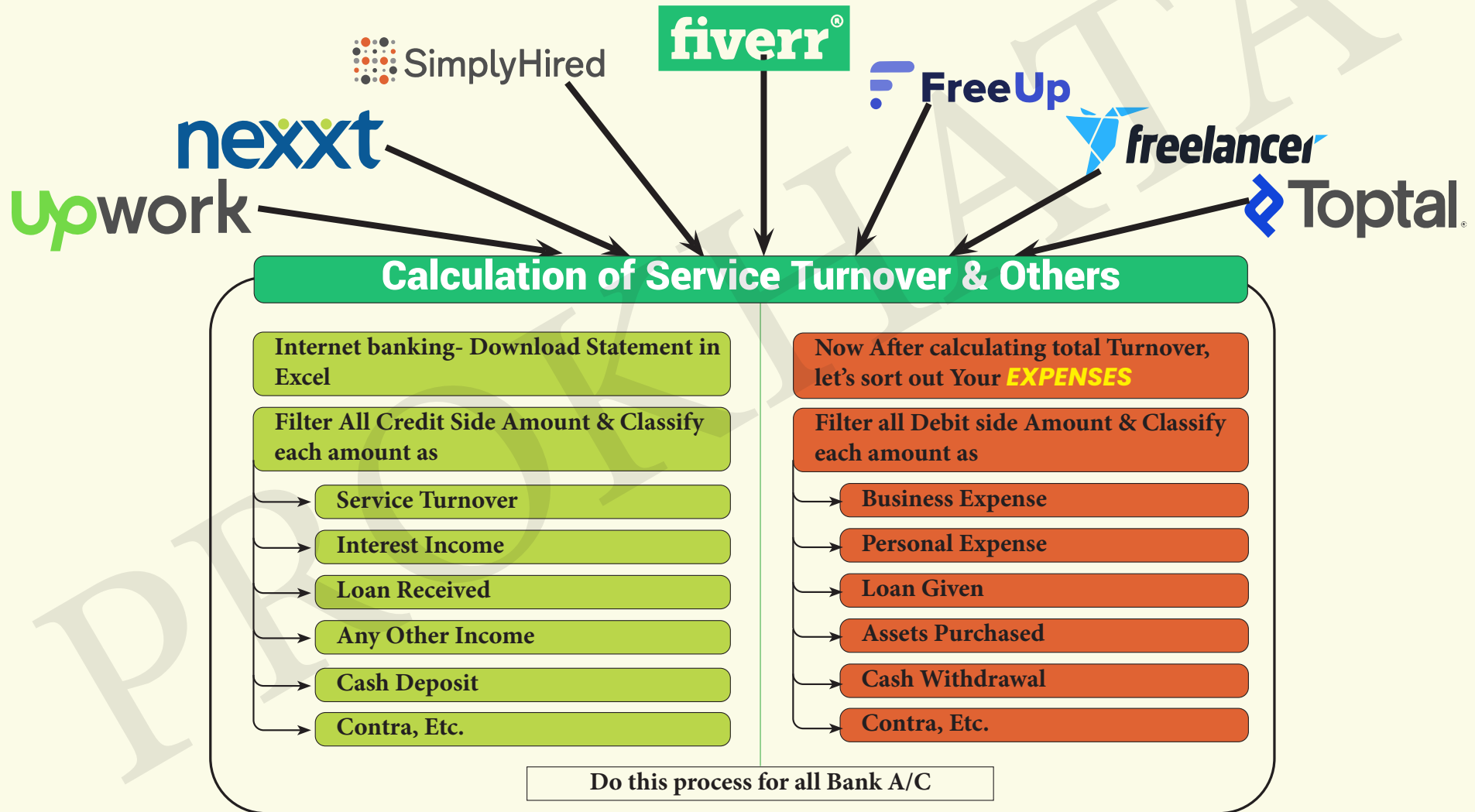


Freelancer

Freelancing is working for oneself, as opposed to working for an employer. Freelancers are typically self-employed, and may work for a variety of clients at any given time. A freelancer works on a variety of projects at the same time but for different clients.



