracts a fixed penalty of **Rs. 25,000** under Section 441 of the Income Tax Act 2025. This applies regardless of the amount of income involved.

A Note on GST Registration and Books

If you are required to register for GST, full books of accounts become mandatory under GST law as well, even if your income tax position would otherwise not require them. GST registration independently triggers the books requirement, separate from income tax.

Chapter 7 covers GST registration for professionals in full.

GST Registration for Professionals: When It Is Mandatory and What It Means

Key GST obligations every specified professional must understand

The Threshold

GST registration becomes mandatory for a professional when their aggregate turnover in a financial year crosses:

- › **Rs. 20 lakh** for most states
- › **Rs. 10 lakh** for special category states

Aggregate turnover is not limited to income from a single state or a single type of service. It includes the value of all taxable services, exempt services, and exports of services supplied across India under the same PAN. If you provide services to clients in multiple states, all of that income is counted together when calculating whether you have crossed the threshold.

When Registration Becomes Mandatory

Registration is mandatory in the following situations:

- › Your aggregate turnover crosses Rs. 20 lakh (or Rs. 10 lakh for special category states) during a financial year
- › You provide inter-state supply of services, regardless of your turnover. Even if your total income is Rs. 5 lakh, providing services to a client in another state triggers mandatory registration.

- › You provide export of services and your aggregate turnover crosses Rs. 20 lakh

Voluntary registration is also available. Some professionals choose to register voluntarily even before crossing the threshold, primarily to claim input tax credit on their business expenses such as software subscriptions, office equipment, and professional services.

The GST and Books of Accounts Connection

As covered in Chapter 6, if you are GST registered, full books of accounts are mandatory under GST law. This applies independently of your income tax position.

A professional who might otherwise rely on the Section 58 books exemption cannot do so once they are GST registered. If you are GST registered, you need a complete accounting system. There is no way around this.

Key Compliance Points Once Registered

Once you are GST registered, the following apply to you:

GST rate: Most professional services attract GST at **18%**. This includes legal, architectural, engineering, IT, consulting, accountancy, and company secretary services.

However, healthcare services provided by authorised medical practitioners are exempt from GST under Notification No. 12/2017. Doctors whose income consists entirely of medical practice fees are generally not required to register for GST even if receipts exceed Rs. 20 lakh. Exceptions include cosmetic surgery and hair transplants, which attract GST at 18%. If a doctor also provides non-medical services such as

lectures, pharmaceutical consultancy, or workshops, those services may attract GST separately.

GST invoicing: Every invoice you raise must include:

- > Your GSTIN (GST Identification Number)
- > The GST amount charged separately
- > The place of supply
- > All other mandatory fields as prescribed under GST law

Return filing: Two returns must be filed regularly:

- > **GSTR-1:** Details of all outward supplies (invoices raised). Filed monthly or quarterly depending on your turnover.
- > **GSTR-3B:** Monthly summary return showing total tax liability and input tax credit. Filed monthly.

Input tax credit: You can claim ITC on GST paid on eligible business expenses. This includes software subscriptions, office rent, professional equipment, and other purchases used for your professional practice. ITC reduces your net GST liability.

The Salary vs Professional Fees GST Angle

This is an important practical distinction worth understanding clearly before we cover the full comparison in Chapter 8.

Salary income does not attract GST under any circumstances. The relationship between an employer and employee is completely outside the GST framework. No GST is charged on salary, no GST return is required for salary income, and no GST registration is triggered by salary income alone.

Professional fees attract GST at 18% once the registration threshold is crossed. This has two practical implications:

- › **For the professional:** You must collect GST from clients and remit it to the government. Your compliance obligations increase significantly once registered.
- › **For the client:** If the client is a GST-registered business, they can claim input tax credit on the GST they pay you. In that case, the GST is not an additional cost to them. It is a pass-through. If the client is not GST registered, they absorb the 18% GST as an additional cost, which may make them prefer a salary arrangement over professional fees.

This is one of the practical factors to evaluate when deciding between salary and professional fee structures. Chapter 8 covers this comparison in full.

A Word of Caution

This chapter covers the key GST obligations that every professional should be aware of. However, GST is a detailed law with many provisions that go beyond what is covered here. Reverse charge mechanism, place of supply rules, exemptions for specific services, annual return filing, reconciliation requirements, and e-invoicing thresholds are among the areas that require careful attention.

Consult your Chartered Accountant before and after GST registration. *Getting the basics right from the start saves significant time, cost, and compliance risk later.*

Salary or Professional Fees: Which Is Better for You?

Understanding the tax and compliance implications of each structure

When This Choice Exists

Many professionals are engaged by organisations where the compensation structure can be negotiated. A doctor joining a hospital, a CA retained by a company, a consultant engaged by a firm, or an architect working with a developer may sometimes have the option to be compensated as an employee on salary or as an independent professional on fees.

If you have this choice, the tax implications are significant. This chapter helps you understand the difference and make an informed decision.

