Recent amendments in Guidance Note

ICAI Guidance Note 2026

Para	Changes
5.13 Gross Receipts inclusion	Included Virtual Digital Assets (VDAs) and Carbon Credits under the term "gross receipts in business (only for dealer engaged in the business of dealing in such assets/carbon credits)
5.14 Gross Receipts exclusion	Added that the following items would not form part of "gross receipts in business'- • Bad Debts recovery • Section 41 – Remission of Liability • Capital Receipt (Not Credited to statement of P&L)
9.33 Tax Audit limits	• Change in the way tax audit limits are computed (see next slide)
9.36	Added a clarification that if more than one branch office of an auditee is audited by the same auditor, it should be counted as one tax audit assignment.

ICAI Guidance Note 2026 – Para 9.33

Sl#	Particulars	For A.Y.2025-26	From 1.4.2026
1	What is the maximum number of tax audit assignments which a member of the Institute in practice can accept and sign?	60 (to be reckoned relating to an Assessment Year)	60 in a Financial Year
2	What is the maximum number of tax audit assignments which a firm of chartered accountants in practice can accept?	60 tax audit assignments per partner in the firm, relating to an assessment year	60 tax audit assignments per partner in the firm in a financial year
3	Can an individual member who is also a partner in a firm sign more than 60 tax audits in a financial year by utilising the maximum permissible limit available to a firm based on number of partners?	Yes, he can sign more than 60 tax audit reports relating to an assessment year by utilising the maximum limit permissible for the firm.	No, he cannot sign more than 60 tax audits in the financial year. The limit of 60 is the overall limit which includes the reports signed by him as a proprietor and/or as a partner of a firm(s).
4	Are audits under clauses (c), (d) and (e) of section 44AB in respect of persons covered under section 44AE, 44ADA and 44AD included in the ceiling limit?	No, the audits under these clauses are not included in the ceiling limit.	No, the audits under these clauses are not included in the ceiling limit of 60 in a financial year.

Tax Audit Limits – UDIN Portal

Category	Tax Audit Count	UDIN Generation Count
Total Permissible Limit	**60**	-
Form 3CA 3rd proviso to section 44AB	0	0
Form 3CB Section 44AB(a)	0	0
Form 3CB Section 44AB(b)	0	0
Form 3CB (Combined) under section 44AB	0	0
Remaining Tax Audit Count	**60**	-

UDIN Portal – 44AB(a)

Preliminary Questions (if any)

Are cash transactions ≤ 5%?*

No

UDIN Portal – 44AB(c)

Preliminary Questions (if any)

Is the income claimed lower than the deemed profits and gains under section 44AE/44BB/44BBB? *

--Select--

Yes

No

UDIN Portal – 44AB(d) ~ 44ADA

Preliminary Questions (if any)

Is Total Gross Receipts <= Rs.50 lakhs*	--Select--
Is Total Gross Receipts > Rs.50 lakhs but <= Rs.75 lakhs and total cash receipts <= 5% of total gross receipts?*	--Select--
Is the income claimed lower than the deemed profits and gains under section 44ADA?*	--Select--
Is Total Income > Basic Exemption Limit*	--Select--

UDIN Portal – 44AB(e) ~ 44AD(4)

Preliminary Questions (if any)

Is section 44AD(4) applicable?* --Select--

Is Total Income > Basic Exemption Limit* --Select--

ICAI Guidance Note 2026

Para	Changes
9.38 UDIN	• Separate UDINs may be generated if same auditor for HO and Branch(es) • The ceiling count shall not increase. • Please refer - Addendum to FAQs on UDIN Ceiling for Tax Audit published by UDIN Directorate dated. 14th May 2026
10.6 FS-NCE	When formats as prescribed in the Guidance Note on Financial Statements of Non-Corporate Entities and the Guidance Note on Financial Statements of LLP issued by ICAI are not followed, the auditor should state the same in his observation/qualification in Para 3 of Form No. 3CA and Para 5 of Form No. 3CB.
13.13 ~ 13.14 DPDP Act	The DPDP Act, 2023 makes data protection a statutory responsibility for tax auditors handling personal information such as PAN, Aadhaar, salary and bank details. Auditors should assess their role under the law and adopt appropriate safeguards, including restricted access and secure use of cloud, digital and AI tools.
13.15 ~ 13.16 DPDP Act	Auditors should incorporate data-processing and confidentiality safeguards in engagement letters, staff arrangements and vendor contracts, while documenting security measures. The DPDP Act becomes fully applicable from 13 May 2027, so the Guidance Note only alerts members to prepare for future compliance.

Phase wise implementation of FS-NCE

Phase	Criteria	Applicable from
Phase I	Entities whose turnover exceeds Rs. 5 crores (FY 2025-26)	Accounting periods beginning on or after **April 1, 2025**
Phase II	All entities (FY 2026-27)	Accounting periods beginning on or after **April 1, 2026**

Changes in law impacting AY 2026-27 audit

Area	Position for FY 2025-26	Tax-audit impact
194T – payments to partners	**New from 1-4-2025**. Firm/LLP must deduct TDS @10% on salary, remuneration, commission, bonus or interest paid/credited to partner where aggregate exceeds ₹20,000	**Very high** – Clause 34 TDS checking
TDS thresholds	Several thresholds increased from 1-4-2025	Revise Clause 34 testing matrix
206AB / 206CCA	Higher TDS/TCS for specified non-filers **omitted w.e.f. 1-4-2025**	Do not apply old non-filer rate logic
206C(1H)	TCS on sale of goods omitted from 1-4-2025	Important reconciliation change
37(1) settlement expenses	Specified settlement expenditure expressly disallowable	Clause 21 scrutiny
43B(h)	Continues for Micro/Small Enterprise payments	Clause 22 remains a major risk area

Phase wise implementation of FS-NCE

Area	Position for FY 2025-26	Tax-audit impact
194T – payments to partners	**New from 1-4-2025**. Firm/LLP must deduct TDS @10% on salary, remuneration, commission, bonus or interest paid/credited to partner where aggregate exceeds ₹20,000	Clause 34 TDS checking
TDS thresholds	Several thresholds increased from 1-4-2025	Revise Clause 34 testing matrix
206AB / 206CCA	Higher TDS/TCS for specified non-filers **omitted w.e.f. 1-4-2025**	Low
206C(1H)	TCS on sale of goods omitted from 1-4-2025	Low
72A / 72AA	Carry-forward period in amalgamation / reorganisation tied to original predecessor's loss year	

Recommended read for tax audit

1
- Guidance note of ICAI, 2026 edition

2
- **Commonly found irregularities/ non-compliances** – A Study on compliances in reporting in tax audit report (aka TAQRB study)

3
- Technical guide on income computation and disclosure standards (ICDS)

4
- Approach to Tax Audit under section 44AB of the Income tax Act, 1961 (a Checklist)

5
- Quick referencer for tax audit u/s 44AB *(released by TAQRB in July 2023)*

6
- *Did you know - series / Tax Audit tips released by TAQRB*

Objective of Tax Audit under section 44AB

What exactly is tax audit?

01 A process to verify if books of accounts comply with GAAP and IT Act, 1961

02 Ensure that the books of accounts and records are properly maintained

03 Helps in various tax compliance and checking fraudulent practices

Why is tax audit required?

- Transactions recorded in the books of account are numerous, coupled with substantial data constituting supporting evidences.

Voluminous data to check

- Whereas time at the disposal of tax authorities is limited

Limited time with tax authorities

- Expertise helps in examining the data and come out with the findings on particulars listed out in the prescribed form.

CAs are experts of tax, accounting and auditing

Why is tax audit required?

- Streamline tax administration by presenting well-maintained accounts to tax authorities, **saving Assessing Officers' time for more critical and investigative tasks.**

Assist AO

- Ensure accurate maintenance of books of account and records in compliance with Form No. 3CD to reflect accurate financial information.

Accuracy

Checklist

Ensure

Prior to appointment	After appointment
• You are eligible to be appointed as tax auditor. • You did not provide accounting services to assessee. • You are not related to assessee • You have obtained appointment letter. • Tax audit appointment is within the prescribed ceilings limit.	• In case of change in auditor, you have communicated with outgoing auditor and no pending undisputed dues of outgoing auditor is pending • You have issued acceptance letter to the assessee • Engagement letter for tax audit has been issued to the assessee, seeking information useful for tax audit.

Statutory auditor v/s tax auditor

Can statutory and tax auditor be same?

- The tax audit can be conducted by the statutory auditor or any other chartered accountant in full-time practice.
- It is the decision of assessee whether to engage statutory auditor or appoint a different auditor to conduct the tax audit.
- The Guidance Note on Tax Audit issued by the ICAI suggests that if the statutory auditor of a person is also appointed to undertake a tax audit, it is advisable to carry out both audits concurrently.
- Form 3CA may be used in this situation

UDIN

Do we need UDIN for tax audits?

- UDIN has been made mandatory on all Corporate/ Non-Corporate Audit, Attest, and Assurance Functions.
- While issuing the tax audit report under Section 44AB, the auditor should generate an appropriate UDIN and the same is also required to be updated at the e-filing portal **(60 days' time limit).**
- Post generation you need to update the UDIN within 60 calendar days from the date of form submission on the income tax e-filing portal too.
- If not updated within 60 days, the department will treat such audit report/certificate as an invalid submission.
- UDIN once issued can be revoked within 48 hours only.

Can we revise tax audit report?

Tax audit report revision

Once filed, a tax audit report can be revised on the following grounds -

1. Revision of accounts of a company after its adoption in the annual general meeting.
2. Change of law, e.g., retrospective amendment.
3. Change in interpretation, e.g., CBDT Circular, Judgments, etc.

Further as per IT Rules, if there is a payment by a person after furnishing the original report which necessitates a recalculation of disallowance under Section 40 or Section 43B, a revised audit report can be obtained from an accountant and furnished before the end of the relevant assessment year for which the report pertains

Penalty for late/non-filing

Penalty u/s 271B – Upto AY 2026-27

- If any person fails:-
- to get his accounts audited in respect of any previous year
- to furnish a report of such audit as required u/s 44AB

the Assessing Officer may direct that such person shall pay, by way of penalty,

- a sum equal to one-half per cent of the total sales, turnover or gross receipts, as the case may be, in business, or
- a sum of Rs. 1.50 lakh, whichever is less.

Responsibilities of tax auditor

Can a tax auditor be held responsible if he does not complete the audit within the specified date?

1. Depend on the facts and circumstances of the case.
2. Normally, it is the professional duty of the tax auditor to ensure that the audit accepted by him is completed before the due date
3. If there is any unreasonable delay on his part, he is answerable to the Institute if the client makes a complaint.
4. Accept only those assignments which you can complete on time.

TAQRB

Para 14 – ICAI GN 2025 ed.

- ICAI has constituted the Taxation Audits Quality Review Board (TAQRB) in 2018
- Sole aim to review any report prescribed under the Income-tax Act, 1961 and GST, which are certified by CAs.
- Board may review suo-moto or on a reference made to it by any regulatory body, in respect of taxation matters.

Enterprises within the purview of the Board

- Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.
- Banks (including co-operative banks), financial institutions or entities carrying on insurance business.
- All commercial, industrial and business reporting persons, whose turnover (excluding other income) *exceeds rupees one hundred crore* in the financial year as may be decided by the Board.
- Holding and subsidiary entities of any one of the above.
- Such other category of persons which in the opinion of the Board make the public interest vulnerable due to susceptibility to non-compliance of reporting requirements prescribed under the Income-tax Act, 1961 and/or under the Indirect Tax Laws including Goods and Services Tax Law relevant to it and non-compliance of the reporting obligations of the tax auditor.

Para 14 – ICAI GN 2025 ed.

- **TAQRB, when finds any error or mistake or limitation in tax audit report, appropriate action, including *referring case for disciplinary proceedings*, is initiated.**
- Where no material non-compliances are observed by the Board, and only immaterial non-compliances are observed –
  - The Board may not refer the case to the Director (Discipline) of ICAI
  - The Board would appropriately bring the non-compliance to the attention of the tax auditor by way of an advisory.

Form 3CA or 3CB?

Rule 6G – Which form to select

Form 3CA	Form 3CB
• In case of a person carrying business or profession whose accounts are required to be audited under any other law. • Statutory auditor and tax auditor may be different.	• All cases other than those where form 3CA is applicable • Person whose accounts *are required to be audited under other law,* but accounting year is different from previous year *[Circular : No. 561, dated 22-5-1990]*

Rule 6G – Which form to select

Form 3CA	Form 3CB
• **Only 1 opinion is required:** • **True and correct:** The tax auditor is required to give the opinion as to whether the particulars are true and correct in form 3CD (Para 3) • No responsibility to provide true and fair opinion on financials.	• **2 separate opinions are required:** • **True and Fair:** Audit opinion on financial statements (para 3) • **True and correct:** Opinion on form 3CD (Para 5) • Separate space for observations / qualifications in respect of audit of financials statements and 3CD.

Opinion or Certification?

