



INSIGHTS ON

# TAX AUDIT

(under Income Tax Act)

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Presentation by

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Organized by



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# Tax Audit

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- What is Tax Audit ?
- Eligibility
- Presumptive Taxation
- Due Dates
- Structure of Tax Audit –
  - Report and
  - Statement of Particulars
- Procedure of Submission
- Penalty for Non-Compliance



# What is Tax Audit

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- It is an examination or review of accounts of any business or profession carried out by taxpayers from an **income tax** viewpoint.
- As the name suggests its audit under tax law. i.e. **Section 44AB** of the Income Tax Act, 1961.



# Assessee

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## Business

- Sole Proprietorship
- Limited Liability Partnership
- Private Company
- Public Company
- Joint Venture

## Profession

- Engineering
- Legal
- Architectural profession
- Accountant
- Medical
- Technical consultant
- Interior decoration

# Eligibility

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- A taxpayer is required to have a tax audit carried out if the sales, turnover or gross receipts of business exceed Rs 5 crore in the financial year. However, a taxpayer may be required to get their accounts audited in certain other circumstances.
- the taxpayer's cash receipts are limited to 5% of the gross receipts or turnover, and
- if the taxpayer's cash payments are limited to 5% of the aggregate payments.
- NOTE: *The threshold limit of Rs 1 crore for a tax audit is increased to Rs 5 crore with effect from AY 2020-21 (FY 2019-20)*

# PRESUMPTIVE TAXATION

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SECTION 44AD, 44ADA, 44AE, 44BB, 44BBA, 44BBB

# Presumptive Taxation – Section 44AD

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- Presumptive taxation for businesses is covered under section 44AD of the income tax act.
- **Turnover Criteria** - Any business which has a turnover of less than Rs 2 crore can opt to be taxed presumptively.
- **Condition**- They must declare profits of 8% for non-digital transactions or 6% for digital transactions, whichever one is applicable.
- **Exceptions** - The following businesses are excluded from presumptive taxation:
  - a. Life insurance agents.
  - b. Commission of any kind.
  - c. Running the business of plying, hiring or leasing goods carriages.

## Presumptive Taxation – Business - Section 44AD

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- **Example:**
- ABC Enterprise have gross receipts of Rs 1.5 Crore for FY and do not maintain books of accounts. ABC Enterprise have opted for presumptive taxation.
- During the year ABC Enterprise received Rs. 70 Lakhs through non-digital transactions (cash payments) and Rs. 80 Lakhs through digital transactions. What will be the income under the head business and profession?

### Solution:

- Income under the business and profession:  
For non-digital transactions :  $70,00,000 * 8\% = \text{Rs. } 5,60,000$   
For digital transactions :  $80,00,000 * 6\% = \text{Rs. } 4,80,000$   
Income under the head “Business or Profession” will be = **Rs 10,40,000**

# Benefits of Presumptive Scheme

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- In presumptive taxation under Section 44AD, your net income is considered as 8% of your turnover and you will pay tax on that income.
- If your receipts are in digital (non-cash) form then only 6% of your receipts is your net income and you will pay tax on that income.
- You don't have to maintain accounting records.
- You don't have to get your accounting records audited.
- You have to pay advance tax – but instead of estimating income and paying tax each quarter, you can pay all your advance tax before March 31.

# Presumptive Taxation – Profession – 44ADA

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- A professional having a gross revenue upto Rs 50 lakhs can opt for the presumptive scheme of tax wherein he can straightaway offer 50% of the gross revenue as his taxable income and pay taxes as per his slab rates on such income. Once he opts for this scheme, he cannot claim any of the profession related expenses as a deduction again.
- Further, anyone opting for this scheme is not bound by the mandate of maintaining books of accounts too.
- Further, he will be liable for tax audit in a scenario where he offers income lesser than the income arrived at on presumptive basis and also his income exceeds the basic exemption limit.

# Professionals carrying on non-specified professions

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- If you are carrying on any profession other than those discussed above, you would need to maintain such books of accounts so as to enable an assessing officer to calculate your taxable income as per Income tax laws.
- However, this mandate would arise only when income, if you are an individual, exceeds Rs. 2.5 lakhs or gross receipts are more than Rs. 50 lakhs in any one of the immediately 3 preceding years.

