ROYAL GOVERNMENT OF BHUTAN
MINISTRY OF FINANCE
DEPARTMENT OF REVENUE AND CUSTOMS

PUBLIC RULING

TREATMENT OF PRESUMPTIVE TAXATION WHERE INDIVIDUAL DERIVES INCOME FROM BUSINESS AND SOURCES OTHER THAN BUSINESS

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THE DEPARTMENT'S PUBLIC RULING

Section 551 of the Act authorizes the Department to make a public ruling setting out how the Act is to be applied.

Public Ruling is published as a guide for the public and Tax officers of the Department. It sets out the interpretation of the Department in respect of the particular tax law and the policy.

The Department may withdraw this Public Ruling either wholly or in part, by notice of withdrawal or by publication of a new Public Ruling.

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1. Objective

The objective of this Public Ruling is to explain:

1.1. The meaning and application of the expression ‘taxable income for an Income Year consists exclusively of income from a business’ in paragraph 1(1) of Schedule 2 to the Act.

1.2. Whether an individual who derives business income is disqualified from presumptive taxation under paragraph 1(1) of Schedule 2 merely because the individual also derives income from non-business sources during the same Income Year.

1.3. Whether the expression ‘a business’ limits an individual to one business or applies where the individual carries on more than one business.

2. Relevant Provisions of the Law

2.1. This Public Ruling takes into account laws which are in force as at the date this Public Ruling is published.

2.2. The provisions principally relevant to this Public Ruling are sections 10, 12, 13, 14, 16, 17, 18, 19 and 551 to 564 of the Act; paragraphs 1 to 3 of Schedule 2 to the Act; and Rules 151 and 152 to the Rules on Act.

3. Interpretation

In this Public Ruling, unless the context otherwise requires:

3.1. "Act" means the Income Tax Act of Bhutan 2025.

3.2. "Business income" means income properly classified under the Act as income from a business. The description used by a taxpayer, payer or contract is not conclusive.

3.3. “Department” means the Department of Revenue & Customs.

3.4. “Income year” means the period defined under the Act.

3.5. “Individual” means a natural person.

3.6. “Non-business income” is used as a convenient collective expression for employment income, investment income and income from other sources. It is not a separate category of income created by the Act.

3.7. “Presumptive taxation” means the method of determining tax payable under Schedule 2 to the Act.

4. Introduction

An individual may receive income from several sources in the same Income Year. For example, the individual may operate a shop, receive a salary from employment and earn interest from a bank deposit. The fact that all these amounts belong to the same individual does not mean that they come from the same source. The shop income comes from a business, the salary comes from employment and the interest comes from an investment.

The uncertainty arises because paragraph 1(1) refers to taxable income that consists 'exclusively of income from a business'. If the word 'exclusively' is read as describing every amount received by the individual, the provision may appear to require the individual to have no income other than business income. Under that reading, even a small salary or amount of interest would make the business ineligible for presumptive taxation.

That is not the interpretation adopted in this Ruling. Paragraph 1(1) looks at the source of the business income. If the income is earned from carrying on a business, it is income from a business for the purpose of this condition. The individual may also earn income from employment, investment or other sources. Such non-business income does not, by itself, make the individual's business ineligible for presumptive taxation.

5. Meaning of 'Exclusively of Income from a Business'

5.1. The expression must be read as a whole

The expression "exclusively of income from a business" should be read as a complete phrase. It identifies income arising from carrying on a business only and excludes income derived from other sources.

The income from a non-business source does not, by itself, disqualify an otherwise eligible business ineligible for presumptive taxation. The business may qualify if all the other conditions under paragraph 1 of Schedule 2 are satisfied.

5.2. Meaning of 'exclusively'

In this expression, 'exclusively' describes the character of the income from the business. The relevant income must come from the business itself. Income from employment, investment or any other non-business source does not affect the eligibility of an individual's business for presumptive taxation. Each income keeps the character of the source from which it arises.

5.3. Meaning of 'from a business'

The expression "from a business" refers to the total business income derived by an individual and is not limited to income from only one business. The article 'a' in the phrase 'a business' identifies business as a source of income. In this context, it does not mean 'one business only'. Therefore, an individual is not automatically disqualified for presumptive taxation merely because the individual carries on two or more businesses.

Where an individual carries on several businesses, the income and turnover of the businesses must be identified, and the applicable conditions must be checked. If the combined annual turnover that is relevant under paragraph 1(1) of the schedule 2 to the Act does not exceed Nu. 5 million and all the other conditions are met, the fact that there are multiple businesses, rather than one, does not by itself make them ineligible for presumptive taxation.

6. Examples

Examples of determining whether income from employment, investment or other sources, or income from more than one business, affects the eligibility of an individual's business for presumptive taxation:

6.1. Example 1: Income from Employment and one business

Individual A is employed by a company and also operates a sole proprietorship grocery business. During the Income Year, Individual A receives salary and earns income from the grocery business. The grocery business has annual turnover of Nu.2 million, less than Nu.5 million annual turnover threshold and all the other applicable conditions are met.

Based on the fact of the case, the salary is income from employment, while the income from the grocery shop is income from a business. In this case, the salary does not affect the eligibility of the grocery business for presumptive taxation. Therefore, the grocery business is eligible for presumptive taxation because its turnover is less than Nu. 5 million and all the other conditions under paragraph 1 of Schedule 2 to the Act are satisfied.

6.2. Example 2: Income from Investment one business

Individual B operates a tailoring business and also earns interest from a fixed deposit with a bank. The tailoring business has a turnover below Nu. 5 million and satisfies all the other applicable conditions under paragraph 1 of Schedule 2 to the Act.

Based on the face of the case, the fixed-deposit interest is investment income, while the income from the tailoring business is business income. The interest income does not affect the eligibility of the tailoring business for presumptive taxation. Therefore, the tailoring business is eligible for presumptive taxation because its turnover is below Nu. 5 million and all the other applicable conditions under paragraph 1 of Schedule 2 to Act are satisfied. The fixed-deposit interest remains subject to final tax at the rate of 10% under the applicable provisions of the Act.

6.3. Example 3: More than one business

Individual C operates a grocery shop, a tailoring shop and a repair service.

Businesses	Annual Turnover
Grocery shop	Nu. 1.5 million
Tailoring	Nu. 1 million
Repair service	Nu. 2 million
Total	**Nu. 4.5 million**

Since the combined annual turnover of the three businesses is Nu.4.5 million and does not exceed Nu.5 million annual turnover thresholds, the Individual C satisfies all the other applicable conditions under paragraph 1 of Schedule 2 to the Income Tax Act of Bhutan 2025.

The expression “a business” refers to business income generally and does not limit an individual to carrying on only one business. Accordingly, the grocery shop, tailoring shop and repair service are not ineligible for presumptive taxation merely because they are under the different line of business carried on by the same individual.

Therefore, Individual C is eligible for presumptive taxation because the combined annual turnover of all three businesses does not exceed Nu. 5 million and all the other applicable conditions under paragraph 1 of Schedule 2 to the Act are satisfied.

7. Disclaimer

This Public Ruling sets out the Department's interpretation of the expressions discussed above. It must be read together with the Act and the Rules. It does not remove any other requirement or exclusion that applies to presumptive taxation. The examples in this Public Reading are for illustration purposes only and are not exhaustive.

Department of Revenue and Customs
Ministry of Finance