CRITICAL ISSUES AND PRACTICAL CHALLENGES IN TAX AUDIT REPORTS U/S. 44AB WITH SPECIAL REFERENCE TO FORM 3CA, 3CB AND FORM 3CD

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LATEST DEVELOPMENTS

UDIN

H.C.Khincha & Co

Your Firm Registration Number (FRN) *

UDINs generated under FRN will be shared with the respective Firm In-charge.

In case members are unable to generate UDIN under FRN Category, they may generate UDIN under "Not Applicable/Individual Capacity " Category. Therein the members may put FRN details under "Document Description" field while generating UDIN.

Document Type * ○ Certificates and Other Reports ◉ Tax Audit ○ Audit and Assurance Functions

Particulars of Section / Form under which Report issued * --Select--

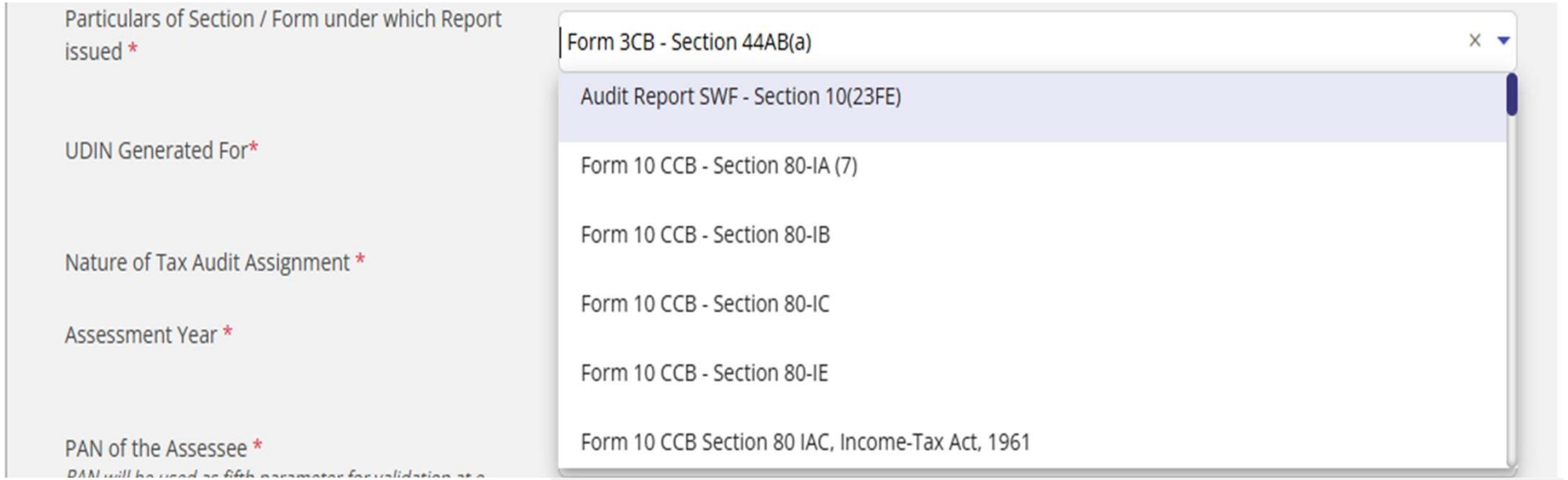
Required Field Can't be Blank.