<https://t.me/freelancertax>

Join Groups

<https://chat.whatsapp.com/IyHvKo3SQHJD0DFINd89mV>

GST on Freelancers

India has emerged to be a hub for passionate freelancers and thereby, the freelance industry has been on a constant growing phase. However, it goes without saying that this particular industry is an unorganised sector and lacks clear and specific rules and regulations. The freelance industry in the country comprises of professional freelancers of various professions, bloggers and consultants. From a wide range of interests starting with travel and food to technology and fashion, freelancing has been a platform for people to display their talents and be their own boss. With the implementation of Goods and Services Tax (GST), there has been quite a confusion and the new rules and regulations of the tax concerning this market has been vague. This article is a GST Guide for Freelancers with the intent to simplify the complexity around the subject.

Registration Requirement Under GST

When you are providing services of up to Rs. 20 lakhs in a financial year –

In such a case you are not required to register under GST in any case and therefore not liable to collect GST. You are not required to register whether you are providing services within the state, another state or even outside India. The rule that if sales is made in another state (inter-state) then it is required to register mandatorily is applicable only on sales of goods and NOT on sale of services. (Notification no. 10/2017 – IGST)

Some persons get confused whether the limit gets extended to Rs. 40 lakhs per year. But it is extended only for goods, for services it is still Rs. 20 lakhs.

This limit is Rs. 10 lakhs (which is generally Rs. 20 lakh) for persons who are registered in following north-eastern states: –

- Uttarakhand
- Arunachal Pradesh
- Assam
- Jammu & Kashmir
- Manipur
- Meghalaya
- Mizoram
- Nagaland
- Sikkim
- Tripura
- Himachal Pradesh

However, you can register voluntarily under GST for claiming back GST paid on input services used. You can not only claim it back but can get a cash refund (just like income tax refund) of the GST paid on input services used for export of services.

When you are providing services of more than Rs. 20 lakhs/10 lakhs in a financial year

In such a case, registration is mandatory. Even if you are providing all of your services outside India (100% Export of services) still registration is mandatory for you.

Calculating GST Turnover

Aggregate turnover is an important term that determines GST registration requirement. Turnover, in common parlance, means value of a business over a period of time. Aggregate turnover in GST can be described as the taxable value of supplies of goods and services, exempt supplies of goods and services, export of goods and services and inter-state supplies. Hence, aggregate turnover for GST includes supplies of goods or services, supplies exempt from GST and exports.

Purpose of Aggregate Turnover

The basic pre-requisite for registration in GST is the aggregate turnover. The laws of GST states that any turnover up to 20 lakhs is completely exempted from GST, 10 lakhs for special category states except the state of “Jammu and Kashmir”, which is fully exempted from registration, while anything above these values are subject to registration. The aggregate turnover is calculated by taking together the value in respect of the activities carried by all the entities of the concerned person on a pan- India basis.

Points to Remember :

-
-
-

How to calculate Aggregate Turnover?

Aggregate turnover can be calculated as follows:

Value of all (taxable supplies+Exempt supplies+Exports+Inter-state supplies) – (Taxes+Value of inward supplies+Value of supplies taxable under reverse charge + Value of non-taxable supplies) of a person having the same PAN(Permanent Account Number) across all his business entities in India.

Voluntary Registration – Effect And Benefits

A person can take registration in GST even if his turnover is less than Rs 20 Lakh / Rs 10 Lakh (in north-eastern states).

If a person takes voluntary registration, then also all provisions of GST will apply to him. In other words, he is required to collect and pay GST, file returns etc.

Taking voluntary registration is beneficial in cases when a person is incurring heavy expenses on which GST is payable. For example: A company gives ads on google for getting new clients, GST of 18% is payable in such cases. If such a company doesn't get registered, then such GST cannot be claimed. However, if such a company takes registration, it can claim GST credit which can be used later for offsetting GST liability and may apply for GST refund (subject to certain conditions).

Which is not inclusive?

The below given charges must be excluded while calculating aggregate turnover:

- Taxes with respect to CGST, SGST or IGST Acts
- Value of taxes payable on reverse charge mechanism
- Value of inward supplies of goods and services
- Value of Non-taxable supplies of goods or services like Alcohol, Petrol etc.

