

Income Tax for Businesses

1. Introduction

Income tax for businesses is a direct tax imposed on the profits earned by entities such as sole proprietorships, partnerships, LLPs, and companies. These taxes are governed by the **Income Tax Act, 1961**, and administered by the **Central Board of Direct Taxes (CBDT)** in India. Every business that earns income above the basic exemption limit is liable to pay income tax and file an **Income Tax Return (ITR)** annually.

The nature of taxation varies depending on the type of business entity:

- **Sole Proprietorships:** Taxed as individuals.
- **Partnership Firms & LLPs:** Flat rate with surcharge and cess.
- **Companies:** Taxed under corporate tax rates with provisions like MAT and optional concessional regimes.

2. Income Tax Calculation for Businesses

A. General Steps in Tax Calculation:

1. **Determine Net Profit** from the Profit & Loss Account.
2. **Make Adjustments** as per the Income Tax Act:
 - Add disallowed expenses (like penalties, personal expenses, etc.)
 - Deduct exempt income or allowable deductions
3. **Arrive at Taxable Business Income**
4. **Apply Applicable Tax Rates**
5. **Add Surcharge (if applicable) and 4% Health & Education Cess**

B. Example – Proprietorship Firm

Mr. Raj operates a small trading business.

- Net Profit from P&L: ₹6,50,000
- Investments under 80C: ₹1,50,000
- Health Insurance under 80D: ₹25,000

Calculation:

- Net Income = ₹6,50,000
- Less: 80C Deduction = ₹1,50,000
- Less: 80D Deduction = ₹25,000
- **Taxable Income = ₹4,75,000**

Tax (Old Regime Slab):

- ₹2.5L – ₹5L → 5% on ₹2,25,000 = ₹11,250
- Rebate under 87A = ₹11,250 (since total income < ₹5L)
- **Total Tax Payable = Nil**

C. Example – Partnership Firm / LLP

ABC & Co. (Partnership Firm)

- Net Profit: ₹12,00,000

No deductions under Chapter VI-A are allowed for the firm except Section 80G, 80IA, etc., in some cases.

Tax Rate = 30%

- Tax = ₹12,00,000 × 30% = ₹3,60,000
- Cess @ 4% = ₹14,400
- **Total Tax = ₹3,74,400**

D. Example – Private Limited Company

XYZ Pvt Ltd

- Net Profit before Tax: ₹25,00,000
- The company opts for Section 115BAA (22% corporate tax regime)

$$\text{Tax} = ₹25,00,000 \times 22\% = ₹5,50,000$$
$$\text{Cess @ } 4\% = ₹22,000$$

Total Tax Payable = ₹5,72,000

3. Journal Entries for Income Tax

A. At the Time of Making Provision:

Income Tax Expense A/c Dr
 To Provision for Income Tax A/c
 (Being income tax provision made)

Example:

Income Tax Expense A/c	Dr ₹5,72,000
To Provision for Income Tax A/c	₹5,72,000

B. When Advance Tax is Paid:

Advance Income Tax A/c	Dr
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To Bank A/c
(Being advance tax paid)

Example:

Advance tax of ₹3,00,000 paid:

Advance Income Tax A/c	Dr ₹3,00,000
To Bank A/c	₹3,00,000

C. On Final Tax Payment or Adjustment:**Case 1: Final Tax is More than Advance Tax Paid**

Provision for Income Tax A/c	Dr
To Bank A/c	

Case 2: Advance Tax Paid is More

Provision for Income Tax A/c	Dr
To Advance Income Tax A/c	

Example:

If total tax is ₹5,72,000, advance paid is ₹3,00,000, balance ₹2,72,000 paid now:

Provision for Income Tax A/c	Dr ₹5,72,000
To Advance Income Tax A/c	₹3,00,000
To Bank A/c	₹2,72,000

D. For TDS Receivable (if income is earned with TDS deduction):

Bank A/c	Dr
TDS Receivable A/c	Dr
To Revenue A/c	

(Being income received with TDS)

4. Tax Rates for Businesses (FY 2024–25)**A. Sole Proprietorships**

Same slab rates as individuals (Old/New Regime Optional)

B. Partnership Firms / LLPs

Particulars	Rate
Flat Tax Rate	30%
Health & Education Cess	4%
Surcharge (if income > ₹1 Cr)	12%

C. Domestic Companies

Category	Rate
Normal Rate (Turnover \leq ₹400 Cr)	25%
Section 115BAA (optional)	22%
Section 115BAB (new mfg co. till 2024)	15%
Cess (on all categories)	4%

Surcharge applies if income exceeds ₹1 Cr or ₹10 Cr.

5. Filing Income Tax Returns (ITRs)

A. Due Dates:

- Individuals & Proprietors: **31st July**
- Companies & Firms requiring audit: **31st October**
- Companies requiring TP audit: **30th November**

B. ITR Forms Applicable:

Entity Type	ITR Form
Proprietorship (Non-Audit)	ITR-3
Proprietorship (Audit)	ITR-3
Partnership / LLP	ITR-5
Companies	ITR-6
Section 8 Companies	ITR-7

C. Documents Required:

- Profit & Loss Statement
- Balance Sheet
- Bank Statements
- Tax Audit Report (if applicable)
- TDS Certificates (Form 16A/26AS)
- Details of advance tax, TCS, TDS
- Depreciation schedule

D. Audit Requirement under Section 44AB

Businesses with turnover exceeding ₹1 crore (₹10 crores if 95%+ digital transactions) must get their accounts audited by a Chartered Accountant and submit a **Tax Audit Report (Form 3CD)**.

E. Presumptive Taxation (Section 44AD)

For small businesses with turnover up to ₹2 Cr, tax can be paid on **presumed income = 8% (6% for digital receipts)**. No need for audit or detailed books.

Conclusion

Income tax compliance is a vital responsibility for every business. Proper tax planning, accurate bookkeeping, timely advance tax payments, and appropriate journal entries ensure transparency and avoid penalties. Whether you're a sole proprietor, partner, or company director, understanding how tax applies to your business profits and how to file returns properly is crucial.

Leveraging expert advice and accounting software can simplify this process. Regularly reconciling books with tax payments and staying updated with changes in tax laws can lead to efficient financial management and avoid scrutiny or penalties from the Income Tax Department.