True and fair	True and correct
• Tax Auditor to state whether he has examined BS & PL for the year ended on 31st March and certify that they are in agreement with the Books of Accounts. • Make sure compliances to applicable GAAP and framework has been complied with while preparation of accounts and bring out discrepancies.	• Completeness of the information furnished, i.e., no items have been omitted in the information furnished; • Correctness of the information furnished. • Factual Accuracy based on test checks

Case studies – Form to select

Situation	Appropriate form
an LLP	**Form 3CA:** Audit under LLP Act is required if turnover is more than Rs. 40 lacs.
an LLP incorporated on 15th Jan 2026	**Form 3CB:** Audit under LLP Act would be for the period 15th Jan 2026 to 31st March 2026.
A company whose accounts has not yet been approved in AGM s	**Form 3CB:** Audited financials under Companies Act are not available.
A Company which is a subsidiary of foreign company, whose financial year is on calendar year basis	**Form 3CB:** Audited financials under Companies Act are not available for the period April to March.

Additional information

- As per the Guidance Note only qualifications/ observations should be reported in the space provided in the form No. 3CA/3CB itself while the additional information which **are not in the nature of qualification** could be attached as notes.

Form 3CA/3CB vis-à-vis SA700

SA 700 requirement

- Form No. 3CA and Form No. 3CB are required to be filed online in a preset form
- Same are not in line with the requirements of SA 700
- It is suggested that these respective responsibility paragraphs relating can be provided in the space provided for giving observations, etc., **under clause (3) of Form No.3CA or Clause (5) of Form No.3CB as the case may be.**

Form	Relevant clause for SA700 disclosure
3CA	Clause 3
3CB	Clause 5

SA 700 – Non compliance

Page 12 of TAQRB report:

- Many of the Tax Audit reports did not have the paragraphs relating to Assesee's responsibility and Tax Auditor's responsibility as required by the Guidance Note in respect of SA 700.
- Some of the tax audit reports contained a reference about the attached the notes/report which mention these paragraphs thereby complying with the requirement of SA 700.
- However, as per the Guidance Note on Tax Audit the **same are specifically required to be mentioned / reported** under clause (3) of Form No. 3CA or Clause (5) of Form No. 3CB, as the case may be.

Latest announcement of ICAI on SA700 Para 13.12 with Appendix XIII

408th meeting of council held from 3rd to 4th February 2022:

1. In many cases such prescribed auditor's report were required to be filed online in a preset form and, hence, it was not possible for the auditors to make necessary changes in these reports to bring them in line with the SA 700 (Revised).

2. Where the auditor's report were to be submitted in a physical form and not filed online, ***the concerned regulatory/ government agencies may not accept such audit reports which contained any changes*** made by the auditors to the prescribed formats to bring them in line with SA 700 (Revised)

3. The members may, in the situations described above, submit the auditor's report in the format/s prescribed ***under the relevant law or regulation until announcement of necessary change is made by the appropriate authority***. In such cases, the members would not be viewed as having not complied with the provisions of SA 700 (Revised).

4. In the background of the difficulties mentioned in paragraph 1 above, it may also not be possible for the auditors to suitably modify the prescribed format. Accordingly, it would not per se be possible for the auditors to state in their audit reports that the audit has been carried out in accordance with the Standards on Auditing. However, the auditors would be required to carry out the audits in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India.

Sample SA700 disclosures

Assesee's responsibility para

Sl. No.	Qualification Type	Observations/Qualifications
1	Others	Assessee's Responsibility for the Financial Statements: 1/2: The assessee is responsible for the preparation of the aforesaid financial statements that give a true and fair view of the financial position and financial performance (if applicable) in accordance with the applicable Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error. The assessee is also responsible for overseeing the entity's financial reporting process.
2	Others	Assessee's Responsibility for the Financial Statements and the Statement of Particulars in Form 3CD: 2/2 In preparing the financial statements, assessee is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless assessee either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.The assessee is responsible for overseeing the entity's financial reporting process.
3	Others	Assessee's Responsibility for the Statement of Particulars in Form 3CD: The assessee is also responsible for the preparation of the statement of particulars required to be furnished under section 44AB of the Income-tax Act, 1961 annexed herewith in Form No. 3CD read with Rule 6G(1)(b) of Income Tax Rules, 1962 that give true and correct particulars as per the provisions of the Income-tax Act, 1961 read with Rules, Notifications, circulars etc. that are to be included in the Statement. This responsibility also includes designing, implementing and maintaining internal controls, that are relevant and operating effectively for the preparation and presentation of the particulars furnished in Form No. 3CD that are free from material misstatement, whether due to fraud or error.

Sample SA700 disclosures

Auditor's responsibility para

4	Others	Tax Auditor's Responsibility: 1/3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the ICAI. Those Standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
5	Others	Tax Auditor's Responsibility: 2/3 In making those risk assessments the auditors consider internal financial controls relevant to the firm's preparation of the financial statements that give a true and fair view in order to design audit procedure that are appropriate in the circumstances, but not for the purpose of expressing an opinion on whether the firm has in place an adequate internal financial controls system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
6	Others	Tax Auditor's Responsibility: 1/3 We also provide assessee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. We are also responsible for verifying the statement of particulars required to be furnished under section 44AB of the Income-tax Act, 1961 annexed herewith in Form No. 3CD read with Rule 6G(1)(b) of Income-tax Rules, 1962. We have conducted my/our verification of the statement in accordance with Guidance Note on Tax Audit under section 44AB of the Income-tax Act, 1961, issued by the Institute of Chartered Accountants of India.

Standards on Auditing (SA)
Accounting Standards (AS)
Framework of FS
vis-à-vis Form 3CB

Framework of AS

Where the auditor issues **Form No. 3CB**, as the ***audit of financial statements*** is being done under section 44AB of the Income tax Act, 1961, the auditor should in relation to audit of the financial statements ensure compliance of:

- Accounting Standards issued by ICAI.
- Standards on Auditing issued by ICAI.
- Framework for presentation of Financial Statements issued by ICAI.

Are we in principle following all accounting standards issued by ICAI for non-corporate assessee's?

Framework of AS – Non companies

- Appendix I to the Compendium of Accounting Standards (as on April 1, 2025)
- Framework revised
- 2 Categories now – Large & MSME
- Test to be applied at the end of accounting period (e.g.; March 31)
- 27 Accounting Standards: AS-1 to AS-29, except AS-6, AS-8
- Separate presentation for detailed discussion

Additional Requirement for NC-MSME

- **Disclosure by MSMEs:** MSMEs availing exemptions/relaxations must disclose their MSME status and compliance with applicable Accounting Standards in the notes to financial statements.
- **Loss of MSME Status:** If an entity ceases to qualify as an MSME, full Accounting Standard requirements apply prospectively; prior-period figures need not be revised, but this fact must be disclosed.
- **Newly Qualifying MSMEs:** An entity becoming an MSME after previously being non-MSME can claim exemptions/relaxations only after remaining an MSME for two consecutive years.
- **Selective Exemptions Permitted:** An MSME may choose to avail exemptions/relaxations for only some Accounting Standards, but must disclose the Standards for which relief has been taken.
- **Voluntary Full Compliance:** An MSME may choose not to avail available exemptions/relaxations and comply fully with the relevant Accounting Standard requirements.
- **Partial Relief Allowed:** An MSME may avail only certain exemptions/relaxations within an Accounting Standard, provided the treatment and disclosure do not mislead users of financial statements.

Non-Compliance to AS
Disclosure in Form 3CB – Clause 3.a

"AS also apply in respect of financial statements audited under section 44AB of the Income-tax Act, 1961. Accordingly, members should examine compliance with the mandatory Accounting Standards when conducting such audit" - GN

When it is a matter of "True & Fair"

We report the following observations/comments/discrepancies/inconsistencies if any:

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the firm as at 31st March, 2026, and its Profit for the year ended on that date, except for non-compliance of following AS issued by ICAI:

- AS-10: Accounting policy on Property, Plant & Equipment as per note 1(f), impact of which is not ascertainable.
- AS-22: Accounting Policy on taxation as per note 1(g), which would have resulted in reducing the profits by Rs. ___
- *List out other non-complied AS with impact.*

Non-Compliance to AS

Alternate Disclosure in Form 3CB

- *The assessee has prepared and presented the financial statements by broadly following the accounting policies with regard to recognition and measurement principles in accordance with the various provisions of Income tax Act and Income Computation and disclosure standards hence not followed the Accounting Standards issued by The Institute of Chartered Accountants of India, which are* ***inconsistent*** *with the provision of Income Tax.*
- *In our opinion, these financial statements have been prepared under special purpose framework and hence need to be treated as special purpose financial statements only meant for the use under the provisions of Income Tax Act, 1961.*
- *We have considered the various provisions of the income tax act, rules, notifications, circulars etc while conducting the audit u/s 44AB of the Income Tax Act, 1961 hence any deviations from the other statutory laws, rules and regulations, agreements, commitments whether contractual or otherwise as applicable to the assessee having the impact on these financial statements are broadly outside the purview of the audit u/s 44AB of the Income Tax Act, 1961.*

Note credit: CA. Gopal ji Aggarwal

2nd alternative

In financials –

These financial statements have been prepared on a going concern basis and presented under the historical cost convention method on the accrual basis of accounting and in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI), *except to the extent of which are inconsistent with the with the various provisions of Income tax Act and Income Computation and disclosure standards.*

Audit report –

Kind attention is also invited to note XXX in respect of basis of preparation of financials.

New format of financial statement for non-corporate entities

Applicability of Section 44AB

Q: Whether a non-resident conducting business shall be subject to audit under Section 44AB?

A: Yes. There is no differentiate between residents and non-residents. This audit, however, would be confined only to the Indian operations carried out by the non-resident assessee

How to avail higher limit of 10 Cr!

Q: My Turnover from business is 3 crore. Can I avail of the benefit of the enhanced limit of Rs. 10 crores for the tax audit??

A: Yes, provided both conditions are met:

Condition A		Condition B
Cash receipts <= 5% of Total receipt	**&**	**Cash Payments <= 5% of Total Payments**

☞ Any payment or receipt by a bearer or crossed cheque (not an account payee cheque) should be considered as payment or receipt in cash.

Is it available to professionals?

Q: My gross receipt from profession is 74 lakhs. All receipts & payments are through banking channel. Am I required to get books audited??

A: Yes, since gross receipt is more than 50 lacs. The persons engaged in the profession are not entitled to claim an enhanced turnover limit for the tax audit.

FAQs on Turnover

Case study

- Sale of ABC Pvt Ltd during FY 2020-21 is Rs. 90 lakh and GST on such sales is Rs. 16.20 lakh. The total turnover including GST is RS. 106.20 lakh.

What is the turnover?

Sales, turnover or gross receipts

The *"Guidance Note on Terms Used in Financial Statements"* published by the Institute, the expression "Sales Turnover":

"The aggregate amount for which sales are effected or services rendered by an enterprise. The term `gross turnover' and `net turnover' (or `gross sales' and `net sales') are sometimes used to distinguish the sales aggregate before and after deduction of returns and trade discounts".

B.K. Jhala & Associates, [1999] 69 ITD 141 (PUNE)

- The words *'Sales', 'Turnover', Gross receipts'* are commercial terms and they should be construed in the commercial sense and in accordance with the normal rules of accountancy.
- Accordingly, 'Turnover' and 'Gross receipts' mean gross in-flow of cash receivables and other considerations arising in the course of ordinary activities of an enterprise from the sale of goods or from the rendering of services to the buyer or client.

Mangal Dayak Chit Fund (P.) Ltd, [2005] 92 ITD 258 (Hyderabad)

- It is well settled that the term sales, turnover and gross receipts have to be interpreted, with reference to the items which go into profit and loss account of a concern and that this has to be ascertained, *based on the method of accounting regularly employed by the assessee.*

- Items of receipts which are capital in nature do not go into the profit and loss account and are not turnover

Growmore Exports Ltd.
[2001] 78 ITD 95 (Mum. - Trib.)

- Neither the term 'goods' nor 'turnover' is defined in the Act. In general, turnover is meant to be the sale proceeds of the goods sold. In other words, commercially it would mean the amount of money turned over or drawn in a business, in a given time.

- Since the term 'turnover' is not specifically defined in the Act, nor specifically for the purpose of section 44AB, its meaning should be taken as commercially and commonly understood.

GST to be included or excluded?

- Where an assessee has opted for the Composition Scheme under the GST Act, the tax is not recovered from the customer and is debited to the statement of profit & loss as an indirect expense. Thus, the amount of GST paid by an assessee does not form part of his gross turnover.
- For others: if GST recovered from the customer is credited to Current Liability Accounts (Output CGST, Output IGST, or Output SGST) and payments to the authority are also debited to the said separate account, these should not form part of the turnover shown in profit and loss account *(exclusive method of accounting)*
- Guidance Note on Tax Audit also confirms that if tax recovered is credited to a separate account, they would not be included in the turnover.

Write backs

Are these part of gross business receipts for 44AB?

- Write back of amounts payable to creditors and/or provisions for expenses or taxes no longer required.

Whether the out-of-pocket expenses received by professionals shall form part of gross receipts?

Underlying principle for reimbursements

- If the assessee is merely reimbursed for certain expenses incurred, the same will not form part of his gross receipts *(back to back)*
- These amounts, if collected separately in advance or otherwise, should not form part of the "gross receipts".
- But in the case of charges recovered, which are not by way of reimbursement of the actual expenses incurred, they will form part of his gross receipts *(consolidated fee)*

"Accounts" – Sales found in search

- Delhi ITAT in the case of *Brij Lal Goyal (2004) 88 ITD 413* held that the word accounts have not been defined.

- Therefore, in view of Sec 34 of the Indian Evidence Act, the term accounts should be understood as accounts which are maintained in the regular course of business alone should be considered for computing the limit.