GST Rate On Freelancing

GST rate is applicable on the basis of the type of services provided. GST rate is 18% for following types of services:

- Accounting/Bookkeeping
- Software/App Development
- Technical services
- Call center or customer care
- Data entry
- Designing services
- Marketing Services
- Domain and hosting
- Voice over
- Language Translation
- Management/Consultancy Services

GST rate is 18% for almost all services provided via internet. You can also look for GST rate on government official website at <https://cbic-gst.gov.in/gst-goods-services-rates.html>

Export Of Services

For export of services, you are not required to charge GST if you have filed Letter of Undertaking (LUT). If you have not filed LUT then you have to charge GST, and thereafter you may apply for refund of such GST paid by filing GST Refund forms. LUT is a very simple form which doesn't require many details, so it is advised to file LUT rather than going for the refund route.

Prerequisite condition for export of services: –

- Client is located outside India
- Person providing services is located in India
- Payment must be received in convertible foreign currency.

This doesn't mean you must receive foreign currency in your bank account. Generally, payment is received in dollars by bank and they convert it to Indian rupees and transfer to your account. This will also be considered as an amount received in foreign currency but you must have Foreign Inward Remittance Certificate (FIRC) for the transaction. Read below for more details.

Points to Remember :

Providing Service Through Upwork, Fiverr, Freelancer, Guru Etc.

There is no difference in provisions of GST if services are provided via online marketplaces like Upwork, Fiverr or Freelancer.com etc. or provided directly to clients.

If services provided via any of the marketplace then liability to collect GST is on the freelancer only. The marketplace does not have any role in regards to GST.

Foreign Inward Remittance Certificate (FIRC)

You must have FIRC to prove that the payment has been received in foreign convertible currency, which is a necessary condition for treating it as an export of services.

FIRC is provided by your bank (in case of wire transfer). Generally the bank emails you FIRC at the time of crediting wire transfer into your account.

If the payment has been received by international payment gateways like Paypal or Payoneer or Stripe etc then you have to collect FIRC from these payments gateway. Payonner and Stripe provide you FIRC along with the payment. Beginning from February 2021, PayPal has also started to provide your FIRC freely for all of your payments.

Also, if you are applying for refund of GST, FIRC is a compulsory document without which you will not be able to get refund of GST paid at the time of export of service or refund of GST paid on input services used in export of service.

Taxability is as under

- When the client is located outside India -> It will be considered as an export of services. Make sure you have FIRC for the remittance received via Upwork or Freelancer.com. Generally online platforms provide options for direct bank transfer to India for faster payout but they do not provide FIRC. We suggest you take payment via wire transfer or using PayPal as they provide you FIRC which is a very important document to prove export of services.
- When the client is located inside India -> It will not be considered as an export of services as the client is located inside India and GST is applicable on such transactions.

Composition Scheme

There is a composition scheme for service providers having turnover of less than Rs. 50 lakhs. In this scheme, you can pay GST at a rate of 6% in place of applicable GST rate on the service provided by you (i.e. commonly 18%) but you can not take the benefit of input tax credit. Also, if you provide service to a person in another state or in another country, then you cannot register under the composition scheme.

Invoicing

General invoicing rules are applicable for freelancers. In other words, there are no special requirements for freelancers. The invoice should contain all the necessary information such as name, address, GSTIN of the service provider as well as the recipient, SAC of services, date, the value of service provided and so on.

If you are issuing invoice for services provided outside India under LUT and thus not charging GST, then you have to mention in invoice "Export of Services without payment of GST under LUT filed on 19th March 2021 having ARN AD080421001248J"

Beginning from 1st April 2021, If you are issuing invoice to another business having GST number then it is mandatory to write Service Accounting Codes (SAC) in such invoice.

Points to Remember :

- _____
- _____
- _____

Foreign Currency Invoice For Services

Generally, the invoice is raised in foreign currency when you provide services to a client outside India. However, at the time of filing GST returns, you are required to report your income in Indian Rupees. In such case, we suggest you to follow below procedure: –

- Raise invoice for your client in foreign currency.
- Convert the invoice in Indian Rupees using the applicable conversion rate as on date of invoice approved by RBI which is available on this website – <https://www.fbil.org.in/#/home> (you can find the exchange rate once you click on Foreign Exchange Tab).
- Use the above converted value for reporting in GST return as well as for your bookkeeping purpose.
- Once you receive the actual transfer, book the difference to Exchange Gain/ Exchange Loss account (direct expenses) in your books.

