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How informal sources of income are taxed

You may have to pay goods and services tax (GST) or file your income tax returns (ITR) on income that you accrue from freelance jobs

Last Published: Sun, Sep 02 2018. 07 16 PM IST

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Even if you are not required to maintain books of accounts, it is advisable to do so. Photo: iStock

If you are one of those people who successfully leverage their talent or passion to **earn through online platforms**, don't forget to comply with income tax rules, just because you are not in a formal job. Tax-related formalities and implications you need to do

would depend on the source and amount of income. There can be direct as well as indirect tax-related formalities that you may need to do such as maintaining books of accounts, paying advance tax, complying with Goods and Services Tax (GST) Act and filing income tax returns (ITR).

Basic requirement

If you are freelancing, “the income tax law has certain compliances with respect to—reporting in tax return, maintenance of books of accounts,” said Archit Gupta, CEO and co-founder, ClearTax.in.

In case of nominal income from such activities, you may not need to comply with **extensive tax formalities**. However, that’s not the case if you cross a certain level of income. “Where income is more than ₹ 1.2 lakh (per annum) or total sales, turnover or gross receipts are more than ₹ 10 lakh (per annum) in all preceding three years, such profession or businesses must maintain books of accounts and other documents which may enable the assessing officer to calculate their taxable income as per the Income Tax Act, 1961,” added Gupta.

Even if you are not required to maintain books of accounts, it is advisable to do so. One should ideally maintain copies of bills or receipts, bank statements, bills of expenses, details of raw material, profit and loss information, details of assets, loans, etc.

If your business flourishes and the turnover crosses a certain limit, there are other formalities to comply with. “If gross receipts from such activities exceed ₹ 50 lakh, they will also need to get their accounts audited from a chartered accountant,” said Sandeep Sehgal, director (tax & regulatory), Ashok Maheshwary & Associates LLP.

There are other things to mind too. “Some of these are invoicing, maintaining receipts, not undertaking transactions in cash, paying advance tax etc,” added Gupta.

GST formalities

“Those with a turnover or receipts in excess of ₹ 20 lakh need to seek GST registration. The limit is ₹ 10 lakh for northeastern states,” said Gupta. A person has to apply for GST registration number within 30 days of crossing the threshold limit.

“Registration number in GST will be PAN-based. The taxpayer must obtain separate registration for each state, as registration under GST will be state-wise,” added Gupta.

However, if you are providing your service online there are different rules. “For people working through online mode, even if their annual turnover is less than ₹ 20 lakh and when the payment is first received by the e-commerce operator and then is disbursed to them after deduction of tax credit at source (TCS), then the freelancer would be liable to get registered and charge GST accordingly,” said Sehgal.

Once you get a GST registration number, you are required to raise invoices as per rules stipulated in the Act. Besides, you are also required to file GST return (monthly and quarterly as applicable) and may need to comply with several other requirements under the GST laws.

Filing of ITR

If your total gross income, after including income from these services, crosses the basic threshold limit of ₹ 2.5 lakh, **you need to file ITR**. While filing your return, you can claim expenses to calculate taxable income. “Any expense which is directly related to

freelancing activities, such as advertisement expenses or internet expenses can be claimed for deduction,” said Sehgal.

“Where expenses are incurred for both professional and personal purposes; these may be split using a reasonable basis and the portion that relates to the business may be claimed,” said Gupta.

Take the help of a tax expert or chartered accountant if you find the process complicated.

First Published: Sun, Sep 02 2018. 07 10 PM IST

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