PAN of the Assessee *

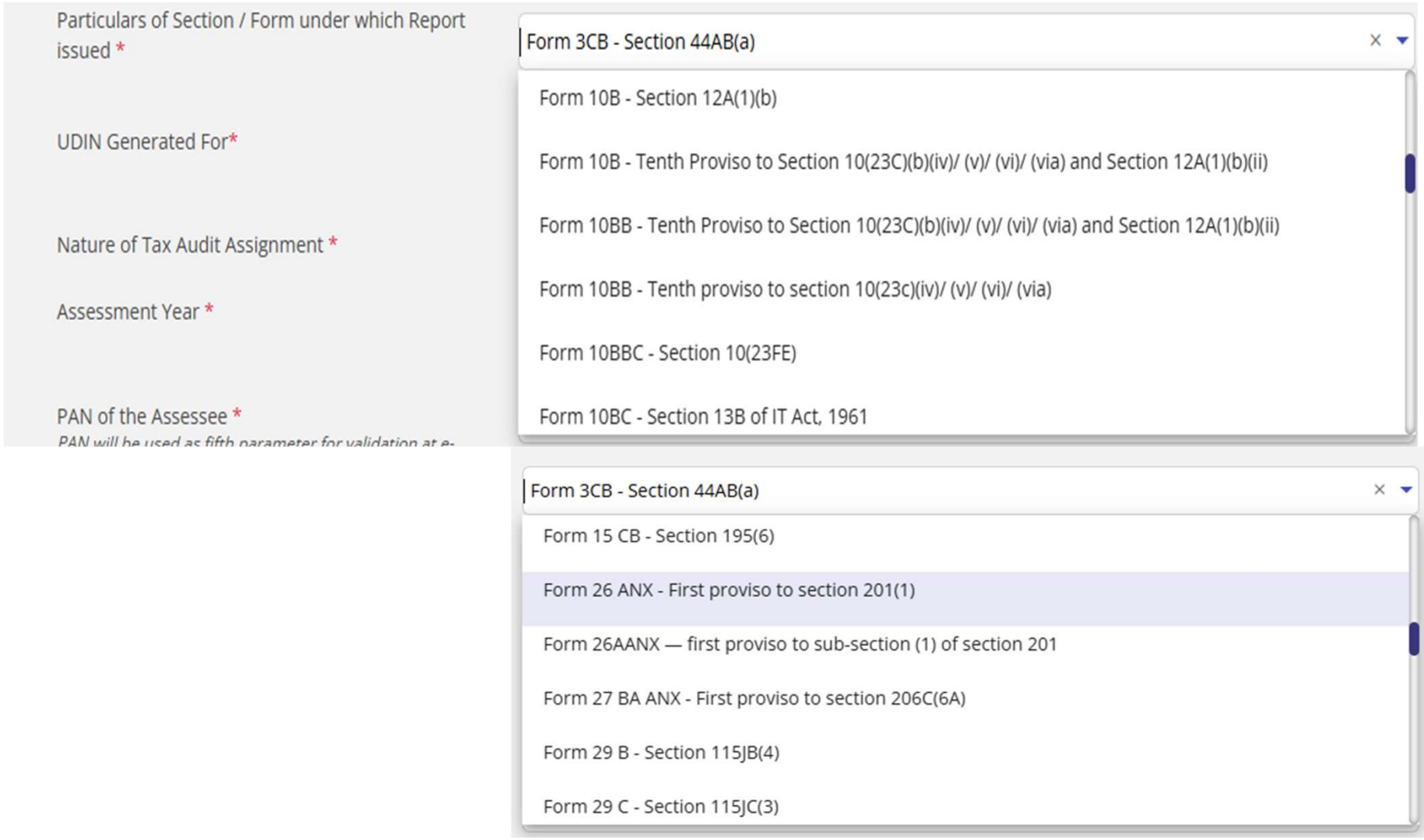
PAN will be used as fifth parameter for validation at e-filing portal.