The Fundamental Difference

| PARAMETER | SALARY INCOME | PROFESSIONAL FEES |
|--------------------------|-----------------|---|
| Head of income | Salaries | Profits and Gains of Business or Profession |
| Standard deduction | Rs. 75,000 flat | Not available |
| Other expense deductions | Not available | Eligible expenses deductible |
| | | |

| PARAMETER | SALARY INCOME | PROFESSIONAL FEES |
|--------------------------------|-------------------------------|--|
| Presumptive taxation | Not available | Available under Section 58 |
| Books of accounts | Not required | Required (subject to Section 58 exemption) |
| TDS by payer | Yes, as employer | Yes, as fee payer |
| Advance tax | Adjusted through employer TDS | Must pay if liability exceeds Rs. 10,000 |
| EPF obligation on payer | Yes, if applicable | No |
| GST obligation | No | Yes, if threshold crossed |

The Tax Angle: What Actually Changes

The income tax slab rates are identical for salary income and professional income. Both are taxed at the same progressive rates. What changes is the taxable income base, not the rate.

Under salary, your taxable income is gross salary minus the flat standard deduction of Rs. 75,000. No other expense deductions are available.

Under professional fees, you become eligible to claim all legitimate business expenses as deductions against your income, as detailed in Chapter 5 of this guide. Office rent, staff salaries, equipment depreciation, software, professional development costs, vehicle expenses and more can all be deducted. If your actual business expenses are significant, the professional fee structure will give a meaningfully lower taxable income than salary.

The Key Insight

Receiving income as professional fees gives you one significant advantage that salary income does not: you can claim legitimate business expenses against your professional income.

The standard deduction of Rs. 75,000 available on salary is a flat amount with no flexibility. Against professional fees, every legitimate business expense you incur reduces your taxable income directly.

The right choice between salary and professional fees depends on your actual expense profile. Ask your CA to run the numbers for your specific situation before deciding.

Factors That Favour Salary Structure

- › EPF and gratuity benefits are valuable to you personally
- › The organisation insists on an employment relationship and will not engage you as an independent professional
- › Your actual professional expenses are very low, meaning the expense deduction benefit of professional fee structure over salary is minimal
- › You prefer zero advance tax compliance. Employer handles all TDS

Factors That Favour Professional Fee Structure

- › Your actual expenses are significant. Under regular taxation as a professional, these expenses reduce your taxable income directly, giving a better outcome than the flat Rs. 75,000 standard deduction on salary

- › You can use the Presumptive Taxation Scheme for compliance simplicity: no mandatory audit and simpler return filing
- › The engaging party is GST registered and can claim ITC on your GST, so the 18% GST is not an extra cost to them
- › You work with multiple clients and no single organisation would structure it as salary

The GST Dimension

Salary income does not attract GST under any circumstances. The employer-employee relationship is completely outside the GST framework.

Professional fees attract GST at 18% once the Rs. 20 lakh threshold is crossed. Note that medical professionals are exempt from GST on healthcare services. This consideration is primarily relevant for lawyers, architects, engineers, IT professionals, consultants, and other non-medical specified professionals. This has two practical implications:

- › **For the professional:** You must collect GST from clients and remit it to the government. Your compliance obligations increase significantly once registered.
- › **For the client:** If the client is a GST-registered business, they can claim input tax credit on the GST paid to you. The GST is a pass-through and not an additional cost to them. If the client is not GST registered, they absorb the 18% as an additional cost and may prefer a salary arrangement.

Understanding your client or employer's GST position is a practical factor in the negotiation.

The Decision Is Not Always Yours to Make

Some organisations will not engage professionals on a fee basis regardless of the tax implications. Regulatory requirements, internal HR policies, or the nature of the engagement may mean salary is the only option available.

If salary is the only structure on offer, optimise within it. Make the most of the standard deduction, employer EPF contributions, and personal tax-saving deductions available to you. If the structure is genuinely negotiable, ask your CA to run the numbers for your specific income level and expense profile before deciding.

Should You Choose Presumptive Taxation? A Practical Decision Guide

A step-by-step framework to help you decide

How to Use This Chapter

By this point in the guide, you understand how the presumptive taxation scheme works, what it requires, and what it does not. This chapter brings it all together in a simple step-by-step framework to help you decide whether the scheme is right for you in your specific situation.

Work through each step in order. Your answer at each step will either confirm the scheme is suitable or flag a reason to evaluate more carefully.

Step 1: Are You Eligible?

Before anything else, confirm that you qualify for the scheme. You must satisfy all three conditions:

| CONDITION | CHECK |
|--|-------------|
| You are a resident individual or a partnership firm (not an LLP) | Yes / No |
| Your profession is listed under Section 62 (legal, medical, engineering, architecture, accountancy, technical consultancy, interior decoration, IT, company secretary, or CBDT notified) | Yes / No |
| Your gross receipts are within Rs. 50 lakh (or Rs. 75 lakh if 95% or more receipts are digital) | Yes / No |

If any answer is No, the presumptive scheme under Section 58 Sl. No. 3 is not available to you. Consult your CA for the applicable provisions.

