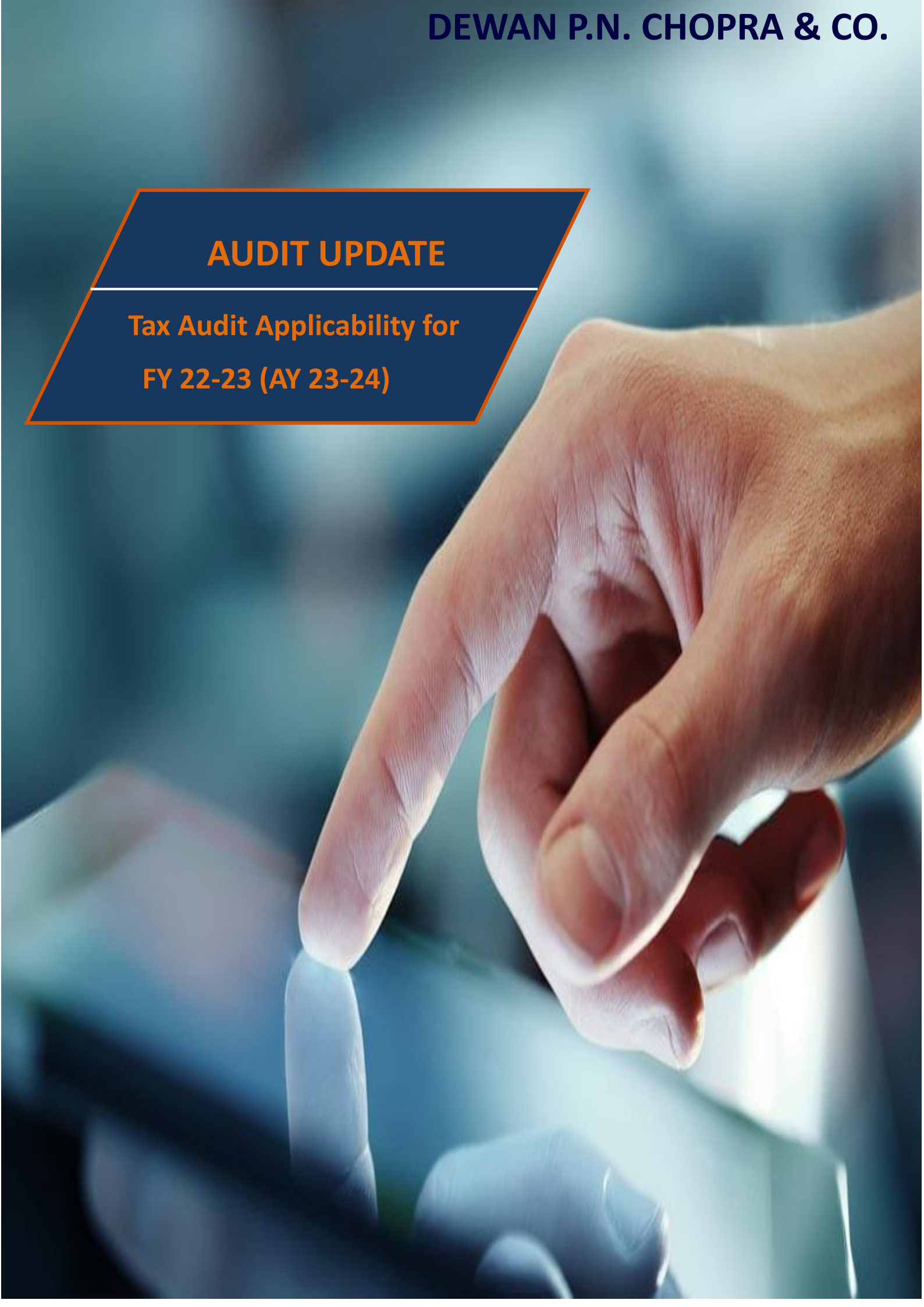


**AUDIT UPDATE**

**Tax Audit Applicability for  
FY 22-23 (AY 23-24)**



## TAX AUDIT APPLICABILITY FOR F.Y. 2022-23

### A. Section 44AB Audit of accounts of certain persons carrying on business or profession of Income Tax Act, 1961-

Every person,—

- a) carrying on business shall, if his total sales, turnover or gross receipts, as the case may be, in business exceed or exceeds one crore rupees in any previous year:

*[Provided that in the case of a person whose—*

- i. aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, in cash, does not exceed five per cent of the said amount; and*
- ii. aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed five per cent of the said payment,*

*this clause shall have effect as if for the words "one crore rupees", the words "ten crore rupee" had been substituted:]*

*[Provided further that for the purposes of this clause, the payment or receipt, as the case may be, by a cheque drawn on a bank or by a bank draft, which is not account payee, shall be deemed to be the payment or receipt, as the case may be, in cash; or]*

- b) carrying on profession shall, if his gross receipts in profession exceed fifty lakh rupees in any previous year; or
- c) carrying on the business shall, if the profits and gains from the business are deemed to be the profits and gains of such person under section 44AE or section 44BB or section 44BBB, as the case

may be, and he has claimed his income to be lower than the profits or gains so deemed to be the profits and gains of his business, as the case may be, in any previous year; or

d) carrying on the profession shall, if the profits and gains from the profession are deemed to be the profits and gains of such person under section 44ADA and he has claimed such income to be lower than the profits and gains so deemed to be the profits and gains of his profession and his income exceeds the maximum amount which is not chargeable to income-tax in any previous year; or

e) carrying on the business shall, if the provisions of sub-section (4) of section 44AD are applicable in his case and his income exceeds the maximum amount which is not chargeable to income-tax in any previous year,

get his accounts of such previous year audited by an accountant before the specified date and furnish by that date the report of such audit in the prescribed form duly signed and verified by such accountant and setting forth such particulars as may be prescribed:

**Provided** that this section shall not apply to the person, who declares profits and gains for the previous year in accordance with the provisions of sub-section (1) of section 44AD and his total sales, turnover or gross receipts, as the case may be, in business **does not exceed two crore rupees** in such previous year.

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

"Specified date", in relation to the accounts of the assessee of the previous year relevant to an assessment year, means [date one month prior to] the due date for furnishing the return of income under sub-section (1) of section 139.

**B. Relevant Extract of Section 44AD Special provision for computing profits and gains of business on presumptive basis of Income Tax Act, 1961-**

**Sub section (1)** Notwithstanding anything to the contrary contained in sections 28 to 43C, in the case of an eligible assessee engaged in an eligible business, a sum equal to eight per cent of the total turnover or gross receipts of the assessee in the previous year on account of such business or, as the case may be, a sum higher than the aforesaid sum claimed to have been earned by the eligible assessee, shall be deemed to be the profits and gains of such business chargeable to tax under the head "Profits and gains of business or profession":

**Provided** that this sub-section shall have effect as if for the words "eight per cent", the words "six per cent" had been substituted, in respect of the amount of total turnover or gross receipts which is received by an account payee cheque or an account payee bank draft or use of electronic clearing system through a bank account or through such other electronic mode as may be prescribed during the previous year or before the due date specified in sub-section (1) of section 139 in respect of that previous year.

**Sub section (4)** Where an eligible assessee declares profit for any previous year in accordance with the provisions of this section and he declares profit for any of the five assessment years relevant to the previous year succeeding such previous year not in accordance with the provisions of sub-section (1), he shall not be eligible to claim the benefit of the provisions of this section for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance with the provisions of sub-section (1).

**C. Relevant Extract of Section 44ADA Special provision for computing profits and gains of profession on presumptive basis of Income Tax Act, 1961-**

**Sub section (1)** Notwithstanding anything contained in sections 28 to 43C, [in the case of an assessee, being an individual or a partnership firm other than a limited liability partnership as defined under clause (n) of sub-section (1) of section 2 of the Limited Liability Partnership Act, 2008 (6 of 2009), who is resident in India and] is engaged in a profession referred to in sub-section (1) of section 44AA and whose total gross receipts do not exceed fifty lakh rupees in a previous year, a sum equal to fifty per cent of the total gross receipts of the assessee in the previous year on account of such profession or, as the case may be, a sum higher than the aforesaid sum claimed to have been earned by the assessee, shall be deemed to be the profits and gains of such profession chargeable to tax under the head "Profits and gains of business or profession".