# Example

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Mr. X is a practicing doctor and has an annual income of Rs 50 Lakhs in financial year 2019-20. The actual expenses incurred by Mr. X for running his practice amount to Rs 5,00,000. The tax liability for Mr. X for FY 2019-20 is as follows:

<b>Particulars</b>	<b>Tax liability with Presumptive taxation</b>	<b>Tax liability without Presumptive taxation</b>
Income	Rs. 50,00,000	Rs. 50,00,000
Expenses	Rs. 25,00,000 (50% of income is eligible for deduction)	Rs. 5,00,000
<b>Taxable income</b>	<b>Rs. 25,00,000</b>	<b>Rs. 45,00,000</b>

Therefore it is evident that if MR. X follows presumptive taxation, he will be able to save from his tax outgo.

# Other Sections

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Section 44AE	Computing profits and gains of <b>business of plying, hiring or leasing goods carriages.</b>
Section 44BB	Computing profits and gains in connection with the <b>business of exploration, etc., of mineral oils.</b>
Section 44BBA	Computing profits and gains of the <b>business of operation of aircraft in the case of non-residents.</b>
Section 44BBB	Foreign companies engaged in the <b>business of civil construction, etc., in certain turnkey power projects.</b>

# APPLICABILITY

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(APART FROM CASES MENTIONED PREVIOUSLY)

# Business

Sr No	Case	Solution
1	Carrying on business (not opting for presumptive taxation scheme*)	Total sales, turnover or gross receipts exceed Rs 5 crore in the FY*
2	Carrying on business eligible for presumptive taxation under Section 44AE, 44BB or 44BBB	Claims profits or gains lower than the prescribed limit under presumptive taxation scheme
3	Carrying on business eligible for presumptive taxation under Section 44AD	Declares taxable income below the limits prescribed under the presumptive tax scheme and has income exceeding the basic threshold limit
4	Carrying on business which is declaring profits as per presumptive taxation scheme under Section 44AD	If the total sales, turnover or gross receipts does not exceed Rs 2 crore in the financial year, then tax audit will not apply to such businesses.