Note – No GST is payable on exchange gain or exchange loss.

Input Tax Credit

Input tax credit is the amount of GST which is paid on purchases and thus allowed as deduction from the GST payable to the government.

There are no special provisions for input tax credit for freelancers. They can take input tax credit of GST paid on all business purchases like rent, telephone bill, computer, laptop etc other than some purchases on which ITC is not allowed like purchase of motor vehicles, food bills etc.

GST Refund

If you are engaged in export of services then GST law allows you to get the GST refund into your bank account for the following: –

- on the input services/goods used to provide such export of service or
- GST charged and paid to the Government at the time of export of services.

The most important condition for claiming GST refunds are: –

- FIRC to prove export of services.
- The refund application has to be filed within 24 months from the end of the month in which such services are exported.

Tax Collected At Source (TCS) Under GST

Under Section 52 of CGST Act, e-commerce operators are required to collect TCS from the persons selling goods or services through them.

Freelancer.in is registered in India and thus liable to collect TCS at the rate of 1% on amount paid through them. Although, it is required to be collected only from persons who are registered in GST.

Upwork is also collecting 1% TCS from all the freelancers irrespective of registration under GST.

Is Import Export Code (IEC) required for exporting of services?

No, the IEC code is not mandatory for the export or import of services. It is only mandatory when you want to claim SEIS scheme benefit or you are providing services related to national security.

To sum it up

We have seen that GST registration for freelancers is a must in some instances. You cannot hide your income from the government. They will find it from the TDS deducted by your clients or from your bank payments. As all your accounts are linked with PAN and Aadhaar, the best option would be to go for GST registration. You can hire a CA to manage all your GST-related tasks.

Income Tax on Freelancers

Calculation of Service Turnover

Freelancers need to accumulate all of the receipts from their freelancing work completed for a financial year.

The income of the Freelancer is categorized under the income head "Business and Profession". The first step to file for income tax returns is to calculate your gross income during the year. As most of the time, the payment to a freelancer is done online these days, it is rather easy for a self-styled professional to calculate his or her gross income.

The gross income is to be calculated for a given financial year, i.e. from 1st April of a year to the 31st March of the next year. Loans taken (for any purpose) do not count as income.

Claiming expenses

- Freelancers must keep in mind the underneath statements to assert the expenses:
- The expense is incurred for performing the freelancing work.
- The expense is incurred throughout the financial year, for instance, in the FY 2020-21 for AY 2021-22.
- The nature of expense isn't personal, neither it is capital expenditure.
- The expense isn't incurred for any cause. That is an offense or prohibited by legal regulations.
- Expenses amounting to more than Rs 10,000 per day, if paid in cash, aren't allowed as a deduction.
- No Capital Expense can be claimed as Expense. For Example: Purchase of Laptop, Furniture etc.

All the expenses of the financial year that a freelancer makes towards securing the business are to be deducted from the gross annual income. The tax rates are applicable on the profits only. The business expenses can be in the form of the internet charges, the telephone expenses, and others. For instance, if you are a software developer, and work as a freelancer, you can deduct the expenses that you make towards software purchases and testing an Android application, when you make it.

For some expenses that relate to both personal and business purposes (like internet and telephone), see the monthly consumption and payment trends, and allocate a reasonable percentage towards the business (or deduction) purpose.

Depreciation Deductions

You should deduct all the expenses that relate to depreciation also, from the net annual turnover, or the gross income. Each year the equipments (including the electrical items) undergo wear and tear, and their value decreases.

The amount of decrease is termed as depreciation. Photographers for instance, can calculate the depreciation accumulated towards the cameras, and the printing equipment. Web freelancers can denote the depreciation that they incur towards the laptops, computers, and other devices and gadgets that they use.

Depreciation is an economically beneficial way of spreading the cost of a given asset over a period of time, rather than showing the expense in an upfront manner, as these gadgets are used for a long period of time.