Turnover - Excluded

Included	Excluded
• Sale proceeds of any shares, securities, debentures, etc., as stock-in-trade, the sale proceeds thereof will form part of turnover.	• Sale proceeds of any shares, securities, debentures, etc., held as investment will not form part of turnover, unless held as Stock in trade.
• Discount allowed in the sales invoice will reduce the sale price and, therefore, the same can be deducted from the turnover	• Cash discount otherwise than that allowed in a cash memo/sales invoice is in the nature of a financing charge and is not related to turnover. The same should not be deducted from the figure of turnover.
• Special rebate allowed to a customer can be deducted from the sales if it is in the nature of trade discount	• Special rebate allowed to a customer cannot be deducted from the sales If it is in the nature of commission on sales, the same cannot be deducted from the figure of turnover.
• Turnover discount is normally allowed to a customer if the sales made to him exceed a particular quantity. This being dependent on the turnover, as per trade practice, it is in the nature of trade discount and should be deducted from the figure of turnover even if the same is allowed at periodical intervals by separate credit notes	• Sale proceeds of fixed assets would not form part of turnover since these are not held for resale
• Price of goods returned should be deducted from the figure of turnover even if the returns are from the sales made in the earlier year	• Sale proceeds of property held as investment property will not form part of turnover.

44AB v/s Partner’s remunereation

Mr. DB, a partner in DAKSM & CO LLP, a firm, has obtained a remuneration of Rs. 1.2 crores from a firm during the FY 2025-26

Q: Is it mandatory for Mr. DB to get the accounts audited since the remuneration received from a firm exceeds the specified limit?

Case laws on partner's rem.

Judgement	Citation
Where the assessee is not carrying on any business independently but is only a partner in a firm interest and salary received by the assessee cannot be constructed as business income under section 28(v) and, consequently, he is not eligible to opt for section 44AD with respect to interest and remuneration earned from partnership firm.	Anandkumar Vs CIT 278 Taxmann 342 (Madras HC)
Under section 28(v), any interest, salary, bonus, commission or remuneration, by whatever name called, due to or received by, a partner of a firm from such firm shall be chargeable under the head profits and gains of business and profession. However, partner does not do any business independently but firm was carrying on business in which assessee is only a partner, *therefore, remuneration received by assessee from partnership firm can not be treated as gross receipt/turnover*	Perizad Zorabian Irani v PCIT, Mumbai (WP No. 1333/2021) Bombay High Court dated 09.03.2022:

Sayqul Islam
[2020] 118 taxmann.com 347 (Gauhati - Trib.)

- Assessee, running a hardware store, filed its return declaring net profit of 0.99 per cent of turnover
- Assessing Officer (AO) found that turnover of assessee's business was more than Rs. 1 crore but assessee had failed to get accounts audited under section 44AB –
- AO applied provisions of section 44AD and estimated business profit at 8 percent of assessee's turnover –
- Accordingly, certain addition was made to assessee's income –

Q: Whether, on facts, Assessing Officer could have ventured into estimation only after rejecting books of account of assessee and thereafter make best judgment assessment under section 144?

A: Held, yes - Whether since Assessing Officer had gone for estimation of income without rejecting books of account of assessee, impugned order passed by him was to be set aside

Calculating speculative and F&O transactions

- Para 5.14 of ICAI's Guidance Note
- (para 5.10 of exposure draft)

Speculative transactions

- No delivery transactions.
- The contract is squared up by paying difference, which could be positive (profit) or negative (loss)
- Entry made in books only for difference, not for full value of contract notes.
- ICAI's GN- **The aggregate of both positive and negative values is to be treated as "turnover" for section 44AB purpose**.
- Growmore Exports Ltd*. – *The view of ICAI does not appear to be correct view. No turnover was effected at all by the assessee and hence was not liable to get the accounts audited under Section 44AB of the Act*

* 2001 78 ITD 95 Mum

Derivatives, Future & Options (F&O)

Such transactions are completed without the delivery of shares or securities. These are also squared up by payment of differences. The transactions may be squared up any time on or before the striking date. The buyer of the option pays the premia.

Such transactions to be clubbed for computing TO –

i) Total of favourable and unfavourable differences

ii) Premium received on sale of options. *However, where the premium received is included for determining net profit for transactions, the same should not be separately included.*

iii) Difference in respect of reverse trades entered

Delivery based transactions

- Where the transaction for the purchase or sale of any commodity including stocks and shares is delivery based whether *intended or by default,* the total value of the sales is to be considered as turnover.

Speculative / F&O
– Business or Non-Business

- In case such transactions are for the purposes of investment and income/loss arising therefrom is to be computed under the head 'Capital Gains', then the value of such transaction is not to be included in sales or turnover for deciding the applicability of audit under section 44AB

- However, in case such transactions are in the course of business, then the total of such sales are to be included in the sale, turnover or gross receipts as the case may be, of the assessee for determining the applicability of audit under section 44AB.
- Such delivery may or may not be intended.

Exclusion of TO for 44AB

Para 5.18 – ICAI GN 2025 edition

- Where the business is covered by section 44B or 44BBA, turnover of such business shall be excluded.

- Similarly, where the business or profession is covered by section 44AD or 44ADA or 44AE and the assessee opts to be assessed under the respective sections on presumptive basis, the turnover thereof shall be excluded.

Requirement to maintain books

Section 44AA

44AA – General rule

- Before we jump to scheme of presumptive taxation, it is important to understand requirements of maintenance of books of accounts.

Provisions	Types of persons	Condition for maintenance of books of accounts
S.44AA(1) *read with* R.6F(1)	Persons engaged in specified profession	• **TO from specified profession in any 1 out of 3 financial years*** *> Rs. 1.50 lacs* • **Newly setup** – the TO likely for the year of setup > Rs. 1.5 lacs ☞ Maintenance of books of accounts as per r.6F(2) is mandatory ☞ For Medical professionals, r.6F(3) also to be followed, in addition to 6F(2)

* Financials years immediately preceding to FY in question

44AA - General rule

Provisions	Types of persons	Condition for maintenance of books of accounts
44AA(2)(i) & 44AA(2)(ii)	Persons engaged in *non-specified professions* or businesses	*For Individual or HUF:* • **Income from PGBP** > 2.50 Lac; or • **TO**[1/2] **from business/profession** > 25 lacs[a] *For others:* • **Income from PGBP >** 1.20 Lacs; or • **TO**[1/2] **from business/profession >** 10 lacs[a] 1. **If old setup** – TO in any 1 out of 3 financial years[b] 2. **If new setup** – the TO likely for the year of setup

a. The exemption limit of Rs. 1.5 lacs turnover for persons engaged as authorized representatives or film artists, as provided in the proviso to Rule 6F(1), cannot supersede the explicit provisions of the act.
b. Financial year(s) immediately preceding to FY in question.

44AA – Exceptions to general rule

Provisions	Types of persons	Books of accounts
44AA(2)(iii)	Assessee has opted for presumptive scheme of taxation for an AY 44AE 44BB 44BBB	No requirement to maintain books of accounts if opted. Else mandatory + audit
44AA(2)(iv)	TO is less than 2 cr / 3cr + Total Income > threshold; and + Assessee had ***opted*** 44AD scheme + In any 1 of 5 subsequent year opted out of 44AD. *Let's call it "t"*	then for next 5 years *(call it "t+1" to "t+5") :* Mandatory to maintain books of accounts + Audit u/s 44AB (Even if TO is less 10/25 lacs)

Profession

"Profession" includes vocation

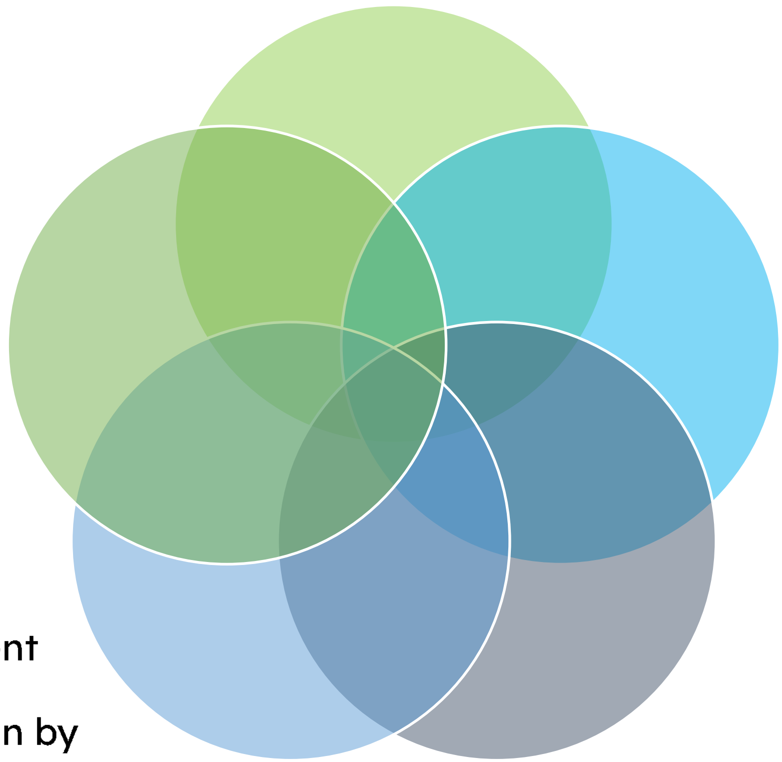
Profession is a word of wide import and includes "vocation" which is only a way of living

{Additional CIT v. Ram Kripal Tripathi [1980] 125 ITR 408 (All)}

"Profession" per courts

"Profession" involves occupation requiring **purely intellectual** or manual skill[1].

The word "profession" implies professed attainment **of special knowledge** as distinguished from mere skill. It involves labour, skill, education and special knowledge. Despite this distinction, if any, professional activity is carried on tinged with a commercial character, then it may amount to business[5].



"Profession" involves the idea of an occupation requiring purely **intellectual skill** or manual skill controlled by the **intellectual skill** of the operator [2]

The main difference between ordinary commercial business and profession lies in the amount of **knowledge or skill** employed in carrying it on though that may not be the sole criterion[3]

Profits should be dependent mainly upon the **personal qualification** of the person by whom it is carried on[4].

1. CIT vs. Manmohan Das (1966) 59 ITR 699 (SC)
2. Addl. Commissioner of Income-Tax v. Ram Kripal Tripathi [(1980) 4 Taxman 149(All)]
3. P. Stanwill & Co. Vs. CIT (1952) 22 ITR 316 (All)
4. William Esplen, Son & Swainston, Limited vs. Commissioners of Inland
5. Income Tax Officer vs Ashalok Nursing Home (P) Ltd. (2006) 103 TTJ Delhi 820

Who can be a "professional"?

- Can be an individual or group of individuals having certified degree of profession e.g. doctor, engineer, Chartered Accountant etc.
- Connected with a job that needs a high level of training and/or education.
- Individual who derives their income from his specific knowledge or experience.
- Individual who is engaged in one of the learned professions.
- Individual who works in a specified professional activity.

Specified Profession v/s Professional Services

Section	Expl. to 194J	44AA(1)
Expression	Professional Services	Specified Professions

Provision	**"professional services"** means
	• services rendered by a person in the course of carrying on
	• legal[1], medical[2], engineering[3] or architectural[4] profession or the profession of accountancy[5] or technical consultancy[6] or interior decoration[7] or *advertising*[8] or
	• such other profession as is notified by the Board
	  • for the purposes of section 44AA or
	  • <u>of this section</u>
		• Every person carrying on
		• legal[1], medical[2], engineering[3] or architectural[4] profession or the profession of accountancy[5] or technical consultancy[6] or interior decoration[7] or
		• any other profession as is notified by the Board in the Official Gazette

Specified Profession: Section 44AA(1)

Legal

Medical

Engineering

Architecture

Accountancy

Technical Consultancy*

Interior Decoration

[Not technical service]

Notified Specified Professionals u/s 44AA(1)

Company Secretary
S.O. 2675, dt. 25.09.1992

Information Technology
S.O. 385(E), dt. 04.05.2001

Category of specified profession as of today	Nos.
Specified professions within section 44AA(1)	7
Specified professions through notification u/s 44(1)	2
Total specified professions for section 44AA(1)	**9**

Not. No. 88/2008 dt. 21/08/2018

Notified "professional services" u/s 194J:

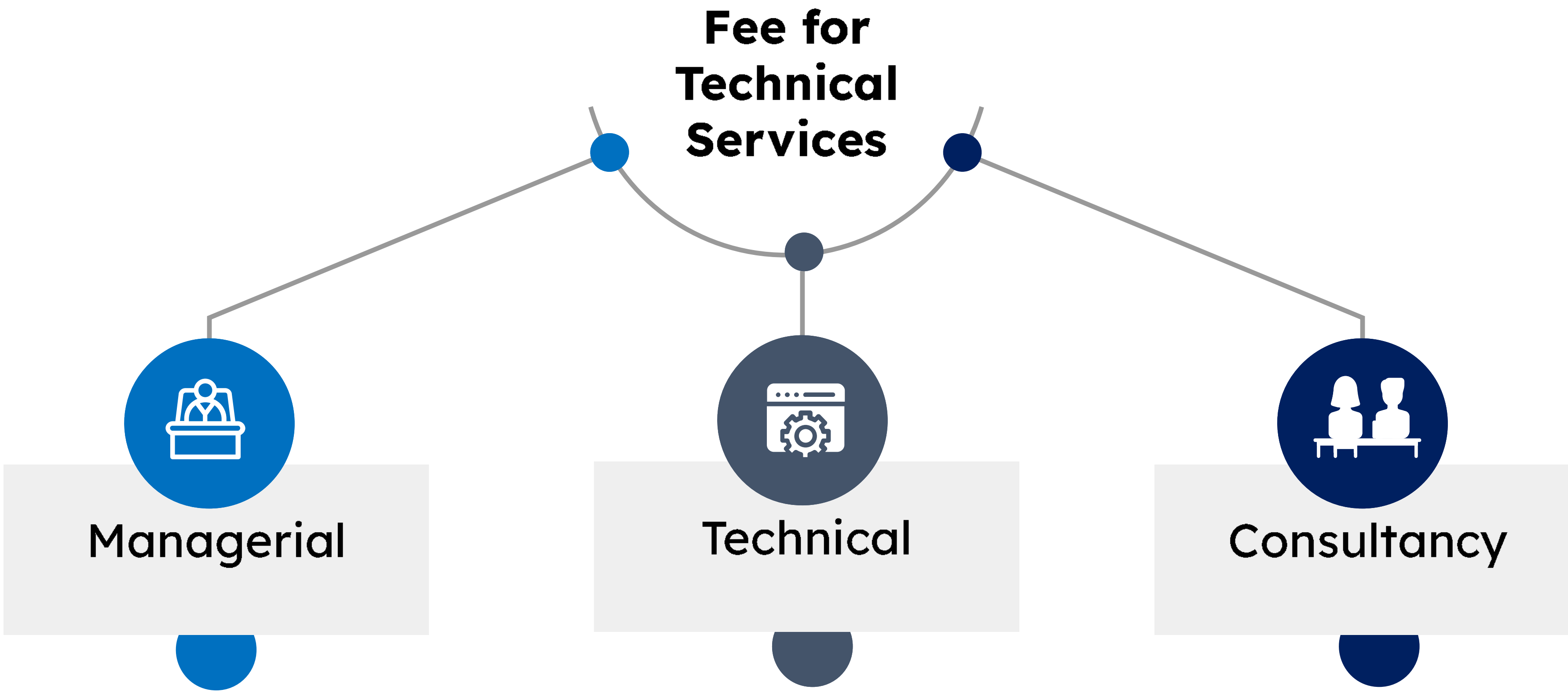
- Sports Persons,
- Umpires and Referees,
- Coaches and Trainers,
- Team Physicians and Physiotherapists,
- Event Managers,
- Commentators,
- Anchors and
- Sports Columnists

Consultation

"Consultation" meaning?

Decision by court	Citation
• Consultation means a meeting in which a party consults or confers and eventually it results in human interaction that leads to rendering of advice	GVK Industries Ltd. [2015] 371 ITR 453 (SC)
• The expression "consultancy involves giving of an advice / opinion / recommendation or counselling or advisory services by a professional. • Expertise in a technology is not essential while providing consultancy services. • However, an ***element of expertise or special knowledge*** on part of the advisor is essential. • Advisory services which merely involve discussion and advice of a routine nature cannot be classified as consultancy services.	Intertek Testing Services India (P) Ltd. [2008] 307 ITR 418 (AAR))
• The term consultancy services, in common parlance, means providing advice or advisory services by a professional. Usually, consultancy services are professional services requiring specialized qualification, knowledge, expertise of a professional person, and are more dependent on skill, intellect and individual characteristics of the person rendering it.	Endemol South Africa (Proprietary) Ltd. vs DCIT [2018] 98 taxmann.com 227 (Mum ITAT)

FTS: per s. 9(1)(vii) – *Expln. 2*



The terms "management," "technical" and "consultancy" do not have precise meanings and may overlap. E.g., services of a technical nature may also be services of a consultancy nature and management services may also be considered to be services of a consultancy nature.

Fee for technical Services

Explanation 2 to section 9(1)(vii) defines

"Fee for technical services", to means –

Any consideration (including lump sum consideration)

- for the rendering of any:
    - Managerial
    - Technical or
    - Consultancy services

    (including the provision of services of technical or other personnel)

Technical Consultancy

Decision by court	Citation
• For any consultancy to be treated as technical services, it would be necessary that a technical element is involved in such advisory. • The consultancy should be rendered by someone who has special skills and expertise in rendering such advisory.	Le Passage to India Tours & Travel (P) Ltd. [2014] 369 ITR 109
• Services are of technical nature when special skills or knowledge or education related to a technical field are required for the provision of such services. • A mere use of a standard facility does not result into availing of technical services although such facility has been developed with the usage of technology	E-bay International AG vs ADIT (2012) 25 taxmann.com 500 (Mum)
• The word "technical" would take colour from the words 'managerial" and "consultancy", between which it is sandwiched,	Bharti Cellular Ltd. (2008) 175 Taxman 573 (Delhi)
• "technical services" would obviously involve services rendered by human efforts.	Bharti Cellular Ltd. (2011) 330 ITR 239 (SC)

Technical Consultancy

Decision by court	Citation
• Management Consultancy cannot be considered as technical consultancy • The expression "Management Consultancy" could not be brought within the ambit of "technical consultancy". • Hence, the provisions of Section 44AA(1) of the Act cannot be made applicable to the assessee in the instant case	Pramod Lele v/s ITO (Mum-Trib) ITA No. 4306/Mum/2019
• Consultancy services which are not of a technical nature cannot be treated as technical services	Shell Global Solutions International BV [2015] 64 taxmann.com 3 (Ahmedabad - Trib.)

Elements of Technical Consultancy

CONSULTANCY

Advice / opinion / recommendation or counselling.

01

TECHNICAL

Technical element must be involved

02

EXPERT KNOWLEDGE

Expertise or special skill, knowledge or education on the part of advisor

03

HUMAN EFFORTS

involve services rendered by human efforts.

04

Examples

- Mr. A, a technical person, ***gives advice*** over call or in person to Mr. B regarding whether the later shall obtain a feasibility or project report from any technical person, by ***explaining benefits*** of such report and also ***discussing parameters*** to be taken care in such process, in respect of Mr. B's project. Accordingly, the consideration which will be paid by Mr. B to Mr. A would categorise for technical consultancy.

- If Mr. A prepares a feasibility or project report for Mr. B's project then it will involve activity carried out by Mr. A. Thus, the consideration will be for technical service categorise as FTS.

Are these professions?

- Nurse
- Nursing homes
- Hospitals
- Teachers
- Coaching Institute
- Accountants (not CA)
- IRP
- Actuary
- Insurance Surveyor
- a qualified CA who provides services through his consulting firm, without CoP.
- Advertising *(explanation to section 194J)*
- Vastu Consultancy
- Auctioneer

Authorized representative

- a person
- who represents any other person,
- on payment of any fee or remuneration
- before any Tribunal or authority constituted or appointed by or under any law for the time being in force,
- but does not include
  - an employee of the person so represented or
  - a person carrying on legal profession or a person carrying on the profession of accountancy

Film Artists – Rule 6F

"film artist" means any person engaged in his professional capacity in the production of a cinematograph film whether produced by him or by any other person, as-

- an actor,
- cameraman,
- a director, including an assistant director;
- a music director, including an assistant music director;
- an art director; including an assistant art director;
- a dance director, including an assistant dance director,
- editor, singer, lyricist, story-writer, screen-play writer, dialogue writer and dress designer.

What about Stunt & Voice over artists?

Professional Services & Professions

Professional Services u/s 194J	Specified Professions u/s 44AA(1)	Rule 6F
1. Legal profession 2. Medical profession 3. Engineering profession 4. Architectural profession 5. Accountancy profession 6. Technical consultancy 7. Interior decoration *8. Company Secretary* *9. Information Technology* 10. Advertising *11. Sports Persons* *12. Umpires and Referees* *13. Coaches and Trainers* *14. Team Physicians and Physiotherapists* *15. Event Managers* *16. Commentators* *17. Anchors* *18. Sports Columnists*	1. Legal profession 2. Medical profession 3. Engineering profession 4. Architectural profession 5. Accountancy profession 6. Technical consultancy 7. Interior decoration *8. Company Secretary* *9. Information Technology* As per ICAI GN, even these are professions	1. Authorised Representative 2. Film Artists a) an actor, b) cameraman, c) a director, including an assistant director; d) a music director, including an assistant music director; e) an art director; including an assistant art director; f) a dance director, including an assistant dance director, g) editor, singer, lyricist, story-writer, screen-play writer, dialogue writer and dress designer.

“Profession” includes vocation

Profession is a word of wide import and includes "vocation" which is only a way of living

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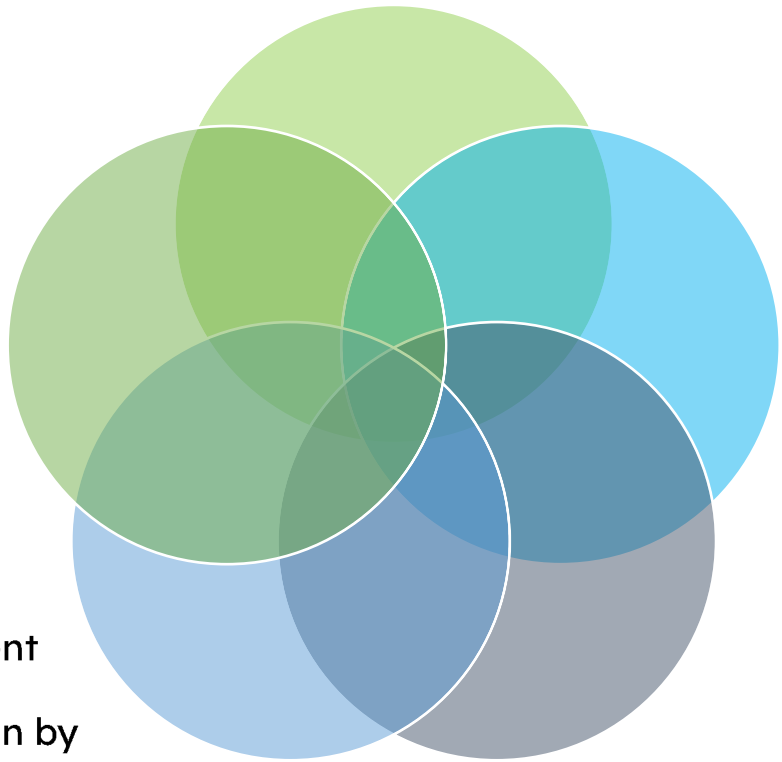
The word "profession" implies professed attainment **of special knowledge** as distinguished from mere skill. It involves labour, skill, education and special knowledge. Despite this distinction, if any, professional activity is carried on tinged with a commercial character, then it may amount to business[5].

“Profession” involves occupation requiring **purely intellectual** or manual skill[1].



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4. William Esplen, Son & Swainston, Limited vs. Commissioners of Inland
5. Income Tax Officer vs Ashalok Nursing Home (P) Ltd. (2006) 103 TTJ Delhi 820

Professional Services & Professions

Professional Services u/s 194J	Specified Professions u/s 44AA(1)	Rule 6F
1. Legal profession	1. Legal profession	1. Authorised Representative
2. Medical profession	2. Medical profession	2. Film Artists a) an actor, b) cameraman, c) a director, including an assistant director; d) a music director, including an assistant music director; e) an art director; including an assistant art director; f) a dance director, including an assistant dance director, g) editor, singer, lyricist, story-writer, screen-play writer, dialogue writer and dress designer.
3. Engineering profession	3. Engineering profession	
4. Architectural profession	4. Architectural profession	
5. Accountancy profession	5. Accountancy profession	
6. Technical consultancy	6. Technical consultancy	
7. Interior decoration	7. Interior decoration	
8. Company Secretary	*8. Company Secretary*	
9. Information Technology	*9. Information Technology*	
10. Advertising		
11. Sports Persons		
12. Umpires and Referees		
13. Coaches and Trainers		
14. Team Physicians and Physiotherapists		
15. Event Managers		
16. Commentators		
17. Anchors		
18. Sports Columnists		

As per ICAI GN, even these are professions

Presumptive taxation and its interplay with section 44AB

44AD

44AD – vis-à-vis 44AB/44AA

Sl#	Choice	44AB + 44AA
1	**Assessee does not opt for 44AD at all**	Normal Provisions of 44AA and 44AB shall apply
2	**Assessee opts for of 44AD for first time**	Not required
3	**Once opted, he opts out in any 1 out of 5 years**	
	- First year of opting out	Mandatory irrespective of turnover (till 2 or 3 cr*)
	- Next 5 years after opting out	Mandatory irrespective of turnover (till 2 or 3 cr*) + Can not opt 44AD
	- 6^{th} year onwards	Can again opt for 44AD at his choice

*From AY 2024-25, TO limit is increased to 3cr subject to certain conditions

Applicability of ICDS to 44AD?

Circular no. 10/2017, dated 23rd March, 2017

Q#3: Does ICDS apply to non-corporate taxpayers who are not required to maintain books of account and/or those who are covered by presumptive scheme of taxation like sections 44AD, 44AE, 44ADA,44B, 44BB, 44BBA, etc. of the Act?

Answer:

*** the ***relevant provisions of ICDS*** shall also apply to the persons computing income under the relevant presumptive taxation scheme ***.