# Profession

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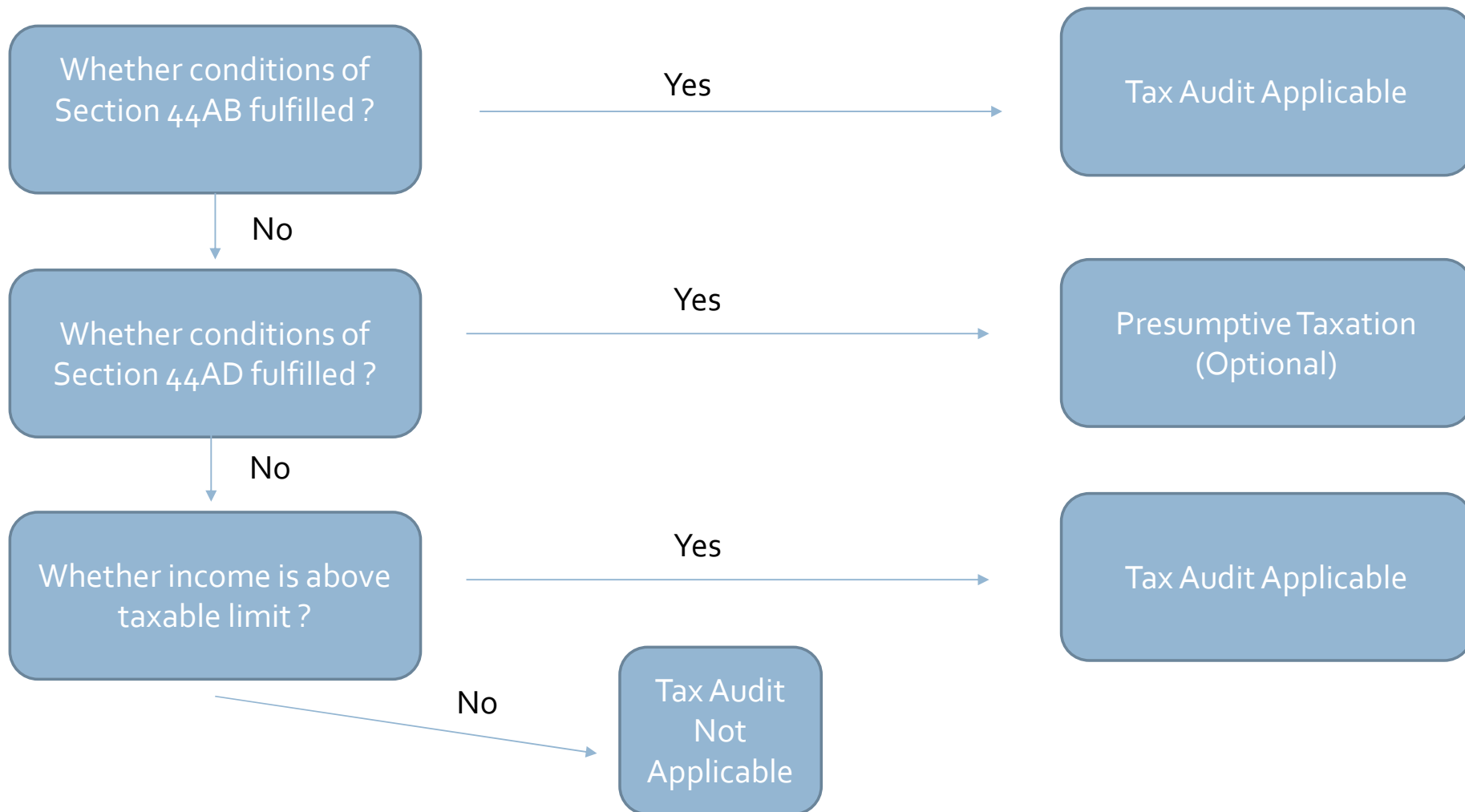
1	Carrying on profession	Total gross receipts exceed Rs 50 lakh in the FY
2	Carrying on the profession eligible for presumptive taxation under Section 44ADA	<ol style="list-style-type: none"><li>1. Claims profits or gains lower than the prescribed limit under the presumptive taxation scheme</li><li>2. Income exceeds the maximum amount not chargeable to income tax</li></ol>

