



Maintenance of Books of Accounts

Introduction

Section 44AA of the Income-tax Act mandates the maintenance of books of account by certain persons engaged in specified professions and businesses. It provides for the preparation and maintenance of books of account by a person if his income or gross turnover or receipts, as the case may be, exceeds the prescribed threshold limit.

Who is required to maintain books of accounts?

An assessee is required to maintain books of accounts if their income or gross turnover/receipts during the specified period exceeds the prescribed threshold limit specified in the income tax laws. Section 44AA specified the threshold limit as per the nature of business or profession which is given below:

- (a) Specified Professions
- (b) Non-Specified Professions
- (c) Business eligible for presumptive taxation scheme under Section 44AD, 44AE, 44BB, or 44BBB
- (d) Other Business

Specified Professions

Specified professionals are required to maintain their books of accounts irrespective of their gross receipts and income except where a presumptive taxation scheme under Section 44ADA is opted.

Specified professionals include any person engaged in Legal, Medical, Engineering, Architectural, Technical Consultancy, Interior decoration, Film artist, Authorized Representative, Accountancy Profession, Company secretary, or Information Technology.

Non-Specified Professions

Non-specified professionals are required to maintain books of account if the income from their profession or gross receipts of such profession exceeds the threshold given below:

- a) *For individual or HUF:* if the income from such profession exceeds Rs. 2,50,000 or Gross receipts exceeds Rs. 25 lakhs, in any of the 3 years immediately preceding the previous year.
- b) *For others:* if the income from such profession exceeds Rs. 1,20,000 or Gross receipts exceed Rs. 10 lakhs, in any of the 3 years immediately preceding the previous year.

Business eligible for presumptive taxation scheme under Section 44AD, 44AE, 44BB, or 44BBB

A Business entity opting for presumptive tax scheme under section 44AD, 44AE, 44BB, or 44BBB is required to maintain books of account in accordance with following norms:

- a) *Businesses eligible for presumptive tax scheme under section 44AD*
 - For resident individuals or HUFs - if the income of the assessee exceeds the maximum exemption limit and he has opted for the presumptive scheme in any of the last 5 previous years but does not opt for the same in the current year.
 - For resident partnership firm - The taxpayer has opted for the scheme in any of the last 5 previous years but does not opt for the same in the current year.



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- b) *Businesses eligible for presumptive tax scheme under Section 44AE* - if the taxpayer (engaged in plying, hiring, or leasing goods carriage) claims that the profits are lower than the deemed profits.
- c) *Businesses eligible for Presumptive Tax Scheme under Section 44BB* - if the taxpayer (non-resident assessee engaged in the exploration of mineral oil) claims that the profits are lower than the deemed profits.
- d) *Businesses eligible for Presumptive Tax Scheme under Section 44BBB* - if the taxpayer (a foreign company engaged in civil construction) claims that the profits are lower than the deemed profits.

Other Business

A Business entity is required to maintain books of account if income from business or gross turnover of such business exceeds the threshold given below:

- a) *For individual or HUF*: if the income from such business exceeds Rs. 2,50,000 or Gross turnover exceeds Rs. 25 lakhs, in any of the 3 years immediately preceding the previous year.
- b) *For others*: if the income from such business exceeds Rs. 1,20,000 or Gross turnover exceeds Rs. 10 lakhs, in any of the 3 years immediately preceding the previous year.

Note: Where a business or profession has been set up during the previous year, the threshold limit of income or gross turnover/receipts of the current year shall be considered.

Which books of accounts are required to be maintained?

Rule 2F of the Income-tax Rules prescribes the following books of accounts to be maintained under section 44AA:

1. For specified professions other than company secretary and information technology (where gross receipts exceed Rs. 1,50,000 in any of the 3 years immediately preceding the previous year) -
 - a) Cash book
 - b) Journal, if books of accounts are maintained according to the mercantile system of accounting
 - c) Ledgers
 - d) Carbon copies of bills and carbon copies or counterfoil of receipts issued by the assessee of value exceeding Rs. 25 (must be machine numbered or serially numbered)
 - e) Original bills issued to the assessee and receipts in respect of the expenditures incurred by him.
 - f) Signed vouchers, if bills and receipts are not issued and the amount of expenditure does not exceed Rs. 50 if the cash book does not contain adequate particulars in respect of these expenditures.

However, for medical professions, the following additional books are required to be maintained:

- Daily case register in Form 3C
- Inventory under broad heads of stock of drugs, medicines, and other consumable accessories used for the purpose of profession, as on the first and last day of the previous year.

2. For specified professions (in every other case), and non-specified professions & businesses where gross receipts exceed Rs. 1,50,000 in any of the 3 years immediately preceding the previous year -

Such books of account which may enable the Assessing Officer to compute the taxable income.



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Other Provisions

Where books of account and other documents should be kept and maintained?

Books of account and other documents should be kept and maintained by the person at the place where he is carrying on the profession or, where the profession is carried on at more than one place, at the principal place of his profession.

However, where the person keeps and maintains separate books of account in respect of each place where the profession is carried on, such books of account and other documents may be kept and maintained at the respective places at which the profession is carried on.

Period of maintenance

Books of account and documents should be kept and maintained for a period of 6 years from the end of the relevant assessment year.

However, if the assessment in relation to any assessment year has been reopened under Section 147 within the prescribed period, all the books of account and other documents which were kept and maintained at the time of reopening of the assessment should be kept and maintained until the assessment so reopened has been completed.

Penalty for non-compliance

If an assessee fails to maintain or retain books of account and other documents for the specified period in accordance with this provision, a penalty may be imposed under Section 271A of Rs. 25,000.