For example, for computing presumptive income of a partnership firm under section 44AD of the Act, **the provisions of ICDS on Construction Contract or Revenue recognition** shall apply for determining the receipts or turnover, as the case may be.

Applicability of 44AB - Business

<table>
<tr><th>Sl#</th><th>Turnover</th><th>Eligible for presumptive u/s 44AD?</th><th>44AB Applicability</th><th>Cash Conditions</th><th>Remarks</th></tr>
<tr><td>1</td><td>> 10 Cr</td><td>NA</td><td>Yes</td><td>NA</td><td>44AB(a)</td></tr>
<tr><td rowspan="2">2</td><td rowspan="2">3 ~ 10 cr</td><td rowspan="2">NA</td><td>No</td><td>< 5%[1]</td><td>1st Proviso to 44AB(a)</td></tr>
<tr><td>Yes</td><td>> 5%[1]</td><td>1st Proviso to 44AB(a)</td></tr>
<tr><td rowspan="4">3</td><td rowspan="4">2 ~ 3 cr</td><td rowspan="2">Yes</td><td>if 44AD is opted: No</td><td>< 5%[2]</td><td></td></tr>
<tr><td colspan="3">If 44AD not opted this year & earlier too
then
44AB (a) read with 1st Proviso to 44AB(a) shall apply</td></tr>
<tr><td>No*</td><td colspan="3">44AB (a) read with 1st Proviso to 44AB(a) shall apply</td></tr>
<tr><td>44AD(4) is applicable
(opt in-opt out):
(NO)</td><td>Yes</td><td>< 5%[2]</td><td>44AB (e)</td></tr>
<tr><td rowspan="4">4</td><td rowspan="4">1 ~ 2 cr</td><td rowspan="2">Yes</td><td>if 44AD is opted: No</td><td>NA</td><td>1st Proviso to 44AB</td></tr>
<tr><td colspan="3">If 44AD not opted this year & earlier too
then
44AB (a) read with 1st Proviso to 44AB(a) shall apply</td></tr>
<tr><td>No*</td><td colspan="3">44AB (a) read with 1st Proviso to 44AB(a) shall apply</td></tr>
<tr><td>44AD(4) is applicable
(opt in-opt out):
(NO)</td><td>Yes</td><td>NA</td><td>44AB (e)</td></tr>
</table>

*Either total income is less than threshold, or not an eligible business, or not an eligible assessee, or engaged in specified profession u/s 44AA(1), or where turnover is more than 2 crore but cash component of receipts are more than 5%

Applicability of 44AB - Business

<table>
<tr><th>Sl#</th><th>Turnover</th><th>Eligible for presumptive?</th><th>44AB Applicability</th><th>Cash Conditions</th><th>Remarks</th></tr>
<tr><td rowspan="4">5</td><td rowspan="4">Upto 1 cr</td><td rowspan="2">Yes,
for section 44AD</td><td>if 44AD is opted: No</td><td>NA</td><td>1st Proviso to 44AB</td></tr>
<tr><td colspan="3">If 44AD not opted this year & earlier too
Then
No audit is required</td></tr>
<tr><td>No*</td><td colspan="3">No audit is required</td></tr>
<tr><td>Since 44AD(4) is applicable
(opt in-opt out): NO</td><td>Yes</td><td>NA</td><td>44AB (e)</td></tr>
</table>

44ADA

44ADA – Key provisions

- General
  - Override Section 28 to 43C
  - Deemed deduction u/s 30 to 38
  - Deemed WDV / Depreciation u/s 32
  - No benefit of additional salary / interest to partner deductible from presumptive income (in contrast to section 44AE)
- Scheme not available to Companies / HUFs
- Can LLP avail 44ADA?

44ADA

- Applies only to Resident assessee
- Only those assessee who are engaged in specified profession u/s 44AA(1) are eligible
- TO based eligibility -

Turnover from specified profession	Eligible for 44ADA?	44AB?
> 75 lacs	No	Yes
50 lacs To 75 Lacs + *Cash receipt < 5% of Gross receipts*	Yes	No, if 44ADA opted, else Yes
50 lacs To 75 Lacs + *Cash receipt > 5% of Gross receipts*	No	Yes
Upto 50 lacs	Yes	No, if 44ADA opted, else Yes

- Presumptive Income: 50% of Gross Receipt

44ADA – vis-à-vis 44AB/44AA

Choice	44AB	44AA
Assessee opts out of 44ADA	Mandatory irrespective of turnover	Applicable
Assessee opts for of 44ADA	Not required	Applicable *See 44AA(1)*

- Option to opt 44ADA is on year to year basis
- If TO > 75 lacs, no applicability of 44ADA
- Only those assessee who are engaged in specified profession u/s 44AA(1) are eligible

Applicability of 44AB - Profession

Sl#	Turnover	Eligible for 44ADA?	44AB Applicability	Remarks
1	Up to 50 lakhs	**Not eligible** since not a specified profession u/s 44AA(1)	No	44AB(b)
		Eligible but total income < threshold	No	44AB(d)
		Eligible and opted for 44ADA*	No	44AB(d)
		Eligible but NOT opted for 44ADA	Yes	44AB(d)
2	51-75 lakhs (w.e.f AY 2024-25)	**Not eligible** since not a specified profession u/s 44AA(1)	Yes	44AB(b)
		Eligible** but total income < threshold	Yes	44AB(b) With 1st proviso
		Eligible** and opted for 44ADA*	No	1st proviso to 44AB
		Eligible** but NOT opted for 44ADA	Yes	44AB(b) & 44AB(d)
3	>75 lakhs	NA	Yes	44AB(b)

* total income should be more than threshold limit
** Cash receipt < 5% of Gross receipts

Can I claim both 44AD and 44ADA?

Section 44AD (6)	Section 44ADA (1)
The provisions of this section, notwithstanding anything contained in the foregoing provisions, shall not apply to— (i) a person carrying on profession as referred to in ***sub-section (1)*** *of* ***section 44AA***; ***	Notwithstanding anything contained in sections 28 to 43C, 76 in case of an assessee **** engaged in a profession referred to in ***sub-section (1) of section 44AA*** ***

- 44ADA is applicable only to persons carrying on specified profession.
- 44AD is NOT applicable to persons carrying on specified profession.
- Hence, such person cannot claim both 44AD and 44ADA.
- Such persons are eligible only for 44ADA.

Case studies

Case study A.1

FY Year	Turnover	Total Income	44AD	44AB
2020-21	0.75 cr	3 lacs	Not opted	NA
2021-22	2.10 cr	8 lacs	NA	No
2022-23	1.80 cr	7.30 lacs	Yes	NA
2023-24	2.60 cr	11.60 lacs	NA	No
2024-25	1.90 cr	2.4 lacs	**No**	No
2025-26	2.60 cr*	11.70 lacs	??	??

* Cash receipts are less than 5% of TO

Can assessee claim 44AD benefit and file return under presumptive scheme for AY 2026-27?

Case study A.2

FY Year	Turnover	Total Income	44AD	44AB
2020-21	0.75 cr	3 lacs	Yes	NA
2021-22	2.10 cr	8 lacs	NA	No
2022-23	1.80 cr	7.30 lacs	No	NA
2023-24	2.60 cr	11.60 lacs	NA	No
2024-25	1.90 cr	2.4 lacs	**No**	No
2025-26	2.60 cr*	11.70 lacs	??	??

* Cash receipts are less than 5% of TO

Can assessee claim 44AD benefit and file return under presumptive scheme for AY 2026-27?

Case study – B.1

Person	Turnover from practice	Turnover from selling medicine	Total TO
Doctor	45 lacs	56 lacs	1.01 cr

1. Is entire revenue subjected to sec 44ADA offering 50% as deemed income?
2. Can he avail 44AD and 44ADA for the respective source of income?
3. Does he need to get his books of accounts audited since his total TO > 50 lacs?

Case study – B.2

Person	Turnover from practice	Turnover from selling medicine	Turnover from diagnostic centre
Doctor	90 lacs	1.50 cr	4 cr*

* Cash receipts/payments are less than 5% of TO

1. Can he avail 44AD for his business income?
2. Assuming 44AD is available, does he need to get his books of accounts audited?
3. Can he avail 44AD for diagnostic business only?
4. If yes, does he still need to get his books audited? If yes, how much is auditable TO?

Profession & Business & Presumptive

Situation	Business A TO	Business B TO	Profession TO
A	50	43	54
B	50	70	42
C	50	43	42
D	50	120 (44AD)	54
E	75	120 (44AD)	49 (44ADA)

Please read para 5.16/5.17 of exposure draft

43B(h): MSME

Section 43B

43B. Notwithstanding anything contained in any other provision of this Act, ***a deduction otherwise allowable*** under this Act in respect of

***

(h) any sum payable by the assessee to a **micro** or **small** enterprise ***beyond*** the ***time limit*** specified in ***section 15*** of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006), shall be allowed *(irrespective of the previous year in which the liability to pay such sum was incurred by the assessee according to the method of accounting regularly employed by him)* only in computing the income referred to in section 28 of that previous year in which such sum is actually paid by him :

Section 43B contd …

Provided that nothing contained in this section ***except the provisions of clause(h)*** shall apply in relation to any sum which is actually paid by the assessee on or before the due date applicable in his case for furnishing the return of income under sub-section (1) of section 139 in respect of the previous year in which the liability to pay such sum was incurred as aforesaid and the evidence of such payment is furnished by the assessee along with such return

Explanation 4.—For the purposes of this section,—

***

(e) "micro enterprise" shall have the meaning assigned to it in clause (h) of section 2 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006);

(g) "small enterprise" shall have the meaning assigned to it in clause (m) of section 2 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006)

43B(h) analysis

- Applicable w.e.f. 01-04-2023 (i.e AY 2023-24)
- Does not apply to any outstanding as on 31-03-2023
- If payment is made to Micro or small enterprises (M&SE) within the time allowed by section 15, then section 43B(h) shall not apply.
- If payment is made to MSE beyond due date as per sec 15 of MSME act, deduction to be allowed only in the year of payment *(benefit of proviso to section 43B not available)*
- It is irrelevant in which FY such liability was captured by the assessee basis method of accounting regularly employed by him.

43B(h) vis-à-vis 31/03/2023

Sec 29: PGBP computed as per sec 30~43D

Sec 145: PGBP shall be computed as per in accordance with the method of accounting regularly employed.

Sec 43B(h)

- o/s balance as on 31/03/2023 ought to have been allowed as expenditure in earlier years.
- 43B(h) only restricts allowability of claimed expenditure in a particular year.
- 43B(h) does not bring any new charge for already allowed amount.

MSME criteria from 01-07-2020 to 31-03-2025

Activities and type of enterprise	Investment in P&M		Turnover criteria
Micro	does not exceed 1 crore rupees	&	does not exceed 5 crore rupees
Small	does not exceed 10 crore rupees		does not exceed 50 crore rupees
Medium	does not exceed 50 crore rupees		does not exceed 250 crore rupees

Unlike earlier, there is no differentiation between manufacturing and services activities and these criteria are equally applicable for "suppliers" engaged in supply of goods or services.

Notification no. SO 1702(E) dated 1st June 2020

Revised criteria w.e.f. 01-04-2025

Activities and type of enterprise	Investment in P&M		Turnover criteria
Micro	does not exceed 2.5 crore rupees	&	does not exceed 10 crore rupees
Small	does not exceed 25 crore rupees		does not exceed 100 crore rupees
Medium	does not exceed 150 crore rupees		does not exceed 500 crore rupees

Notification no. SO 1364 (E) dated 21st March 2025

MSME Registration

ICAI GN, ed. 2025-

42.6 Although registration is not mandatory for either a micro or a small enterprise, in order to avail benefits under the MSMED Act, such an enterprise needs to get itself registered by filing a memorandum with the prescribed authority
***
A supplier, by definition (under section 2(n)), needs to be registered under MSMED Act.

42.7 To classify an enterprise as micro or small, the status on the Udyam Registration Certificate should be relied upon.

Trader

Para 42.9 of ICAI GN, ed. 2025

- Traders are neither manufacturers or producers of goods, nor service providers, and hence are not covered under the definition of that term.
- Traders are allowed to be registered with MSME only for a limited purpose of Priority Sector Lending and not for any other benefit.
- Accordingly, if the supplier to the auditee is a retail or wholesale trader, the provisions of section 43B(h) of the Income-tax Act, 1961 would not be attracted.”

Auditor's duty

Auditors Role

- Obtain a list of suppliers from the assessee covered under the MSMED Act, 2006.
- Confirm that Udyam Registration Certificate is obtained.
- Any written agreement in existence or not
- Include details of transactions covered and the balance outstanding.

Auditor’s Checklist for MSMED Compliance

- **Review Supplier List:**
  - Cross-check with financial statements’ disclosures as per Section 22 of MSMED Act, 2006.

- **Ageing Analysis:**
  - Obtain and analyze ageing of suppliers to identify outstanding amounts beyond the agreed period or statutory limits (45/15 days as per Section 15).

- **Interest on Delayed Payments:**
  - Check if any interest is due or paid as per Section 16 of MSMED Act, 2006.
  - Verify if such interest is recorded or provided for in the books of accounts.
  - Perform test checks for accuracy.