# Business Loss

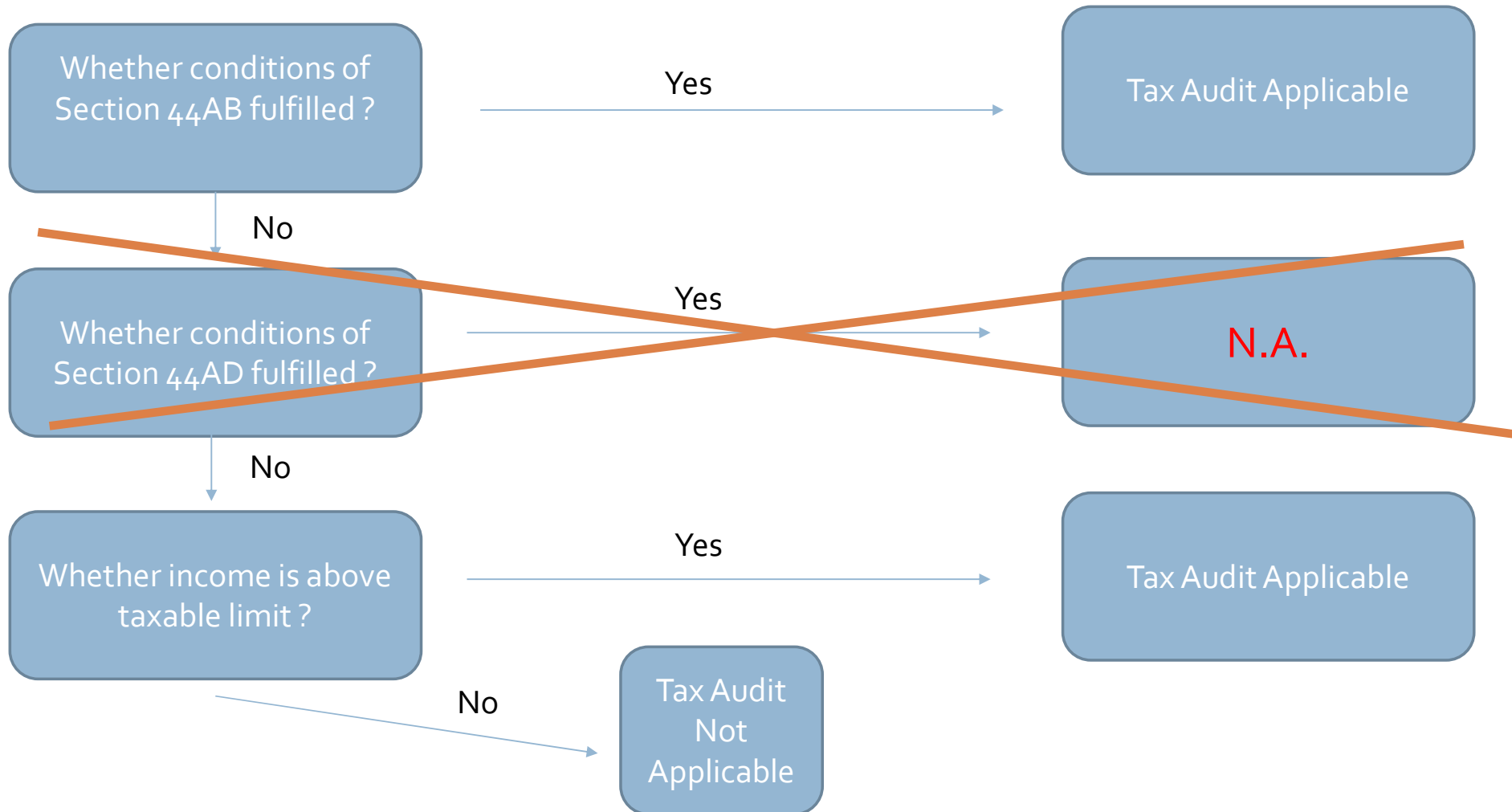
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1	In case of loss from carrying on of business and not opting for presumptive taxation scheme	Total sales, turnover or gross receipts exceed Rs 5 crore
2	If taxpayer's total income exceeds basic threshold limit but he has incurred a loss from carrying on a business (not opting for presumptive taxation scheme)	In case of loss from business when sales, turnover or gross receipts exceed 5 crore, the taxpayer is subject to tax audit under 44AB
3	Carrying on business (opting presumptive taxation scheme under section 44AD) and having a business loss but with income below basic threshold limit	Tax audit not applicable
4	Carrying on business (presumptive taxation scheme under section 44AD applicable) and having a business loss but with income exceeding basic threshold limit	Declares taxable income below the limits prescribed under the presumptive tax scheme and has income exceeding the basic threshold limit

# Flow Chart – Individual / HUF



# Flow Chart – Other than Individual / HUF / Partnership Firm



# DUE DATES

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# Due Date

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Particulars	Due Date
Due date for filing of tax audit report	31 <sup>st</sup> October of the Assessment year
Due date for return filing (if tax audit is applicable)	30 <sup>th</sup> November of the assessment year
Due date for return filing (if tax audit is not applicable)	30 <sup>th</sup> November of the assessment year
Due date for return filing (if covered under Sec 92A – Transfer Pricing)	30 <sup>th</sup> November of the assessment year

# STRUCTURE OF TAX AUDIT

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# Structure of Tax Audit u/s 44AB

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- 2 PARTS:

- 1) Audit Report under - Form 3CA / 3CB
- 2) Statement of Particulars – Form 3CD

# Audit Report – Form 3CA / 3CB

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- **Form 3CA**

- Form No. 3CA is furnished when a person carrying on business or profession is already mandated to get his accounts audited under any other law.
- Eg: LLP, Companies

- **Form 3CB**

- Form No. 3CB is furnished when a person carrying on business or profession is not required to get his accounts audited under any other law.
- Eg: Proprietor, Partnership

# Particulars of Form 3CA

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## **1) Point 1**

- Name and address of the taxpayer along with Permanent Account Number.
- Name of the Auditor (Individual/ Firm as the case may be).
- Law under which accounts have been audited (eg: Companies Act).
- Date of Audit Report.
- Period of Profit & Loss Account/ Income & Expenditure Account. (Beginning Date & End Date)
- Date of Balance Sheet.