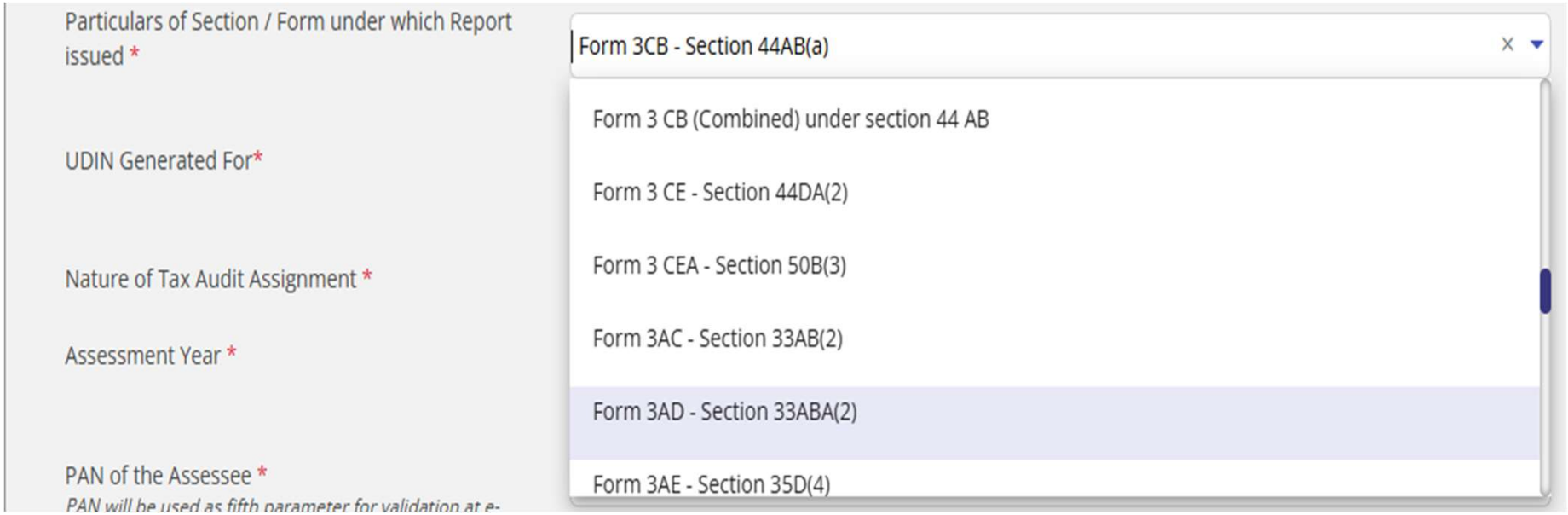
Enter PAN of the Assessee

Date of Signing of Document * (DD-MM-YYYY) ⓘ DD-MM-YYYY

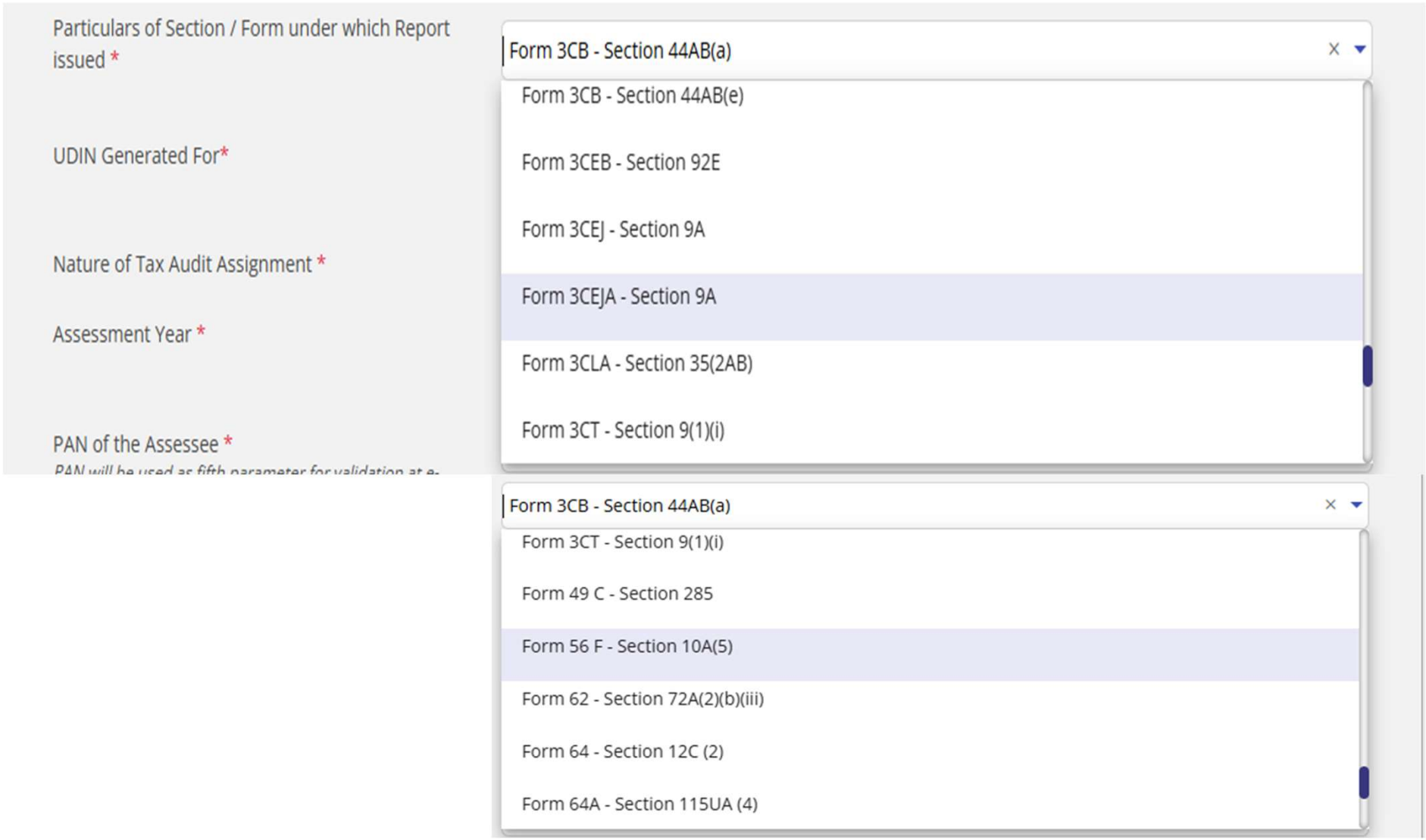

Particulars of Section / Form under which Report issued *
Form 3CB - Section 44AB(a)
Audit Report SWF - Section 10(23FE)
UDIN Generated For*
Form 10 CCB - Section 80-IA (7)
Form 10 CCB - Section 80-IB
Nature of Tax Audit Assignment *
Form 10 CCB - Section 80-IC
Assessment Year *
Form 10 CCB - Section 80-IE
PAN of the Assessee *
Form 10 CCB Section 80 IAC, Income-Tax Act, 1961