Auditor’s Checklist for MSMED Compliance

- **Verification of Interest Information:**
  - Validate additional information related to interest under Section 16 as reported in financial statements.
- **Disclosure in Financial Statements:**
  - Check Trade Payable note in Notes to Accounts.
  - Verify Form MSME 1 filed with Registrar of Companies (half-yearly) (for companies)
- **Supplier Invoice Verification:**
  - Ensure invoices indicate the supplier's registration as a micro or small enterprise under MSMED Act, 2006, including Udyam Registration number.
- **Reporting in Form 3CD:**
  - If satisfied with checks, report interest debited to profit and loss in clause 22 of Form 3CD.
  - If no interest is charged, mention ‘NIL’ under the first limb of this clause.

MRL

Management representation letter*

- The tax auditor should obtain appropriate Management Representation Letter (MRL), which would depend on facts of each case.
- He should ensure adequate disclosure as required u/s 22 of MSMED Act, is made in the notes to the accounts along with adequate identification of MSEs

Please also refer to FAQs on MRL issued by ICAI. August 2025 edition
Link: 87555aasb-aps2002-publication.pdf

MSME Reporting

Enhanced 3CD reporting from 01-04-2025

Case Study

Creditors Account | Clause 26(A) | Clause 22

Date	Transaction	Total	Pertains to 2023-24	Pertains to 2024-25
01-04-2024	Opening Balance	1,00,000	1,00,000	
10-04-2024	Payments	(50,000)	(50,000)	
16-06-2024	Payments	(40,000)	(40,000)	
01-07-2024	Purchases	3,50,000		3,50,000
30-07-2024	Payments	(3,50,000)		(3,50,000)
01-08-2024	Purchases	50,000		50,000
30-09-2024	Payment	(50,000)		(50,000)
15-03-3025	Purchases	1,00,000		1,00,000
31-03-2025	Closing Balance	1,10,000	10,000	1,00,000
10-04-2025	Payment	(30,000)		(30,000)
16-05-2025	Payment	(70,000)		(70,000)

Payment terms in writing - 45 days

3CD disclosure w.e.f. 01-04-2025

Clause 22	Amount
(i) Amount of interest inadmissible under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act); or	
(ii) Total amount required to be paid to to a micro or small enterprise, as referred to in section 15 of the MSMED Act, during the previous year;	5,00,000
(iii) Of amount referred to in (ii) above, amount -	
(a) paid up to time given under section 15 of the MSMED Act;	3,80,000
(b) not paid up to time given under section 15 of the MSMED Act and inadmissible for the previous year.	70,000

Clause 26	Amount
(A) pre-existed on the first day of the previous year but was not allowable in the assessment of any preceding previous year and was	
(a) paid during the previous year;	40,000
(b) not paid during the previous year;	10,000

Reporting scenarios

- Assessee identifies all MSEs and makes required provision and disallowance
- Assessee identifies all MSEs but *does not* make required provision for the interest
- Assessee identifies MSEs but is *unable* to calculate interest
- Assessee Could Not Identify MSEs and Doesn't Provide for Interest
- Assessee States No Transactions with MSEs

Assessee Identifies MSEs but Doesn't Provide for Interest:

Scenario	**Reporting in 3CB**
Interest is material	*Qualified opinion:* Overstatement of profit and understatement of liabilities.
Interest is immaterial	*Emphasis for Matter:* Impact of non-provision and non-disclosure is not ascertainable.

Assessee Identifies MSEs but doesn't calculate and hence does provide for interest:

Qualified opinion:

The impact of overstatement of profit and understatement of trade payables / current liabilities due to such non-compliance is not ascertainable.

Assessee Could Not Identify MSEs and Doesn't Provide for Interest

Scenario	Reporting in 3CB
Financials / 3CB	*Qualified opinion:* Impact of non-identification and non-provision on profit and liabilities is not ascertainable.
3CD	Nil amount reported may not be true and correct

Assessee States No Transactions with MSEs:

Scenario	Reporting in 3CB
Financials / 3CB	No reporting requirement.
3CD	No amount inadmissible under 43B(h).

59. Application of payment where debt to be discharged is indicated.
Where a debtor, owing several distinct debts to one person, makes a payment to him, either with express intimation, or under circumstances implying, that the payment is ***to be applied to*** the discharge of some ***particular debt***, the payment, if accepted, must be applied accordingly.

60. Application of payment where debt to be discharged is not indicated.
Where the debtor has omitted to intimate and there are no other circumstances indicating to which debt the payment is to be applied, the ***creditor may apply it at his discretion*** to any lawful debt actually due and payable to him from the debtor, whether its recovery is or is not barred by the law in force for the time being as to the limitation of suits.

61. Application of payment where neither party appropriates.
Where neither party makes any appropriation, the payment shall be applied in discharge of the debts ***in order of time***, whether they are or are not barred by the law in force for the time being as to the limitation of suits. If the debts are of equal standing, the payment shall be applied in discharge of each proportionally

Section 60 – Contract Act, 1872

60. Application of payment where debt to be discharged is not indicated.

Where the debtor has omitted to intimate and there are no other circumstances indicating to which debt the payment is to be applied, the ***creditor may apply it at his discretion*** to any lawful debt actually due and payable to him from the debtor, whether its recovery is or is not barred by the law in force for the time being as to the limitation of suits.

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Time limit to pay to supplier

Section 15 of MSME act

Section 15 of MSME Act

15. **Liability of buyer to make payment**

"Where any ***supplier*** supplies any goods or renders any services to any buyer, the buyer shall make payment therefor on or before the date agreed upon between him and the supplier in writing or, where there is no agreement in this behalf, before the appointed day:

Provided that in no case the period agreed upon between the supplier and the buyer in writing shall exceed forty-five days from the day of acceptance or the day of deemed acceptance."

Section 2:

(b) "appointed day' means the day following immediately after the expiry of the period of fifteen days from the day of acceptance or the day of deemed acceptance of any goods or any services by a buyer from a supplier

Explanation.--For the purposes of this clause,--

(i) "the day of acceptance" means,--

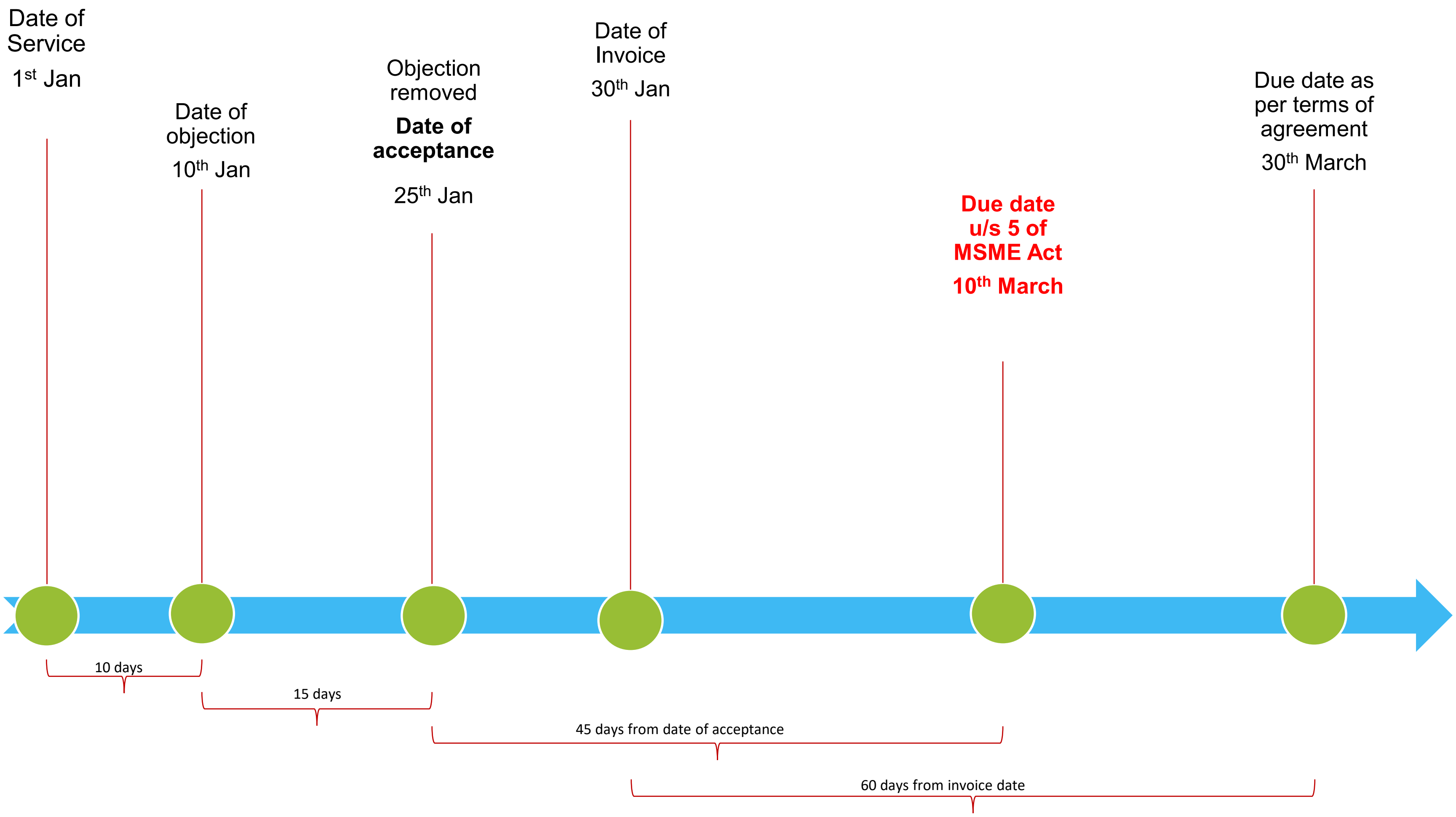
(a) the day of the actual delivery of goods or the rendering of services; or

(b) where any objection is made in writing by the buyer regarding acceptance of goods or services within fifteen days from the day of the delivery of goods or the rendering of services, the day on which such objection is removed by the supplier;

(ii) "the day of deemed acceptance" means, where no objection is made in writing by the buyer regarding acceptance of goods or services within fifteen days from the day of the delivery of goods or the rendering of services, the day of the actual delivery of goods or the rendering of services;

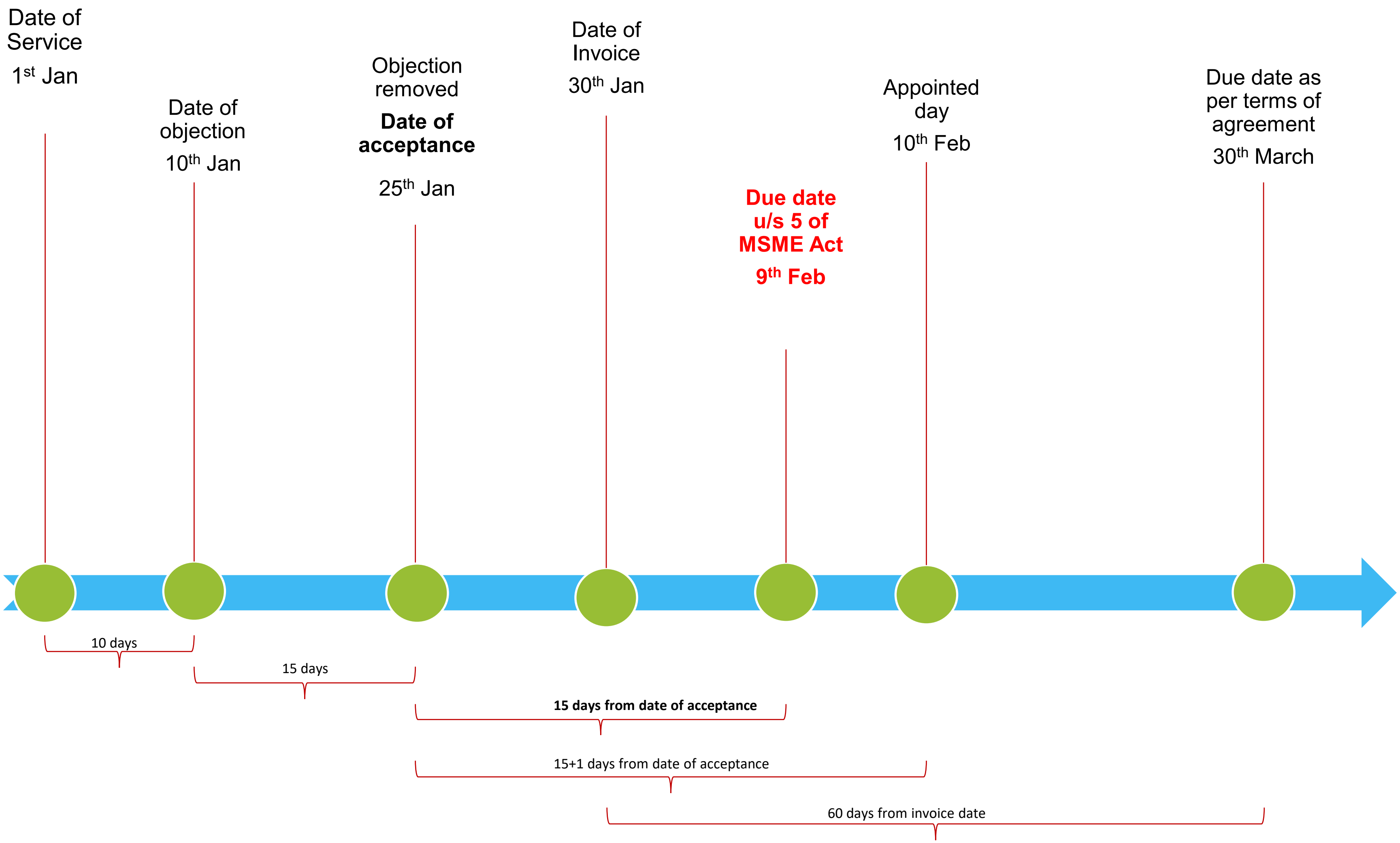
(n) "supplier" means a micro or small enterprise, which has filed a memorandum with the authority referred to in sub-section (1) of section 8 {Udyog Aadhar}

Agreement exists in writing



- Payment terms – 60 days from the date of invoice

No agreement exists in writing



- Payment terms – 60 days from the date of invoice (verbal)

How to determine time of rendering of services?