# Particulars of Form 3CA

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## **2) Point 2**

- Declaration of attaching Form 3CD along with the audit report.

## **3) Point 3**

- Audit Observations/ Qualifications found in the details related to Form 3CD.

## **4) Point 4**

- Place & Date of signing audit report.
- Name, Address, and Membership Number of the Auditor.
- Stamp/ Seal of the Auditor.

# Particulars of Form 3CB

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- **Point 1**

- Date of Balance Sheet.
- Period of Profit & Loss Account/ Income & Expenditure Account. (Beginning Date & End Date).
- Name and address of the taxpayer along with Permanent Account Number.

- **Point 2**

- Address, where the books of accounts are kept
- Address of branches (if books are kept at branches also).

- **Point 3(a)**

- Audit Observations/ Qualifications/ Comments/ Discrepancies.

# Particulars of Form 3CB

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- **Point 3(b)**
- Declaration by the auditor regarding –
  - Obtaining all the information and explanations necessary for the audit.
  - Assurance that the organization (including branches) maintains proper books of accounts.
  - Balance sheet and Profit & Loss Account gives a true and fair view.
- **Point 4**
- Declaration of attaching Form 3CD along with the audit report.
- **Point 5**
- Audit observations/ discrepancies found in the details related to Form 3CD.

# Particulars of Form 3CB

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- **Point 6**
- Place & Date of signing audit report.
- Name, Address, and Membership Number of the auditor.
- Stamp/ Seal of the auditor.

# Statement of Particulars – Form 3CD

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- It is a 41-points detailed statement of particulars.
- All the details related to various aspects of the business and transactions have to be filled at appropriate places.
- A detailed explanation of each point of Form 3CD can be seen in the form.
- The changes in Tax Audit Report (TAR) for Clause 30C pertaining to General Anti-Avoidance Rules (GAAR) and Clause 44 pertaining to Goods and Services Tax (GST) compliance) of Form 3CD is deferred for the third time till March 2021. This time the deferment is due to COVID-19 pandemic.

# Statement of Particulars – Form 3CD

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- **Important Points**

- Reporting of ICDS – Income Computation and Disclosure Standards
- Reporting of 40A(3) – Cash Payments
- Section 269ss /t /ssu
- GST Details
- Fixed Assets Details
- Reporting in line with Audited FS
- **Attachment of Notes Appended to 3CD**

# Records to be Maintained

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These are the accounting records that have been prescribed under Rule 6F.

- **Cash Book** – A book to record all the cash receipts and payments which helps you know your cash balance at the end of the day or end of the month.
- **Journal** – You have to maintain a log of all your day to day transactions . In accounting terms, you have to record all the debits and credits, when you are following the mercantile system of accounting.
- **Ledger** – A book where all your entries flow from journal, has details of all the accounts and simplifies the preparation of your financial statements at the end of a year.

# Records to be Maintained

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- You have to maintain photocopies of all the bills or receipts
- Lastly, you have to maintain the original bills or receipts
- If you are into the medical professions, you must maintain these additional records too.
- Daily case registers with details of patients, fees received, services provided and date of receipt
- Stock details of the medicines and other consumable items on the daily basis

# Procedure of Submission

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- The tax auditor shall furnish tax audit report online by using his login details in the capacity of 'Chartered Accountant'.
- Taxpayer shall add CA details in their login portal.
- Once the tax auditor uploads the audit report, same should either be accepted/rejected by taxpayer in their login portal. If rejected for any reason, all the procedures need to be followed again till the audit report is accepted by the taxpayer.
- You must file the tax audit report on or before the due date of filing the return of income.

