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Presumptive Taxation for Professional Partners: Analysing the Ranu Gupta Decision and the Unresolved Controversy Under Section 44ADA

The ITAT Delhi's June 2, 2025 decision in *Sh. Ranu Gupta* (ITA No. 2224/Del/2025) reverses lower authorities and permits professional partners to claim presumptive taxation benefits under Section 44ADA on remuneration

received from professional firms. This landmark ruling contradicts the Madras High Court's *A. Anand Kumar* decision (2023), which held that partner remuneration cannot constitute "gross receipts" of a profession. The *Ranu Gupta* Tribunal's reasoning contains a critical deficiency: it fails to substantively engage with or rebut the High Court's foundational reasoning that partners do not independently carry on the profession. The decision creates significant jurisdictional variation - favorable to assesseees in Delhi but contrary to settled law in South India - and its weakness invites High Court challenge.

Introduction

The taxation of professional partners has long presented a challenge for India's income tax jurisprudence, particularly when presumptive taxation provisions are invoked. The ITAT Delhi's recent decision in *Sh. Ranu Gupta* (ITA No. 2224/Del/2025, Assessment Year 2018-19, pronounced on June 2, 2025) reopens a contentious question: Can a Chartered Accountant who receives remuneration as a working partner in a professional firm claim the presumptive income scheme under Section 44ADA, or is such remuneration fundamentally excluded from the ambit of this provision?

The Statutory Framework: Understanding Section 44ADA

Introduction Of Section 44ADA

Section 44ADA was introduced by the Finance Act 2016, effective

from Assessment Year 2016-17. It represents a shift from the general regime of detailed assessment by introducing a presumptive taxation scheme for small professionals. The language of Section 44ADA(1) provides that where the gross receipts of a resident assessee in a previous year on account of a profession do not exceed fifty lakh rupees (subsequently amended by the Finance Act 2023 to increase the threshold to ₹75 lakh), the assessee may declare income from the profession at a sum equal to 50% of the gross receipts, or at a higher amount claimed to have been earned by the assessee.

The statutory language "claimed to have been earned by the assessee" is critical: it may be argued that the income figure is determined by the assessee's declaration, not by the Assessing Officer's estimation. The Assessing Officer cannot subsequently deny this deeming

provision by demanding that the assessee to produce invoices, vouchers, or detailed records of actual expenses incurred. This deeming provision alters the nature of the assessment - it shifts from a detailed, expense-analysis model to a flat, receipt-based model.

The Eligibility Question: Who is an "Eligible Assessee"?

Section 44ADA(1) specifies that the scheme applies to resident individuals engaged in specified professions, partnership firms (excluding Limited Liability Partnerships) engaged in specified professions, and Hindu Undivided Families (HUFs) engaged in specified professions. The statute, notably, does not explicitly require that an assessee must be engaged in an individual capacity or in independent practice. This silence is the source of the controversy. The act recognizes partnership firms as eligible assesseees, but it remains

silent whether a partner within a firm can claim the benefit for income received from that firm, or whether only the firm itself can claim the benefit for its overall professional receipts.

The Concept of “Gross Receipts” in the Statutory Scheme

The term “gross receipts” is important but not defined in Section 44ADA itself. By implication, “gross receipts of a profession” refers to the total fees, remuneration, or income arising from the practice of the specified profession. The critical dispute revolves on whether remuneration received by a partner from a professional partnership firm constitutes “gross receipts of a profession” carried on by that partner individually, or whether it represents a derivative or secondary source of income that falls outside the ambit of the scheme. This difference is important since it goes to the heart of whether the scheme is designed for independent practitioners or is flexible to encompass secondary professional income earned.

The Core Controversy: Two Competing Interpretations

The controversy depends on different interpretations of what constitutes eligible “gross receipts” for Section 44ADA purposes. Two schools of thought have emerged, each with coherent statutory and jurisprudential support.

The Restrictive Interpretation: The Revenue’s Position

The tax authorities have adopted a restrictive stance grounded in several interconnected arguments. The first is regarding capacity and mode of engagement. Section 44ADA is meant for small practitioners engaged in solo or independent professional practice, as pointed out in CBDT Circular 3/2017, which describes Section 44ADA as a scheme for “small professional practices.” The Revenue views the partnership as the true professional entity, with the partner being a

member-service provider rather than an independent practitioner.