Rendering of services

- Services being intangible it is very difficult to determine time of rendering of services
- In case of assurance services, or where there is a written deliverable available like written opinion, audit report, test reports etc. date of services can be determined from date of such document.
- For other cases, supplier may be requested to communicate date of services
- For other cases, auditor may take a written representation on date of delivery of services
- Answer will depends on facts of each case.

Applicability on provisions and accrued liabilities made on 31st March

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Examples of provisions and accrued liabilities

Provisions example	Accrued expenses examples
• Provisions for warranties or post-sales client support • Provisions for gratuity • Provisions for lease encashment • Provisions for long term service award	• Audit fee payable • Electricity expenses payable • Telephone expenses payable • Salary payable

Provisions and 43B(h)

Estimate: A provision at best is a reliable estimate required to settle the present obligation at reporting date

Uncertain Timing or Amount: Due to their nature, provisions represent liabilities with uncertain timing or amount.

This distinguishes provisions from the specific conditions outlined in Section 43B(h) related to certain liabilities and hence are excluded.

Provisions

Accrued liabilities and 43B(h)

Conservative approach: Culmination of following 4 factors may trigger 43B(h) -

CERTAINTY OF AMOUNT AND TIME

Amount and time to pay is certain

01

ACCRUAL IN FY 2024-25

Considered as incurred in the same year, even if services are rendered in the next FY

02

SERVICES ARE RENDERED

Even if rendered in next FY 2025-26

03

LATE PAYMENT

If payment in the next FY exceeds the due date as per Section 15.

04

☞ In an alternate perspective, the non-rendering of services within FY 2024-25 raises the argument that Section 15 of the MSME Act may not apply, consequently challenging the applicability of Section 43B.

44AD/44ADA/44AE

- Section 43B deals with deductibility of a deduction *otherwise allowable*.

- In computing presumptive income, income is deemed and allowability of any deduction is not considered, hence 43B does not override presumptive sections like 44AD!

Non availability of UDYAM Aadhar registration details

- It is incumbent on MSME to claim his status in any manner – Either through express intimation or through intimation through transaction documents like invoice.
- Buyer should request all vendors preferably through registered / speed post to intimate MSME status. A reminder also be sent, should supplier does not respond.
- Buyer should also verify registration information from Udyam portal.
- Suppliers who obtained registration prior to June 30, 2020 and did not renew registration, such registration lapsed on 30th June 2022.

How to identify MSME then?

The GOI has issued OM no. 2(18)/2007-MSME (pol) dated 26-08-2008, which provides as under –

"*...Apprehensions have been expressed that in the absence of the identification of MSE Supplier on its supply order/ invoices and other documents may leave a scope for the buyer to omit their mention in the annual statements of accounts. The auditors while auditing the annual accounts may not be able to deduct (sic: detect) such omission from the available documents because of non-availability of identification.* In terms of the provisions of MSMED Act, 2006, the MSE supplier is defined as under:

As per section 2(a)(ii)(n) of the MSMED Act,2006 the 'supplier' means a micro or small enterprise, which has filed an memorandum with the authority referred to in sub- section (1) if section 8.
The matter has been examined. It is considered advisable that the micro and Small Enterprises should mention / get printed on their letter heads, supply order sheets, invoices, bills and other relevant documents, the Entrepreneurs Memorandum (EM) Number (as allotted after filling of the said Memorandum, by the District Industries Centre (DIC) or competent authority, as notified by their respective State Government/ UT am/ administration), so that there always remains an identification of being a MSE supplier.

AP to Loan

- There is no bar in law *per se* to convert amount outstanding to vendor into loan.
- However, care should be taken to keep in mind provisions of section 269SS and 269T.
- Mass conversion may also trigger scrutiny proceedings.
- In case of companies, “deposits” related provisions to be taken.

Cheques issued but cleared after 45 days?

- Payment by cheque: Date of issue with delivery of the cheque and not the clearance is the date of payment

- Word of caution:
  - Cheque should not remain o/s long
  - There should be adequate documentation that cheque was issued and indeed delivered to drawee.
  - There were sufficient funds arrangement for clearance of cheque

Financial Statement Disclosures

Section 22 of MSME Act

- Buyer is required to get his annual accounts audited ***<u>under any law</u>*** for the time being in force.
- Buyer shall furnish the following additional information in his annual statement of accounts, namely:—

1. principal amount & interest due thereon (to be shown separately) remaining unpaid to any supplier as at the end of each accounting year;
2. amount of interest paid by buyer in terms of s.16, along with the amount of payment made to supplier beyond the appointed day during each accounting year;
3. amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under this Act;
4. amount of interest accrued and remaining unpaid at end of each accounting year;
5. amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise, for the purpose of disallowance as a deductible expenditure u/s 23

Clause 26

Section 43B

Clause No. 26 : Sec 43B
Expenses allowable on payment basis

- Tax, duty, cess or fee, by whatever name called, under any law for the time being in force,
- Employer Contribution to provident / superannuation / gratuity or any other welfare fund.
- Employee bonus / commission
- Interest on any loan / borrowing from any specified institutions
- Interest on any loan / borrowing from a deposit taking NBFC or NDSI NBFC [AY 2020-21]
- Interest on any loan or advances from a scheduled bank or a co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank in accordance with the terms and conditions of the agreement governing such loan or advances,
- Leave Salary / Encashment
- Sum payable to Indian Railways for the use of railway assets,

Clause 26: Sample Auditor's note

- Information is only up to date of audit report September 02, 2026 except for Gratuity and leave encashment for which information is till March 31, 2026 and does not include any payment which the assessee may make subsequently before the due date of filing of the return of income under section 139(1).
- As per the recommendation of ICAI in its "Guidance Note on Tax Audit under section 44AB of the Income Tax Act" 2026 edition, details are given only in respect of amounts referred in clauses (a), (b), (c), (d), (e), (f) and (g) of section 43B which were incurred in the previous year but were outstanding as at the end of the relevant previous year.

Clause 27

CENVAT reporting

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Clause 27.a: CENVAT
TAQRB Study

While reviewing various tax audit reports it was observed that:

a) In few instances, the computation shown under this clause was incorrect.

b) At few occasions, non-reporting of '**CENVAT** utilized' and 'treatment of the same in profit and loss account' were noticed.

c) In certain cases, even where treatment in profit and loss account was reported, reporting of treatment in the accounts for opening and closing balance of **CENVAT** was missing.

Sample Auditor's note

Option 1: As per notified form no. 3CD, details of only erstwhile Central Value Added Tax or CENVAT needs to be disclosed. Since there was no reportable figures of CENVAT during the year, thus no disclosure has been made in clause 27(a). The assessee has further represented that this clause is not applicable to GST ITC, since CENVAT is quite different from ITC under GST. However assessee has represented that movement of GST ITC can be furnished before AO during assessment, when demanded.

Option 2:

- The information provided in respect of amount of CENVAT credits availed or utilized during the previous year and its treatment in the Statement of Profit and Loss Account including treatment of outstanding CENVAT credits in the accounts is disclosed in clause 27(a) of Form 3CD as per the Goods and Services Tax (GST) returns filed.
- The assessee follows the exclusive method of accounting for GST in the books of account. The GST paid on purchase of raw materials / purchase of capital goods and services are debited to ITC Credit Receivable account. As and when the said ITC Credit is utilised against payment of GST on final products, the GST payable is debited to the GST payable account and ITC Credit Receivable account is credited. The purchase cost of the inputs is thus net of the GST. The Inputs consumed and the inventory of such Inputs are valued on the basis of purchase cost net of the GST. The debit balance in the ITC Credit Receivable account is disclosed as an asset in the Balance Sheet.

Clause No. 27.b: Prior Period

- Difference between expenditure/income of earlier year vis-à-vis expenditure/income relating to earlier year which is crystallized during year.
- Material adjustments necessitated by circumstances which though related to previous periods but determined in the current period, will not be considered as prior period items.
- U/s 145 - Material Charges (expense) or credit (income) which arise in the current year as a result of **error or omission** in the account of earlier years will be considered as prior period items. **AS-5 issued by ICAI need to be considered for the purposes of this Clause.**
- Assessee sustained loss due to theft in one year, but became finally irrecoverable in subsequent year. Held it was allowable in the year in which loss became irrecoverable. **CIT vs Durga Jewelers 172 ITR 134 (M.P)**
- Expenditure of the earlier years means expenditure which arose, or which accrued in any earlier year and excludes any expenditure of an earlier year for which the liability to pay has crystallized during the year. **3i Infotech Limited, Vs. Assistant CIT [2010] 329 ITR 257 [Bom.]**

27.b: Sample Auditor’s note

- For identifying items covered under clause 27(b), the auditors have used the definition under Indian Accounting Standard (Ind AS)-8 “Accounting Policies, Changes in Accounting Estimates and Errors”.

Clause 31

Reporting of GST related expenditure

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Clause 31

- (ba) Particulars of each receipt in an amount exceeding the limit specified in section 269ST, in aggregate from a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasion from a person, during the previous year *where such receipt is otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account.*

Sl. No	Particulars
1	Name, address and PAN of the payer
2	Nature of transactions
3	Amount of receipt
4	Date of receipt

Clause 31

(bb) Particulars of each receipt in an amount exceeding the limit specified in section 269ST, in aggregate from a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasions from a person, *received by a cheque or bank draft, not being an account payee cheque or an account payee bank draft, during the previous year*

Sl. No.	Particulars
1.	Name, address and PAN
2.	Amount of receipt

Clause 31

(bc) Particulars of each payment made in an amount exceeding the limit specified in section 269ST, in aggregate to a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasions to a person, otherwise than by a cheque or bank draft, or use of electronic clearing system through a bank account, during the previous year.

Name, address and PAN of the payee.	Nature of Transactions	Amount of payment	Date of payment

Clause 31

- (bd) Particulars of each payment made in an amount exceeding the limit specified in section 269ST, in aggregate to a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasions to a person, made by a cheque or bank draft, not being an account payee cheque or an account payee bank draft, during the previous year.

Name, address and PAN of the Payee	Amount of Payment

Clause 31: Loans
TAQRB Study

While reviewing various tax audit reports it was observed that:

- There were cases where the 'name' of the persons/concerns from whom loan had been taken, was not mentioned. Consolidated figures were reported mentioning 'various parties' under this clause instead of details of loan received person-wise.
- In Observations/Qualifications paragraph i.e., clause (3) of Form No.3CA or Clause (5) of Form No.3CB as the case may be, the language used in Para 49.6 of the Guidance Note has been used, as it is, without making the necessary change in respect to "me/us". Since the general language is provided in the Guidance Note, the report in Form No. 3CA/ 3CB should be reworded as applicable.
- In certain cases, repayment of time deposits such as 'fixed deposits' and /or 'term loans' reflecting in Annual report were not reported while the same were required to be reported as per the Guidance Note.

31: Sample Auditor's note

- It is not possible for the auditors to verify whether specified sum has been taken or accepted otherwise than by account payee cheque or an account payee bank draft or use of electronic clearing system through a bank account, as the necessary evidence is not in the possession of the Company.