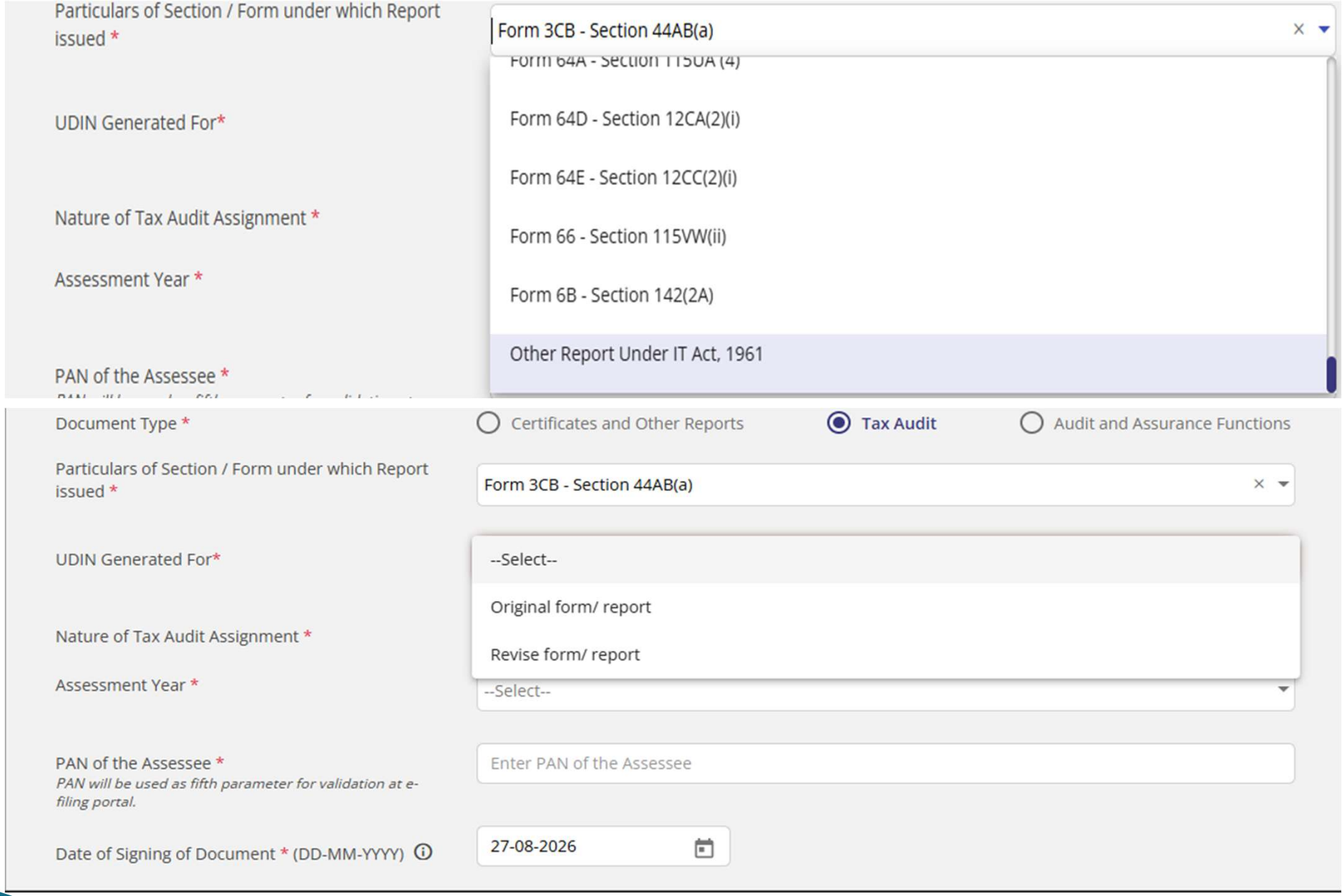

Form 3CB - Section 44AB(a)
Form 10 CCBD - Section 80-IB(11C)
Form 10 CCC - Section 80-IA(6)
Form 10 CCF - Section 80LA(3)(i)
Form 10 DA - Section 80JJAA(2)(c)
Form 10-IJ - Section 10(23FF)
Form 10-IL - Section 10(4D)


Particulars of Section / Form under which Report issued *
Form 3CB - Section 44AB(a)
UDIN Generated For*
Nature of Tax Audit Assignment *
Assessment Year *
PAN of the Assessee *
PAN will be used as fifth parameter for validation at e-
Form 10B - Section 12A(1)(b)
Form 10B - Tenth Proviso to Section 10(23C)(b)(iv)/ (v)/ (vi)/ (via) and Section 12A(1)(b)(ii)
Form 10BB - Tenth Proviso to Section 10(23C)(b)(iv)/ (v)/ (vi)/ (via) and Section 12A(1)(b)(ii)
Form 10BB - Tenth proviso to section 10(23c)(iv)/ (v)/ (vi)/ (via)
Form 10BBC - Section 10(23FE)
Form 10BC - Section 13B of IT Act, 1961
Form 3CB - Section 44AB(a)
Form 15 CB - Section 195(6)
Form 26 ANX - First proviso to section 201(1)
Form 26AANX — first proviso to sub-section (1) of section 201
Form 27 BA ANX - First proviso to section 206C(6A)
Form 29 B - Section 115JB(4)
Form 29 C - Section 115JC(3)


Particulars of Section / Form under which Report issued *
Form 3CB - Section 44AB(a)
UDIN Generated For*
Nature of Tax Audit Assignment *
Assessment Year *
PAN of the Assessee *
PAN will be used as fifth parameter for validation at e-
Form 3 CB (Combined) under section 44 AB
Form 3 CE - Section 44DA(2)
Form 3 CEA - Section 50B(3)
Form 3AC - Section 33AB(2)
Form 3AD - Section 33ABA(2)
Form 3AE - Section 35D(4)


Form 3CB - Section 44AB(a)
Form 3AE - Section 35E (6)
Form 3CA - 3rd Proviso to Section 44AB
Form 3CB - Section 44AB(a)
Form 3CB - Section 44AB(b)