# Penalty of non filing or delay in filing tax audit report

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- If any taxpayer who is required to get the tax audit done but fails to do so, the least of the following may be levied as a penalty:
  1. 0.5% of the total sales, turnover or gross receipts
  2. Rs 1,50,000



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**THANK  
YOU**



KEY

TAKEAWAYS

From the

Session

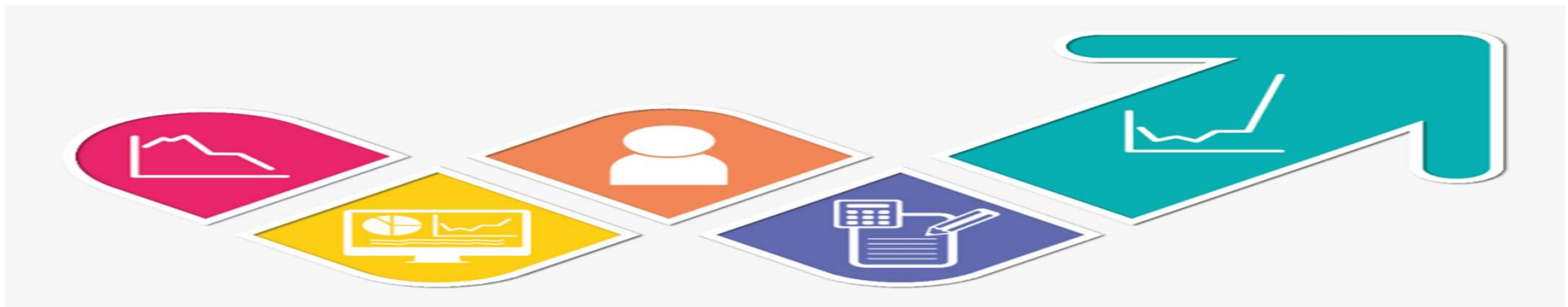
# Basics of Tax Audit

- Applicability
- Structure of Tax Audit
- Due Dates
- Penalty



# Conducting a Tax Audit - Flow

- Appointment Letter
- Engagement Letter
- Commencement of Audit
  - Asking for pre-filled Form 3CD
  - Required set of documents / Checklist for the purpose of audit
  - Seeking Audited FS and its review
- Preparation of Notes Attached to 3CD
- Sharing Draft file with Client and receiving approval
- Uploading from CAs portal and accepting in clients portal
- KYC – Code of Ethics



# Statement of Particulars – Form 3CD

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- **Important Points**

- Reporting of ICDS – Income Computation and Disclosure Standards
- Reporting of 40A(3) – Cash Payments
- Section 269ss /t /ssu
- GST Details
- Fixed Assets Details
- Reporting in line with Audited FS
- **Attachment of Notes Appended to 3CD**



# Points to be noted in Form 3CD

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- Disallow 1/5 of expenditure of car, repairs, etc – as general practice
- In clause 18, ensure the fixed assets chart is In line with the income tax return details
- Preferable to provide the PAN, address details under Clause 31..26gss. Further, all details in case of real estate..advance for booking received or repaid
- Ratios and other details mapping with FS

# Clause 34..TDS table

## ASSESSEE IS REQUIRED TO DEDUCT OR COLLECT TAX AS PER THE PROVISIONS OF CHAPTER XVII-B OR CHAPTER XVII-BB

<i>Sl. No.</i>	<i>Tax deduction and collection No. (TAN)</i>	<i>Section</i>	<i>Nature of payment</i>	<i>Total amount of payment or receipt of the specified in (3)</i>	<i>Total amount on which tax was required to be deducted or collected out of (4)</i>	<i>Total amount on which tax was deducted at specified rate out of (5)</i>	<i>Amount of tax deducted or collected out of (6)</i>	<i>Total amount on which tax was deducted or collected at less than sp. rate out of (7)</i>	<i>Amount of tax deducted or collected out of (8)</i>	<i>Amount of tax deducted or collected not deposited to the credit of central Govt. out of (6) and (8)</i>
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	

- 4. 100% - 194J
- 5. 80% - 194J
- 6. 80% - 194J
- 7. 8% - @10% of 80

- 8.- (lower deduction)
- 9.- (portion of 8)
- 10. if any

# Reference

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- Guidance note on Tax Audit
- Standards on Auditing
- Previous years Tax Audit Reports and ITR
- Previous year Audit File
- Income Tax Act



# Documentation

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- Permanent File – Prepare checklist and collect docs accordingly
- Current year File - Prepare checklist and collect docs accordingly
  - Maintaining records – clause by clause
  - Review copy
- Peer Review Docs –
  - Appointment and Engagement Letter
  - Reco of Audit Fees
  - Materiality Estimate
  - Audit Plan & Programme





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**THANK  
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