  (Similar note for repayment)

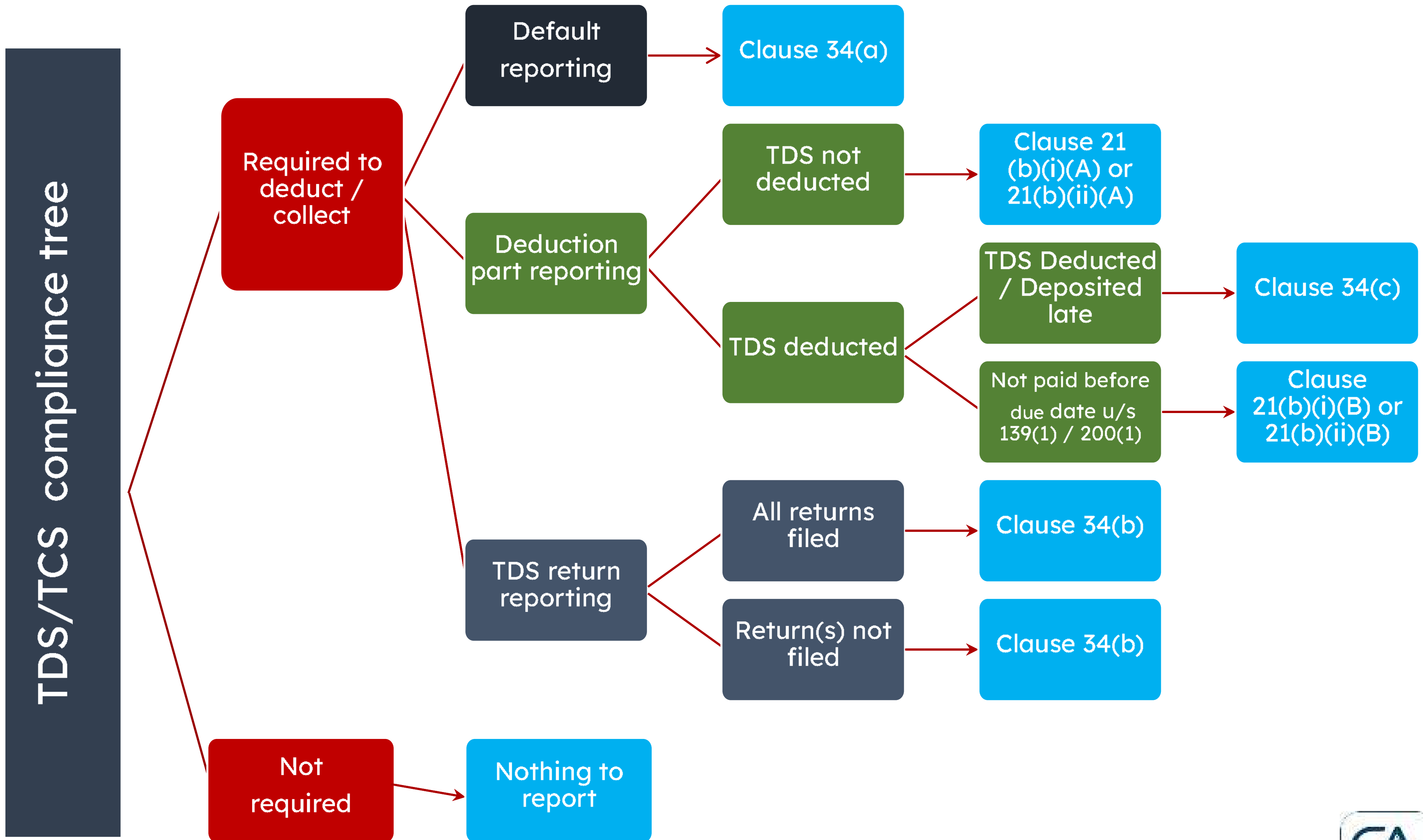
- Loans from banks/financial institutions are not considered for disclosure under this clause
- The auditors have relied on management representation for the purpose of reporting under clause 31(b).
- Particulars are not furnished in respect of parties from whom loans are borrowed in earlier financial year and carried forward to the next financial year with no transactions during the year except for provision/payment of interest thereon.

31: Sample Auditor's note

- It is not possible for the auditors to verify whether each receipt in aggregate received from a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasion from a person has been received otherwise than by cheque or bank draft or by use of electronic clearing system through a bank account, as the necessary evidence is not in the possession of the Company.
- Particulars are not furnished in respect of amounts received from customers whether as advance or similar receipts as they are not treated as loans or deposits and amount refunded in full or part to the customers, if any, either on cancellation of orders or of excess amounts received, in accordance with GN of ICAI, 2026 edition.

Clause 34

TDS compliance tree and reporting



Clause 34: TDS compliance (TAQRB Study)

While reviewing various tax audit reports it was observed that:

- ‘date of payment’ of interest with respective amount were not reported under the relevant columns of this sub-clause.

Clause 34 - TDS

As per Guidance note issued by the ICAI

- Rates of deduction is to be consider as per the law relevant to the P. Y.
- Rely upon the judicial pronouncements while taking any particular view.
- Refer relevant provisions, rules, circulars, notifications and such certificates obtained from the auditee to verify the cases where tax has been short deducted at source.
- In case payer deducts/recipient collects tax at source at rate lower than specified rate on basis of certificate u/s 195 or 197, the said rate to be considered as specified rate
- As per the provisions of Sec 195/ 197, certificate can be issued for no deduction or lower deduction of tax at source.
- In case of payment to NR, the applicable rate of TDS is to be read along with the DTAA.
- The tax auditor is required to provide the detail irrespective of any default on the part of assessee in complying with the provisions of Chapter-XVII-b or XVII-BB.

Clause 34 - TDS

- Detail in respect of interest u/s 201(1A) & 206C(7), if any to be provided.
- Sec. 201(1A)- Levy of simple interest on **failure to deduct** tax or payment thereof to the credit of Central Government
- Sec. 206C(7)- Levy of simple interest on **failure to collect** tax or payment thereof to the credit of Central Government
- If the assessee is liable to pay interest u/s 201(1A) or 206C(7), the auditor should verify such amount from the books of account & also from part G of the statement generated by the department in form no. 26AS.
- In case the assessee had disputed the levy or calculation of interest under TRACES, in form no. 26AS, the auditor may re-calculate the amount of interest u/s 201(1A) or Section 206C(7) up to the date of audit report for reporting under this Clause & also mention the fact in his observations provided in form no. 3CA & form no. 3CB.

34: Sample Auditor's note

- Considering the volume of transactions, the verification of the particulars given under Clause 34 is based on - Procedure followed for ensuring the compliance; Broad review of such procedure & Review of internal checks, internal controls, test check of the transactions and facts thereof.
- The Company has policies and procedures for authorizing accruals and payments of expenditure, based on reasonable checks and controls. This policy is intended to ensure that taxes are deducted / collected at source and deposited with the prescribed authorities, where applicable, in accordance with the provisions of Chapter XVII-B and Chapter XVII-BB as the case may be.
- Our verification of the Company's compliance with the provisions of Chapter XVII-B and Chapter XVII-BB regarding deduction / collection of tax at source and payment thereof to the credit of the Central Government, has been carried out in accordance with Standards on Auditing issued by Institute of Chartered Accountants of India, which includes examination on a test check basis and having regard to materiality of the items involved. Based on the test checks carried out by us, having regard to the Company's existing policies and procedures as well as the specific representation given by the assessee, which has been relied upon by us for the purposes of reporting under Clause 34.

34: Sample Auditor's note

- In cases, wherein TDS was deducted, at a rate lower than specified rate, based on certificate issued u/s 197 of the Income Tax Act' 1961, such deduction of TDS has been considered as deduction of TDS at specified rate, for the purposes of reporting under this clause.
- Information furnished has been compiled from TDS returns submitted by the Company during the previous year.
- In view of the voluminous level of information involved, the assessee has not been able to prepare reconciliation between the total amounts of payment or receipts of the specified nature and the amounts in respect of which it is required to deduct or collect tax at source. Accordingly, the information provided in column 4 {Total amount of payment or receipt of the nature specified in column (3)} is restricted to those payments or collections in respect of which the assessee has deducted or collected tax at source, and does not include the entire value of payments or receipts of each such specified nature as is required to be disclosed.

Clause 44

Reporting of GST related expenditure

दक्षम:
DAKSM

Clause 44

82. Break-up of total expenditure of entities registered or not registered under GST:

Sl. No.	Total amount of Expenditure incurred during the year	Expenditure in respect of entities registered under GST				Expenditure relating to entities not registered under GST
		Relating to goods or services exempt from GST	Relating to entities falling under compositi on scheme	Relatin g to other register ed entities	Total paymen t to register ed entities	
1	2	3	4	5	6	7

[Clause 44]

Clause 44 – Details required

1. **Total amount of Expenditure incurred during the year (Col 2)**
2. **Expenditure in respect of *entities* registered under GST**
    1. Relating to goods or services exempt from GST (Col 3)
    2. Relating to entities falling under composition scheme (Col 4)
    3. Relating to other registered entities (Col 5)
    4. Total payment to registered entities (should be sum total of 1, 2 and 3 (Col 6)
3. **Expenditure relating to *entities* not registered under GST** (Col 7)

Clause 44 – Applicability

1. Applicable for all 3CD reports issued after 31-03-2022
2. Reporting is qua PAN, not GSTIN
3. **Para 79.3:** Only expenses which are within the ambit of "supply" needs to be reported.
4. Applicable even if auditee is not registered under GST (e.g., Lawyer, GTAs)
5. Applicable even if auditee is registered and his entire/part income is exempt.

Clause 44 – Consolidated?

Para 79.1 of GN, 2025 edition:

Heading of the table starts with the words "Breakup of **total expenditure**"

- hence the total expenditure including purchases as per the notified format may be given.
- Head wise/nature wise expenditure is not envisaged

GN 2025: Inclusions and exclusions

Para	Recommendations
79.2	Depreciation under section 32, deduction for bad debts u/s 36(1)(vii) etc. *which are not expenses* should not be reported under this clause in any of the Columns from 3 to 7.
79.3	The expenses which are within the scope of GST i.e., which tantamount to 'supply' in terms of section 7 of the CGST Act, 2017 are only required to be reported under this clause in any of the columns from 3 to 7 ☞ Remuneration to employees need not be reported.
79.18	Both Revenue & Capital expenditure is covered. Separate reporting of capital expenditure will provide ease in reconciliation.

Brain teasers

- **Petroleum** crude, high speed **diesel** oil, motor spirit, natural gas and aviation turbine fuel – **Non supplies or Exempt supplies?**
- Interest paid to bank/NBFCs?
- What if some entries are appearing in 2A/2B and auditee did not claim such ITC, being personal in nature?
- **What about Gift given by employer to employee exceeding 50K?**

Reconciliation between various columns of table

Para 79.16 –

It should be ensured that the total of columns (6) and (7), tallies with the amount mentioned in column (2) except to the extent of expenditure/ allowance (Depreciation/Non-supply)

The auditor may retain the reconciliation prepared by the assessee for verification.

Col 6

+

Allowances, No Supplies etc

+

Col 7

→ Total Expenditure as per Column 2

Can an item be "expenditure" for Column 2 and not for column 3 to 7?

35. Accounts and other records.—

(1) Every registered person shall keep and maintain, at his principal place of business, as mentioned in the certificate of registration, a true and correct account of—

a) ***
b) inward and outward supply of goods or services or both;
c) ***
d) *input tax credit **availed**;*
e) ***
f) *such other particulars as may be prescribed:*

56. Maintenance of accounts by registered persons.-

(1) Every registered person shall keep and maintain, in addition to the particulars mentioned in sub-section (1) of section 35, a true and correct account of the goods or services imported or exported or of supplies attracting payment of tax on reverse charge along with the relevant documents, ***

(2) Every registered person, other than a person paying tax under section 10, shall maintain the accounts of stock in respect of goods received and supplied by him ***

***

(4) Every registered person, other than a person paying tax under section 10, shall **keep and maintain an account,** containing the details of tax payable ***, **input tax, input tax credit claimed**, together with **a register of tax invoice**, credit notes, debit notes, delivery challan issued or **received during any tax period.**

(5) Every registered person shall keep the **particulars of** –

- **(a) names and complete addresses of suppliers** from whom he has received the goods or services chargeable to tax under the Act;
- (b) ***

***

Clause 44

Expenses as per Profit Statement + Capital Expenditure

=

Total Expenditure incurred

(e.g., INR 120)

Column 2 of Table

Exclude

Depreciation, Allowances, No Supply etc.

(E.g. Rs. 20)

Balance

Rs. 100

Para 82.14 of GN

- Expenditure in relation to Registered Suppliers (e.g. INR 70) *Column 6 of table*
  - Exempt Supplies from registered suppliers (e.g. INR 10) *Column 3 of table*
  - Supplies from Composition Taxable Persons (e.g. INR 20) *Column 4 of table*
  - Taxable Supplies from Non-Composition Registered Taxable Person (e.g. INR 40) *Column 5 of table*
- Expenditure in relation to Unregistered Suppliers (e.g., INR 30) *Column 7 of table*

Clause 44: Auditor's Note

- As informed by the assessee, the information reported under clause 44 of Form 3CD is based on the information extracted from accounting software/ relevant GST report. However this may not be accurate as the accounting software used by Assessee is not configured to generate report as required under this clause, in the absence of any prevailing statutory requirements under Income tax or CGST act or under any other statutes. In addition, the software/system does not capture information relating to the entities falling under composition scheme or supply with ineligible credit.

- We have verified statement prepared by assessee in accordance with the Auditing Standards generally accepted in India which includes test checks and the concept of materiality and concept of reasonable assurance. However as per the Accounting entries done in the Accounting Software, it is not possible for us to extract the details required to be reported under this clause and thus we are unable to comment on the accuracy of information provided therein.

- Assessee has further informed that "Expenditure relating to entities not registered under GST" includes import of goods, import of services and services from unregistered suppliers on which GST liability under RCM has been discharged.

- Assessee has further informed that the difference between Clause 2 (i.e. "Total expenditure“) and sum of clause 6&7 is on account of depreciation, bad debt and expenditure, like salary, which is not a supply as per GST. Also, Total Expenditure as pe column 2 includes “capital expenditure”.

- Further, as communicated to auditors by assessee, details in accordance with rule 56 of CGST Rules can be furnished during assessment before AO, as and when demanded.

Penalty u/s 271B

- If any person fails:-
- to get his accounts audited in respect of any previous year
- to furnish a report of such audit as required u/s 44AB

the Assessing Officer may direct that such person shall pay, by way of penalty,

- a sum equal to one-half per cent of the total sales, turnover or gross receipts, as the case may be, in business, or
- a sum of Rs. 1.50 lakh, whichever is less.