Form 3CB - Section 44AB(c)
Form 3CB - Section 44AB(d)


Particulars of Section / Form under which Report issued *
Form 3CB - Section 44AB(a)
Form 3CB - Section 44AB(e)
Form 3CEB - Section 92E
Form 3CEJ - Section 9A
Form 3CEJA - Section 9A
Form 3CLA - Section 35(2AB)
Form 3CT - Section 9(1)(i)
UDIN Generated For*
Nature of Tax Audit Assignment *
Assessment Year *
PAN of the Assessee *
PAN will be used as fifth parameter for validation at e-
Form 3CB - Section 44AB(a)
Form 3CT - Section 9(1)(i)
Form 49 C - Section 285
Form 56 F - Section 10A(5)
Form 62 - Section 72A(2)(b)(iii)
Form 64 - Section 12C (2)
Form 64A - Section 115UA (4)


Particulars of Section / Form under which Report issued *
Form 3CB - Section 44AB(a)
Form 64A - Section 115UA (4)
Form 64D - Section 12CA(2)(i)
Form 64E - Section 12CC(2)(i)
Form 66 - Section 115VW(ii)
Form 6B - Section 142(2A)
Other Report Under IT Act, 1961
UDIN Generated For*
Nature of Tax Audit Assignment *
Assessment Year *
PAN of the Assessee *
Document Type *
Certificates and Other Reports
Tax Audit
Audit and Assurance Functions
Particulars of Section / Form under which Report issued *
Form 3CB - Section 44AB(a)
UDIN Generated For*
--Select--
Original form/ report
Revise form/ report
Nature of Tax Audit Assignment *
Assessment Year *
--Select--
PAN of the Assessee *
PAN will be used as fifth parameter for validation at e-filing portal.
Enter PAN of the Assessee
Date of Signing of Document * (DD-MM-YYYY)
27-08-2026

In case members are unable to generate UDIN under FRN Category, they may generate UDIN under "Not Applicable/Individual Capacity " Category. Therein the members may put FRN details under "Document Description" field while generating UDIN.