The Revenue also argues what might be called the “derivative income theory.” Partner remuneration is not truly “professional income” of the partner but rather a derivative or secondary form of income arising from the firm’s professional practice. The primary income earner is the firm itself. By this logic, the partner is not independently carrying on the profession; rather, the partner is employed or engaged by the firm to contribute to its professional practice. The stance on whether the remuneration paid by the partnership firm to the partner tantamounts to professional income is ambiguous.

Finally, this interpretation reflects a substance-over-form philosophy, i.e. regardless of formal structure, the substance is that the partner is receiving a salary-like payment from an organization, not generating independent professional income.

The Expansive Interpretation: The Assessee’s Position (and ITAT Delhi’s Endorsement)

Conversely, assessee advocates and, the *ITAT Delhi in Ranu Gupta* argues that the statutory text does not support the Revenue’s restrictive interpretation. Section 44ADA does not, in its statutory text, mandate that a professional must practice in an individual capacity. If the Act intended such a restriction, it could and should have stated it explicitly.

Under existing law, Section 28(v) of the Act explicitly characterizes remuneration received by a partner as “profits and gains from business or profession.” If it is professional income for standard taxation purposes, it should not be disqualified merely because it arises through a partnership. To do so would create an internal inconsistency: treating the same income as professional for general assessment purposes but non-professional for presumptive purposes. This inconsistency

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cannot be justified without explicit instructions in the Act distinguishing between the two contexts.

The Judicial Landscape: Conflicting Case Law

The “Presumptive Taxation Denies Partner” Line: A. Anand Kumar (Madras High Court)

Perhaps the most cited authority against allowing Section 44ADA (and similarly Section 44AD) benefits to partners is the decision of the ITAT Chennai in *A. Anand Kumar* (ITA No. 573/CHNY/2018), which was subsequently upheld by the Madras High Court on December 21, 2023 (MA No. 388 of 2019). In this case, A. Anand Kumar, an individual assessee, received remuneration and interest on capital from partnership firms during Assessment Year 2012-13. He sought to apply the presumptive rate of 8% under Section 44AD (a similar presumptive scheme for business).

The ITAT Chennai held that remuneration and interest received by a partner from a firm cannot be termed “turnover” or “gross receipts” of the partner himself.

These amounts are not receipts from a business carried on by the assessee but rather receipts from a partnership in which the assessee is a partner. The presumptive scheme (Section 44AD) applies to persons carrying on an “eligible business,” and receipt from a partnership firm does not constitute an “eligible business” of the partner.

The Madras High Court upheld the Tribunal and went further and provided more detailed reasoning. The High Court held that the assessee should establish that he is an eligible assessee engaged in an eligible business and such business should have a total turnover or a gross receipt. The remuneration and interest received by the assessee from the partnership firm cannot be termed to be a turnover as assessee.

This decision, being a High Court affirmation, carries significant precedential importance. It establishes that an individual partner is not “carrying on a business” or “engaged in a profession” independently; rather, the firm carries on the business, and the individual merely receives a share of its proceeds or remuneration.

The “Partner Can Opt” Supporting Line: Sagar Dutta (ITAT Kolkata)

In contrast, *Sagar Dutta v. DCIT* (ITAT Kolkata) ITA 692/Kol/2012,



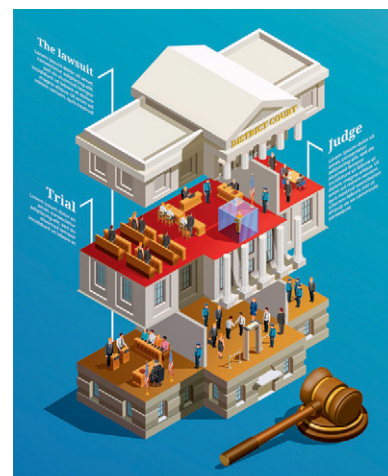
“ The presumptive scheme “Section 44AD” applies to persons carrying on an “eligible business,” and receipt from a partnership firm does not constitute an “eligible business” of the partner. ”

though not directly addressing Section 44ADA, is cited for the proposition that a partner can maintain books of account and be assessed on remuneration received from the firm as “gross receipts.” The Kolkata Tribunal held that remuneration and other receipts by a partner from a professional firm can be considered “gross receipts” for purposes of the statutory book-keeping requirement under Section 44AB. If amounts constitute gross receipts for audit purposes, the reasoning goes, they should similarly qualify under the presumptive scheme.

