

1. What does Profession mean?

Profession means exploitation of one's skills and knowledge independently. Profession includes vocation. Some examples are legal, medical, engineering, architecture, accountancy, technical consultancy, interior decoration, artists, writers, etc.

2. I have a large piece of land which I sold by dividing into smaller plots. However I am not in the real estate business. Would this one time activity still be considered as business activity?

Yes. Under the income tax Act even a solitary activity of this nature will be considered as an adventure in the nature of trade and taxed as business income.

3. What books of account have been prescribed to be maintained by a person carrying on business under the Income tax Act?

The Act does not prescribe any specific books of account for business. However you are expected to maintain your accounts in such a fashion that the net profit of the business can reasonably and easily be arrived at by the department. For companies the books of account are prescribed under the Companies Act. Further the Institute of Chartered Accountants has prescribed certain accounting standards for business that are required to be audited by them. The Income Tax department accepts the books of account maintained under these standards.

4. Are professionals required to maintain any books of account under the Income tax Act?

Yes. The following books and documents are to be maintained mandatory:

- a. Cash book
- b. Journal in case of mercantile system of accounting
- c. Ledger
- d. Carbon copies or counter foils of all bills issued, being serially numbered
- e. Original copies of all expenditure bills. Signed vouchers where bills not available for less than Rs.50.

5. I am a small time trader. Do I need to maintain any accounts?

Any business or profession that has an annual turnover/gross receipts exceeding rupees ten lakh and net profit of rupees one lakh twenty thousand, must maintain such books of account and documents from which its income can be reasonably ascertained by the department.

6. Where should the books of account of my business be kept and for how long?

All the books of account and related documents should be kept at the main place of business ie where the business or profession is generally carried on. These should be preserved for a minimum of six years.

7. Do I have to keep an accountant to maintain my account?

This depends upon your ability and need. You may even prefer to use the accounting software available in the market. However, you should remember that in case of turnover exceeding rupees forty lakh per annum in a business and gross receipts exceeding rupees ten lakh per annum in a profession, a professional chartered accountant must audit your accounts. [Section 44AB]

8. What is meant by audit of the books of account?

Auditing means checking the correctness and genuineness of your accounts and verifying whether accounting principles and standards have been properly followed in conduct of your business and preparation of accounts. Under Income Tax Act, this verification will have to be carried out by an independent Chartered Accountant.

9. In my business it is impossible to issue bills for every transaction. How can I be expected to maintain proper accounts?

There can be no excuse for not maintaining the bill books. However, if you are a smalltime retail trader with your annual turnover less than Rs.40 lakh, then you are permitted to declare your income on presumption at 5% of your actual sales. [U/s 44AF]. In that event no books of account need be maintained. Similarly, the benefit of non-maintenance of books of account is available for civil contractors [u/s 44AD] in case 8% of the turnover is disclosed as profits. Transporters owning less than 10 goods carriage can also avail the benefit of presumptive income scheme without maintenance of books of account. However, if you declare your income below the minimum level/percentage provided under the scheme, you will necessarily have to maintain the books and get them audited.

10. I am a medical practitioner. Do I need to maintain any accounts?

Yes. All the books and document prescribed for professional [refer question no: 99] need to be maintained. Additionally, a daily case register in prescribed form no.3C and an inventory of drugs, consumables and other stocks also need to be maintained.

11. Can an electric contractor also avail the benefit of deemed income provision?

No. These provisions are specifically for civil contractors.

- 12. I own 7 cars that are let out on hire to various organizations. Am I also eligible to declare presumptive income without maintaining any books?**

No. The scheme is applicable to owners of goods carriages.

- 13. What are the expenses that I can deduct from my business receipt while calculating the business profit?**

Only those revenue expenses that are directly related to the earning of your business receipt can be claimed as business expenditure. Personal expenses are not allowed to be deducted.

- 14. What do you mean by revenue expenditure?**

Revenue expenditures are those that are routine, recurring, and periodical with no enduring value beyond the financial year in which they are incurred. On the contrary capital expenditures are those that are spent on assets from which income is generated. These are normally enduring in nature.

- 15. In what form can I claim deductions for capital expenses incurred in my business?**

The Income tax Act allows you to claim depreciation on your movable tangible and intangible assets. The rates of depreciation are different for different assets.

- 16. I am engaged in wholesale business and also have a commission agency. My turnover from wholesale business this year is Rs.38 lakh while my commission income is Rs.5 lakh. Do I have to get my accounts audited since the total is exceeding Rs.40 lakh?**

Yes, auditing of accounts is compulsory where gross receipt of a person exceeds Rs.40 lakh.

- 17. I am an Insurance agent. I incur substantial expense on travel and also meet the first few insurance premia of my customers. However I have no documents to prove these expenses. How can I claim them?**

If your commission earning is more than rupees sixty thousand a year, then you will have to maintain books of account and proof of expenditure. No claim for the premia payment will be allowed if the customer has claimed the same as his own expenditure.