**Sub section (4)** Notwithstanding anything contained in the foregoing provisions of this section, an assessee who claims that his profits and gains from the profession are lower than the profits and gains specified in sub-section (1) and whose total income exceeds the maximum amount which is not chargeable to income-tax, shall be required to keep and maintain such books of account and other documents as required under sub-section (1) of section 44AA and get them audited and furnish a report of such audit as required under section 44AB.

**D. Combine Analysis of Section 44AB and 44AD regarding person carrying on Business:**

Person Carrying on Business eligible for presumptive taxation under section 44AD					
S.No.	Type of Assessee	Turnover	Additional Condition	Applicability of Tax Audit	Under Section
A)	Individual/ HUF/ Partnership + Resident	1) Turnover > Rs. 10 crore	-	Yes	44AB(a)
		2) Rs. 2 Crore < Turnover =< Rs. 10 Crore	a) Cash Receipt & Cash Payment is more than 5% of such Receipt & payment	Yes	44AB(a)
			b) Cash Receipt & Cash Payment is less than 5% of such Receipt & payment	No <sup>1</sup>	44AB(a) read with proviso
		3) Turnover =< Rs. 2 crore	a) Net Profit Ratio < 6%/8%	Yes <sup>2</sup>	44AB(e) read with Section 44AD
			b) Net Profit Ratio >= 6%/8%	No	44AD
B)	Other (Company, LLP, etc)	1) Turnover > Rs. 10 crore	-	Yes	44AB(a)
		2) Rs. 1 Crore < Turnover =< Rs. 10 Crore	a) Cash Receipt & Cash Payment is more than 5% of such Receipt & payment	Yes	44AB(a)
			b) Cash Receipt & Cash Payment is less than 5% of such Receipt & payment	No	44AB(a) read with proviso
		3) Turnover =< Rs. 1 crore	-	No	44AB

<sup>1</sup> If income has been declared u/s 44AD in any five assessment year before relevant previous year, then audit will be applicable under Section 44AB(e) read with section 44AD(4).

<sup>2</sup> If turnover is less than 2 crore and total income is less than maximum amount which is not chargeable to tax in any previous year, then audit will not be applicable. (44AB(a) read with Section 44AB(e))

**E. Combine Analysis of Section 44AB and 44ADA regarding person carrying on Profession:**

Person Carrying on Profession eligible for presumptive taxation under section 44ADA					
S.No	Type of Assessee	Gross Receipt	Additional Condition	Applicability of Tax Audit	Under section
A)	Resident Individual/ Partnership Firm (Not LLP)	1) Gross Receipt > 50 Lakhs	-	Yes	44AB(b)
		2) Gross Receipt =< 50 Lakhs	a) Income Declared < 50% of gross receipt	Yes <sup>3</sup>	44AB(d) read with Section 44ADA
			b) Income Declared >= 50% of gross receipt	No	44ADA
B)	Non-Resident and others	1) Gross Receipt > 50 Lakhs	-	Yes	44AB(b)
		2) Gross Receipt =< 50 Lakhs	-	No	44AB(b)

**DISCLAIMER:**

*The information contained herein is in summary form based on Income Tax Act, 1961. While the information is believed to be accurate to the best of our knowledge, we do not make any representations or warranties, express or implied, as to the accuracy or completeness of this information. Readers should conduct and rely upon their own examination and analysis and are advised to seek their own professional advice. This note is not an offer, invitation, advice or solicitation of any kind. We accept no responsibility for any errors it may contain, whether caused by negligence or otherwise or for any loss, howsoever caused or sustained, by the person who relies upon it.*

<sup>3</sup> If gross receipt is less than 50 lakhs and total income is less than maximum amount which is not chargeable to tax in any previous year, then audit will not be applicable. (44AB(b) read with Section 44AB(d))