



BUSINESS vs PROFESSIONAL INCOME

A DETAILED EVALUATION!!!

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INTRODUCTION

In India, income from various sources is taxed under different heads as per the Income Tax Act, 1961. The key distinctions between business and professional income taxation primarily involve the nature of the activity and the treatment of expenses.



KEY DIFFERENCES

❖ *NATURE OF ACTIVITY:*

Business income comes from commercial and trading activities, while professional income comes from specialized services provided by individuals with specific qualifications or expertise.

❖ PRESUMPTIVE TAXATION LIMITS:

The limits for opting for presumptive taxation are different for businesses (₹3 crores) and professions (₹75 lakh) for the Assessment year 2024-2025.

BUSINESS INCOME



Business income is defined as the income earned from any trade, commerce, or manufacturing activity, or from any adventure or concern in the nature of trade, commerce, or manufacturing.

❖ COMPUTATION:

- *Business income is computed as per the provisions of Section 28 to Section 44DB of the Income Tax Act.*

- *Gross receipts from the business are offset by allowable business expenses to arrive at the taxable income.*

- *Allowable business expenses include costs that are directly related to running the business, such as rent, salaries, utilities, inventory purchases, and other operating expenses.*

- *Deductions like depreciation, bad debts, and other specific expenses are also allowable under various sections of the Act.*

❖ **PRESUMPTIVE TAXATION:**

Under Section 44AD, small businesses with gross receipts up to ₹3 crores where can declare income at a presumptive rate of 6% for digital transactions or 8% for non-digital transactions (depending on the nature of transactions), thereby simplifying their tax compliance.



PROFESSIONAL INCOME

Professional income refers to income earned from rendering services by individuals engaged in professions such as medicine, law, accountancy, engineering, architecture, technical consultancy, interior decoration, or other specified professions.

❖ **COMPUTATION:**

- *Professional income is computed as per Section 28 to Section 44DB of the Income Tax Act, similar to business income.*
- *Gross receipts from the profession are offset by allowable professional expenses to arrive at the taxable income.*
- *Allowable professional expenses include costs directly related to the practice, such as office rent, utilities, salaries, travel expenses, and professional subscriptions.*
- *Depreciation on assets used in the profession and specific deductions under different sections are also allowable*

❖ **PRESUMPTIVE TAXATION:**

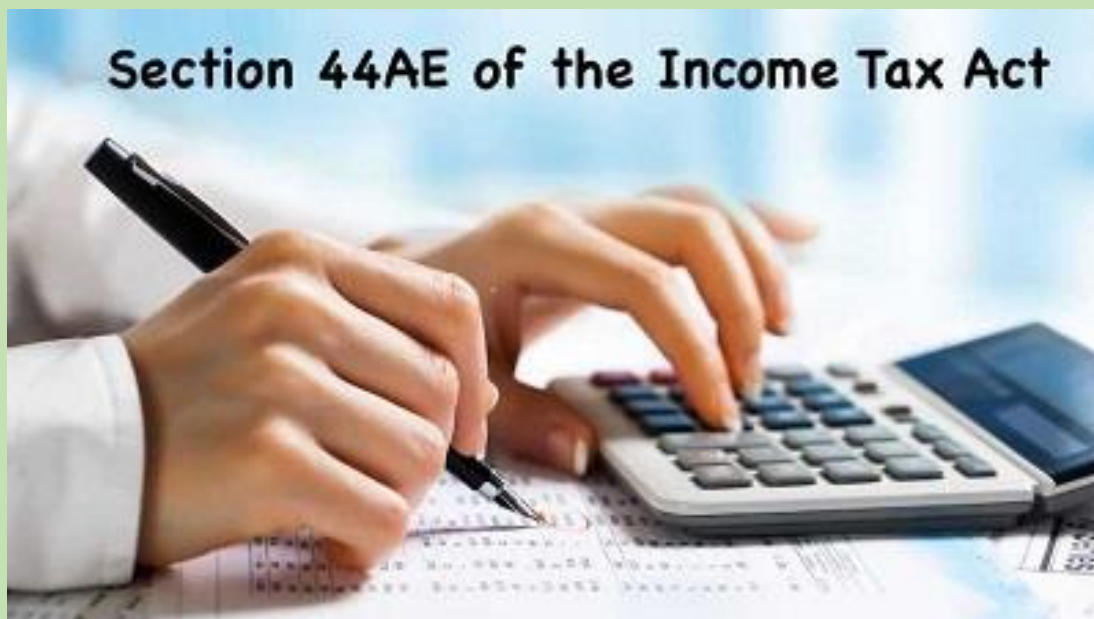
Under Section 44ADA, professionals with gross receipts up to ₹75 lakhs can declare income at a

presumptive rate of 50% of gross receipts, thereby simplifying their tax compliance.



SECTION 44AE TAXATION

Section 44AE of Income tax act states that small business involved in the business of plying, hiring or leasing goods carriages having not more than ten goods carriage vehicles, can adopt the Presumptive taxation scheme for ascertaining the taxable income for a particular financial year



The aim is to simplify the taxation compliances, provide relief from the tedious job of maintaining books of accounts, and provide a standard income calculation approach.

Hope you gained a basic knowledge related to Business income and Professional income and Section 44AE. With the next blog we will get updated with some other interesting topic related to taxation. Thank you for the enormous patience in retaining the connectives with us!!!!