However, the *Sagar Dutta* decision involved a different statutory provision (Section 44AB audit requirements) and did not directly opine on Section 44ADA applicability. The decision is thus a supporting precedent by analogy but lacks the direct authority of *A. Anand Kumar*, as the distinction in “gross receipts” for audit compliance purpose and for presumptive taxation demands jurisdictional intervention.

The Foundational Partner Income Case: Ramnik Lal Kothari (Supreme Court)

The Supreme Court decision in *Commissioner of Income Tax v. Ramnik Lal Kothari* (1969) 74 ITR 57 (SC) is an ancient decision but remains significant in the context of taxation of partner’s income. The Supreme Court established that a partner’s share in the firm’s profits is “profits and gains of business” within the



meaning of the predecessor Income Tax Act, 1922. It held that a partner is entitled to claim deductions under Section 10(2) for expenditure incurred in earning the partner’s share of profits, even if such expenditure is not incurred by the firm itself.

This decision recognizes that partner’s income is taxed as business income and that partners have deduction rights of allowable business expenditure. A partner is not merely a passive recipient but an active participant in earning that income. However, this case predates the introduction of Section 44ADA and does not address whether partner income specifically qualifies for presumptive schemes.

The Auditing Framework Cases: Usha A. Narayanan and Amal Ganguly

Several tribunal decisions (such as *Usha A. Narayanan v. DCIT*, ITAT Kolkata, ITA 703/Kol/2012 and *Amal Ganguly* ITA 2135/Kol/2008) have held that remuneration received by partners is subject to audit requirements under Section 44AB when it exceeds statutory thresholds. These decisions are often cited for the proposition that such amounts constitute “gross receipts” for audit purposes and therefore should be similarly treated under presumptive provisions.



Analysis of the Ranu Gupta Decision: The Delhi Bench's Significant Interpretation

Facts and Lower Authority Rejection

Sh. Ranu Gupta (the order spells the name both as "Ranu" and "Renu") was a Chartered Accountant. During Assessment Year 2018-19, the assessee received Rs. 27,00,000 as remuneration from the firm. He offered 50% of this amount to tax under the presumptive scheme of Section 44ADA.

The assessee relied on *Sagar Dutta* (ITAT Kolkata) for the proposition that partner remuneration qualifies as gross receipts, *Ramnik Lal Kothari* (SC) for the principle that partner income is legitimate business income. The Assessing Officer rejected the claim on multiple grounds. First, the assessee was receiving remuneration as a working partner of the firm, not as an individual independently carrying on the profession. Second, the expenses incurred by the working partner for conducting the firm's affairs are the liability and responsibility of the firm and not of the individual partner,

stating that the partner is not truly "carrying on" the profession. Third, under Section 28(v) and Section 40(b), remuneration from the firm cannot be considered gross receipts of a profession carried out by the assessee individually.

The AO also relied on CBDT Circular 3/2017, arguing that the scheme is for "small taxpayers" and "small professional practices." Additionally, the AO noted that the assessee had previously declared the same remuneration as general business income in Assessment Years 2016-17 and 2017-18.

The Commissioner of Income Tax (Appeals) upheld the AO's order. The appellate authority agreed that remuneration received by a partner is distinct and separate from the professional income of the partner as an independent practitioner. The decision in *A. Anand Kumar* case is taken to support the AO's position. The CIT(A) essentially adopted the version of the Revenue's argument that if a partner cannot claim presumptive benefits for business under Section 44AD (*per A. Anand Kumar*), then certainly not for profession under Section 44ADA.

The Tribunal's Interpretation

The Delhi Bench of ITAT allowed the appeal. The Tribunal directed the Assessing Officer to reassess the assessee under Section 44ADA. This reversal contradicts both lower authorities and the precedent of *A. Anand Kumar*.

The Tribunal held that Section 44ADA does not impose any precondition that an assessee must first claim or substantiate actual expenditure to be eligible for the presumptive benefit. This reasoning rebuts the Revenue argument that because the assessee did not claim any expenses against the remuneration, the presumptive scheme should not apply. The Tribunal correctly recognized that the absence of claimed expenditure is irrelevant to eligibility. The deeming

provision operates automatically once the assessee opts for the scheme.

The Tribunal emphasized that Section 44ADA does not mandate that professional activity must be carried on in an individual capacity or independently. Nowhere in the statutory text is it stipulated that a professional partner in a firm is not eligible for presumptive taxation merely because the activity is conducted through a partnership.