If you are working in a rented space, you can claim for the rent exemptions. The fee that is paid by you towards gaining or holding membership of a professional association, and the business subscriptions, are also exempt from taxation.

Hence all kinds of expenses that are made by freelancer towards business purposes are exempt from taxation. The expenses should be legal, and should not be made towards the personal purposes.

Points to Remember :

-
-
-

Include Income from All Other Sources

Apart from the income a freelancer gains from freelancing, he or she should also include other incomes in the ITR. Some of these incomes include:

- Gains made from a property, in the form of a sales gain, or a rental return
- Incomes accrued on the savings account, or Fixed Deposit, in the form of interest
- Incomes from trading in shares, equity, debentures etc.
- All kinds of other incomes
- Any income gained from the employer, in the extra hours that you worked during the year
- Any other income not specified here

Exemptions or Deductions

Just like the salaried individuals and the business persons, the freelancers can also claim plethora of deductions/ tax exemptions, when they file their income tax returns.

Deductions/ Tax Exemptions Under the Section 80

Section and its Part	Deduction/Tax Exemption Provided
Section 80C	Offers a deduction of up to Rs 1.5 Lakhs, for payments made towards the life insurance policies, provident fund, superannuation, tuition fees, construction/purchase of any residential property/fixed deposits etc.
Section 80 CCC	Tax deductions for investments made towards the pension plans. The maximum exemption limit is Rs 1.5 lakhs
Section 80 CCD	Exemptions towards investments made in the Central Government Pension Schemes. Both, contributions made by the employer, and the taxpayer, are exempt from taxation, provided the investment made does not increases 10% of the salary of the individual
Section 80 CCF	The exemptions are provided for investments made in the infrastructure bonds (long term) that are notified by the Government of India. The section offers a maximum exemption of Rs 20,000
Section 80 CCG	The section provides a maximum deduction of Rs 25,000 for the investments made in the government Equity Saving Schemes, to certain specified Indian citizens and residents
Section 80 D	Under this section, expenses made towards the payment of premiums of the health insurance policies are exempted. The freelancer can also buy the policy for spouse or child, and claim the deductions
Section 80 DD	The section provides deductions towards treatment of normal and severe disabilities, which may go up Rs 1.25 lakhs
Section 80 DDB	Exemptions towards treatment of certain specified diseases
Section 80 E	Deductions towards loan taken for education purposes
Section 80 EE	The Section is exclusively for individuals, and exempts the payments made towards a loan, for buying a property for residential purposes
Section 80 G	The Section offers up to a 100% deduction for the donations made to the charitable funds, including the Prime Minister Relief Fund, and the National Defense Fund among others

The Section 80 also has some other sub-sections, which provide for tax exemptions.

Points to Remember :

○ _____

○ _____

○ _____

Credit the TDS Deductions

All the income that a freelancer gain, after the TDS (Tax Deducted at Source) has been reduced from it, is useful towards exemptions. The clients often deduct the TDS when they make payments to a freelancer. You can claim the TDS for freelancers deductions, when filing the ITR form, and save good amounts of money.

The freelancer can use the Form 26 AS for the purpose. See all the TDS taxes deducted online itself here, at TRACES. The form is linked to the PAN number, and helps you know all the TDS that have been deducted. While filing the ITR, be sure to include all the deductions.

Advance Tax

When the total tax liability of the freelancer is more than Rs 10,000, he or she may also be required to pay the Advance Tax. Advance Taxation is the payment of taxes during frequent intervals, in a given year, instead of paying the tax once, during a given year. If you fail to pay this tax, there would be interest charged on your final tax account, under the Section 234 B, and 234 C, of the Income Tax Act.

Presumptive Taxation

Freelancers can also use the Presumptive Taxation method, and escape the tedious task of account bookkeeping, when they earn an income less than Rs 50 Lakhs during the given financial year.

This scheme was earlier only available to the business men, but now it extends to include the freelancing professionals as well. The tax is levied @ 8% of the total gross annual income for the businessmen. For instance, if a businessman earns a turnover of Rs 100, he or she can denote Rs 8 as profit. The income is charged under "Profits and Gains", under the "Business and Profession" head.