If all three are Yes, proceed to Step 2.

Step 2: What Is Your Actual Profit Margin?

This is the most important step. Estimate your actual profit for the year and express it as a percentage of gross receipts.

Actual profit = Gross receipts minus eligible expenses

If your actual profit margin is above 50%:

You must declare actual profit since it is higher than 50%. The scheme gives you no tax saving in this situation. It does, however, give you compliance simplicity: no books required, no audit, simpler return filing. Whether that simplicity is worth it depends on your preference.

If your actual profit margin is below 50%:

Staying on the presumptive scheme means declaring 50% of gross receipts as taxable income, even though your actual profit is lower. You pay tax on income you did not earn. In this situation, opting out and declaring actual profit saves you real tax money. But it requires maintaining full books and computing actual profit correctly.

The question to ask is: does the tax saving from declaring actual profit exceed the cost and effort of maintaining full books?

If your actual profit margin is around 50%:

The scheme is roughly neutral on tax. The compliance simplicity of simpler return filing and no books requirement is a genuine benefit with little or no tax cost. This is typically the best scenario for using the scheme.

Step 3: Are You GST Registered?

If you are GST registered, full books of accounts are mandatory under GST law regardless of your income tax position. The compliance simplicity argument for the presumptive scheme weakens significantly because you are maintaining books anyway.

Since your books exist, compute your actual profit from those books. If actual profit is below 50%, you may as well opt out of the presumptive scheme and declare actual profit. The books are already there to support it. If actual profit is above 50%, you must declare actual profit anyway, but you can still use the simpler return filing under the presumptive scheme.

If you are not GST registered and are below the threshold, the full compliance benefit of the presumptive scheme is available to you.

Step 4: Do You Have Significant Expenses This Year?

Think about whether the current Tax Year has unusually high professional expenses. Major equipment purchases, new office setup, significant hiring, or large professional development costs can push your actual profit below 50% for that year.

If yes, this may be a year to opt out of the scheme, maintain books, and declare actual profit to save tax. For professionals, there is no five-year lock-in. You can opt back into the scheme next year freely.

If your expenses are normal and modest, the presumptive scheme is likely the simpler and equally tax-efficient choice.

Step 5: Do You Want to Avoid Tax Audit?

If you stay within the presumptive scheme and declare income at or above 50% of gross receipts, tax audit is not required.

Tax audit becomes mandatory in the following situations:

- › Your gross receipts exceed the applicable limit
- › You claim actual profit lower than 50% of gross receipts AND your total income exceeds the basic exemption limit. Both conditions must be satisfied under Section 58(3)

If avoiding the cost and process of a tax audit is important to you, staying within the scheme and within the limits achieves that.

Decision Summary

| YOUR SITUATION | RECOMMENDED APPROACH |
|---|--|
| Actual profit above 50%, low expenses, not GST registered | Use presumptive scheme. Declare actual profit. Enjoy compliance simplicity. |
| Actual profit above 50%, GST registered | Books exist anyway. Declare actual profit. Use simpler return filing if eligible. |
| Actual profit below 50%, significant expenses | Opt out this year. Maintain books. Declare actual profit. Save tax. Opt back in next year. |
| Actual profit around 50% | Presumptive scheme is neutral on tax. Use it for compliance simplicity. |
| Gross receipts near the limit | Monitor quarterly. If limit likely to be crossed, set up books from April itself. |
| LLP or non-resident | Scheme not available. Maintain books and file under regular provisions. |

One Final Thought

The presumptive taxation scheme is a genuine benefit for specified professionals. It reduces compliance burden, eliminates the audit requirement in most cases, and simplifies return filing. But it is not a shortcut to avoid understanding your own income.

The professionals who benefit most from this scheme are those who understand it clearly, compute their actual profit before deciding, and use the scheme deliberately rather than by default.

This guide has given you the tools to make that decision with confidence. If any aspect of your situation is complex or if you are evaluating the scheme for the first time, discuss it with your CA before filing.

A NOTE BEFORE YOU FILE

This guide has covered the full scope of presumptive taxation for specified professionals under the Income Tax Act 2025, from eligibility and income calculation, to eligible expenses, books of accounts, GST registration, the salary versus professional fees decision, and a practical framework to help you decide whether the scheme is right for you.

The presumptive scheme is a genuine benefit. It reduces compliance burden, eliminates the audit requirement in most situations, and simplifies your annual filing. It works best when you understand it clearly and use it deliberately, after computing your actual profit, confirming your eligibility, and evaluating whether the compliance simplicity is worth any additional tax cost in your specific situation. The professionals who encounter difficulty are not those who use the scheme. They are those who use it without understanding it.

Tax laws change. Your income profile changes. What works well this year may not be the optimal choice next year. Review your position at the start of each Tax Year, ideally with your CA, before deciding whether to stay on the presumptive scheme or opt out.

If you have questions specific to your situation, the author can be reached at amit@karnanica.com.

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