The Tribunal invoked the principle of strict interpretation of taxing statutes as established by the Supreme Court in *Commissioner of Customs (Import), Mumbai v. Dilip Kumar & Co.* (2018) 9 SCC 1. This landmark decision, decided by a Constitutional Bench, reiterated that in construing taxation statutes, the Court has to apply strict rule of interpretation. The Tribunal applied the strict interpretation principle to reject the Revenue's implicit reading of conditions not found in the statutory text.

The Ranu Gupta Order's Critical Flaw: A. Anand Kumar Remains Unrebutted

A critical examination of the Hon'ble ITAT Delhi's order in *Sh. Ranu Gupta* (ITA No. 2224/Del/2025, June 2, 2025) reveals a fundamental defect. The Tribunal's actual reasoning occupies only paragraph 4 of the order and is very brief. The Tribunal talked about the main issues of the case in only one short paragraph in which the Tribunal summarily dismisses the Revenue's arguments without addressing the *A. Anand Kumar* precedent that formed the foundation of both the AO's and CIT(A)'s decisions.

This implies that the Tribunal did not engage with the *A. Anand Kumar*'s precedent or attempt to rebut the High Court's holding that a partner "is not carrying on any business" and therefore remuneration "cannot be termed

to be a turnover of the assessee.” The Tribunal does not address why identical reasoning would not apply to Section 44ADA or why a partner “is carrying on a profession” when the High Court concluded the partner is not carrying on a business.

Instead, the Tribunal’s entire decision rests on a single point: Section 44ADA contains no explicit statutory language prohibiting partners from claiming the benefit, and therefore, textual silence must be interpreted in the assessee’s favor under the Dilip Kumar doctrine of strict interpretation. The Tribunal does not dispute the observations in A. Anand Kumar. The brevity of the Tribunal’s reasoning and its failure to rebut the High Court’s judgment create a conflicting arena that the Tribunal is not attempting to overturn A. Anand Kumar but rather is circumventing it through a procedural technicality, i.e. statutory silence.

This is problematic for several reasons. The doctrine of strict construction of tax statutes (Dilip Kumar, mentioned supra) does not automatically override High Court precedent. The Tribunal’s assertion that silence favors the assessee is a choice of interpretation. The Tribunal has not addressed whether the principle underlying A. Anand Kumar - that a partner does not independently carry on the business/profession but rather receives income from the entity that does - applies with equal force to Section 44ADA. If this principle has merit, then silence in Section 44ADA does not erase it.

This decision is therefore significantly weakened by the Tribunal’s failure to engage substantively with the precedent that opposed it. When the matter reaches a High Court on appeal, the court can point out that the Tribunal never addressed A. Anand Kumar’s core reasoning, merely stated that statutory

silence favors the assessee, and failed to explain the basis for distinguishing the High Court’s holding. Consequently, the law on whether partners can claim Section 44ADA benefits remains unsettled, and the Revenue’s position holds considerable strength pending High Court resolution of the inter-bench conflict.

Relevance under the Income Tax Act 2025, applicable w.e.f. 01.04.2026

This issue remains highly relevant under the new Income Tax Act, 2025, because the core controversy continues almost unchanged even though the presumptive regime is now structurally consolidated into a single provision, i.e. Section 58 instead of the erstwhile Sections 44AD/44ADA of the 1961 Act. The new Act preserves a presumptive scheme for small resident taxpayers and professional assesseees, but it does not comprehensively resolve the specific question of partner-level eligibility, meaning that the interpretational conflict between decisions like A. Anand Kumar and the favourable ITAT rulings of Ranu Gupta will still determine how Section 58 is argued and applied in practice. In effect, while section numbering and some eligibility mechanics have changed, the analytical framework and

jurisprudence of ITAT Delhi in Ranu Gupta remain immediately useful under the Income Tax Act, 2025.

Conclusion: The Significance and Limitations of Ranu Gupta’s decision

The Ranu Gupta decision represents a significant victory for professional partners seeking to claim presumptive taxation benefits under Section 44ADA. By invoking strict interpretation principles and plain language reading, the Delhi Bench has held that Section 44ADA does not exclude partner remuneration from presumptive relief.

The decision offers hope, but not certainty. The Ranu Gupta decision is a landmark case that likely marks a turning point in the treatment of professional partners under presumptive taxation provisions. However, it is not yet the final word. Until a High Court affirms or reverses it, or until legislative clarification occurs, practitioners should regard the law as evolving. The law on this fundamental question remains unsettled, and the coming years will likely see further judicial pronouncements that may bring clarity.



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