The new **section 44ADA**, which was inserted into the 44AD of the Income Tax Act, brings the professionals into the purview of the tax relief. The presumptive assumption rate is 50% for the freelancers. Hence, on Rs 100 turnover, the profit will be assumed to be Rs 50.

Income Tax Law distinguishes freelancers into two categories. The first category includes the specified professionals and rest fall in the second category. As per Section 44AA, for the first category following professions have been Specified :

- Profession of Legal
- Profession of Medical
- Profession of Engineering
- Profession of Architecture
- Profession of Accounting
- Profession of Technical Consultancy
- Profession of Interior Decoration
- Profession of Film Artist
- Profession of Authorised Representative

Presumptive Taxation

Sec 44ADA contains the provision for computing gains from profession on a presumptive basis.

“A sum equal to or higher than 50 % of the total gross receipts”

shall be deemed to be the gain from such profession under the head "Profits and gains of business or profession.”

In simple words, if a person is a specified professional and having gross receipts less than or equal to Rs. 50 lakhs then sec 44ADA is for him!

As per sec 44ADA, he has to offer at least 50% of his gross receipts as profit i.e. the amount on which tax shall be levied. or, we can say out of your gross receipts, government considers 50% as expenses and 50 % as profit.

Claiming expenses under 44ADA

Any deduction covered u/s 30 to 38 i.e. expenses incurred in relation to your business or profession shall be deemed to have been already given effect and therefore no deduction under those sections shall be allowed. Which means once offering income for taxation under this section will abate from claiming rent, commutation, telephone bills etc. However, deduction under Chapter VIA (Sec 80C, 80D etc.) such as LIC, PPF, Medclaim etc shall continue to be allowed.

Maintaining Books of accounts for freelancers u/s 44ADA?

The best part of section 44ADA is that the persons opting this are freed from the burden of maintenance of book keeping and thereby from audit of those books. However, under the following situations, an assessee is required to keep and maintain books of account as per section 44AA and get them audited u/s 44AB :

- If an assessee claims profits and gains from the profession lower than 50% of gross receipts and his total income exceeds the basic exemption limit.
- If an assessee is a specified professional but his gross receipts exceeds Rs. 50 lakhs due to which he is unable to opt sec 44ADA.

Books of accounts are required to be maintained?

The books of account which are required to be maintained by the specified professionals have been specified in Rule 6F of Income Tax Act, 1961. They are namely,

- Journal, • Ledger, • Cash book, • Original as well as carbon copies of bills issued and • The Payment vouchers.

But this requirement of maintenance of books is to be fulfilled only if gross receipts of a person carrying on specified profession exceeds Rs. 1,50,000. This limit is to be checked in all the three immediately preceding years. And in case of a new profession, only if it is likely to exceed Rs.1,50,000 in the year of set up.

In simple words, the books specified under Rule 6F are not required to be maintained only in case of following :

- Those specified professionals who are eligible to opt for section 44ADA.
- Those specified professionals whose gross receipts does not exceed Rs. 1,50,000 and are also not eligible to opt section 44ADA.

What is audit u/s 44AB?

A person is required to be audited u/s 44AB, if he falls under the below criterias :

• If a person carries a business and

1. His total turnover exceeds Rs. 1 crore in any previous year or [in case 44AD, limit is 2 Cror]
2. Profits and gains u/s 44AE or u/s 44BB or u/s 44BBB are claimed lower than the deemed profits in any previous year or
3. Profits and gains u/s 44AD are claimed lower than the deemed profits in any previous year and his income exceeds the basic exemption limit.

In simple words,

If a person is carrying a business and fulfill any conditions (a or b or c) then he has to get his accounts audited by a chartered accountant of such year. Similarly, if a person is carrying a profession and fulfill any conditions (a or b) then he also have to get his accounts audited.

In both the cases, the audit is to be done before a specified date (30th September) and audit report is to be furnished by such date in the prescribed form.

• If he carries a profession and:

1. His gross receipts exceeds Rs. 50 lakhs in any previous year or
2. Profits and gains u/s 44ADA are claimed lower than the deemed profits in any previous year and his income exceeds the basic exemption limit

Old Vs New Tax Regime: Which One Should You Choose?

While there are merits and demerits of both the old and new regimes, it becomes cumbersome for taxpayers to pick the best-suited tax regime. Here is a simplified assessment of both the regimes to answer a few pertinent questions

The Government of India introduced a new optional tax rate regime starting from April 1, 2020 (FY 2020-21), for the hindu undivided family (HUF). Consequently, Section 115BAC has been added to the Income Tax Act, 1961 (the Act) that prescribes reduced tax rates for individual taxpayers and HUFs on forgoing specified tax deductions or exemptions.

For an individual taxpayer, FY 2020-21 is the first instance where they get to choose between the old tax regime and the new tax regime while filing their income tax returns. In the wake of the Covid-19 outbreak, the due date to file the tax return which was on July 31, 2021. This had been extended to December 31, 2021. On December 28, the Central Board of Direct Taxes gave a one-time relaxation for verification of e-filed ITRs for assessment year (AY) 2020-21 which are pending for verification due to non-submission of ITR-V form or pending e-verification.

Features of the New Tax Regime

Lower tax rates

The new tax regime has widened the scope of taxation with seven tax slab rates ranging from 0% to 30% with the highest tax rate applicable on income above INR 15 lakh. Contrary to the new regime, there were four tax slabs in the old regime from 0% to 30% with the maximum rate applicable on income above INR 10 lakh.

Here's how applicable tax rates under both the regimes work:

Income Slab	Individuals (Aged below 60 Yrs)	Individuals (Aged below 60 Yrs)
Up to Rs. 2,50,000	Nil	Nil
Up to Rs 2,50,001 to Rs. 5,00,000	5.2%	5.2%
Up to Rs 5,00,001 to Rs. 7,50,000	20.8%	10.4%
Up to Rs 7,50,001 to Rs. 10,00,000		15.6%
Up to Rs 10,00,001 to Rs. 12,50,000	31.2%	20.8%
Up to Rs 12,50,001 to Rs. 15,00,000		26%
Up to Rs 15,00,001 to Rs. 50,00,000		31.2%
Up to Rs 50,00,001 to Rs. 1,00,00,000	34.32%	34.32%
Up to Rs 1,00,00,001 to Rs. 2,00,00,000	35.88%	35.88%
Up to Rs 2,00,00,001 to Rs. 5,00,00,000	39%	39%
Claiming Deductions and Ex- emptions	✓	X

In the case of the old tax regime, tax rates are as applicable to individuals below the age of 60 years, including non-resident individuals.

Deductions/exemptions to be forgone while opting for new tax regime

The government has taken cognisance of the fact that the Act has various exemptions and deductions which make compliance by the taxpayer and administration of the tax laws by the tax authorities a burdensome process.

To give relief to taxpayers the simplified tax rate regime requires specified tax deductions and exemptions to be forgone. Therefore, it is important to evaluate the impact of deductions/exemptions being claimed vis-à-vis the benefit of lower tax rates. Some of the popular tax exemptions/deductions which are not allowed under new tax regime include:

- Leave travel allowance (LTA)
- House rent allowance (HRA)
- Children education allowance
- Standard deduction on salary
- Deduction for professional tax
- Interest on housing loan

- Deduction for specified investments or expenses under Chapter VI-A such as:

– deduction under Section 80C towards contribution to Public Provident Fund, repayment of principal on housing loan, children's school fees, life insurance premium, etc.

– other deductions towards medical insurance premium, interest on education loan, etc.

Opting for the applicable tax regime

An individual or HUF taxpayer may opt for the new tax regime based on their specific situation and sources of income. Switching to the new tax regime can be done either on a year-on-year basis or only once. However, the frequency mostly depends on the source of income during the year.

- **Where income includes business or professional income:**

In the case where an individual or HUF has income from a business or profession, once the option to avail new tax rates for a financial year has been exercised, the new rates shall apply for subsequent years. However, the law provides such taxpayers' one single option of switching back to the old tax regime should their circumstances change. This switch-back option is available only once in a lifetime unless the taxpayer ceases to have any income from a business or profession.