Document Type * ○ Certificates and Other Reports ◉ Tax Audit ○ Audit and Assurance Functions

Particulars of Section / Form under which Report issued * : Form 3CB - Section 44AB(a)

UDIN Generated For* : --Select--

Nature of Tax Audit Assignment * ◉ Assessee ○ Head Office of assessee ○ Branch of assessee

Assessment Year * : --Select--

PAN of the Assessee *
PAN will be used as fifth parameter for validation at e-filing portal.
Enter PAN of the Assessee

Date of Signing of Document * (DD-MM-YYYY) ⓘ : 27-08-2026

Auditor's Opinion on Financial Statements

Is Auditor's Opinion applicable to this audit report? *

--Select--
Yes
No

Auditor's Opinion *

--Select--

Key Audit Matter (KAM)* Yes No

Emphasis of Matter (EOM)* Yes No

Other Matter* Yes No

Material Uncertainty related to Going Concern* Yes No

Entity Type*

--Select--

Auditor's Opinion on Financial Statements

Is Auditor's Opinion applicable to this audit report? *

Yes

Auditor's Opinion *

Unmodified Opinion

Qualified Report

Adverse Opinion

Disclaimer of Opinion

Key Audit Matter (KAM)*

Emphasis of Matter (EOM)*

Other Matter*

Material Uncertainty related to Going Concern*

Entity Type*

--Select--

Auditor's Opinion on Financial Statements

Is Auditor's Opinion applicable to this audit report? *

Yes

Auditor's Opinion *

--Select--

Required Field Can't be Blank.

Key Audit Matter (KAM)* Yes No

Emphasis of Matter (EOM)* Yes No

Other Matter* Yes No

Material Uncertainty related to Going Concern* Yes No

Entity Type*

Non-Listed Entity

Listed Entity

Non-Listed Entity

Type of Non-Listed Entity*

Auditor's Opinion on Financial Statements

Is Auditor's Opinion applicable to this audit report? *

Yes

Auditor's Opinion *

--Select--

Required Field Can't be Blank.

Key Audit Matter (KAM)*

Emphasis of Matter (EOM)*

Other Matter*

Material Uncertainty related to Going Concern*

Entity Type*

- Sole Proprietorship
- Partnership
- LLP
- Private Company
- Public Company
- Section 8 Company

Type of Non-Listed Entity*

Required Field Can't be Blank.

Auditor's Opinion on Financial Statements

Is Auditor's Opinion applicable to this audit report? *

Yes

Auditor's Opinion *

--Select--

Required Field Can't be Blank.

Key Audit Matter (KAM)*

Emphasis of Matter (EOM)*

Other Matter*

Material Uncertainty related to Going Concern*

Entity Type*

- Banking Company
- Insurance Company
- Power/Electricity Company
- Charitable Trust
- Non-charitable Trust
- Cooperative Society

Type of Non-Listed Entity*

Required Field Can't be Blank.

Auditor's Opinion on Financial Statements

Is Auditor's Opinion applicable to this audit report? *

Yes

Auditor's Opinion *

--Select--

Required Field Can't be Blank.

Key Audit Matter (KAM)*

Emphasis of Matter (EOM)*

Other Matter*

Material Uncertainty related to Going Concern*

Entity Type*

Charitable Trust

Non-charitable Trust

Cooperative Society

Society (under Societies Act)

NBFC

Others

Type of Non-Listed Entity*

Required Field Can't be Blank.

Details of Preceding year's of Audit

Is capturing details of the preceding auditor applicable to this audit/form? *

--Select--

Yes

No

Have you issued the audit report to the client previous/last year? *

--Select--

Required Field Can't be Blank.

Details of Preceding year's of Audit

Is capturing details of the preceding auditor applicable to this audit/form? *

Yes

Have you issued the audit report to the client previous/last year? *

--Select--

Yes

Audit done by partner in the same firm

No

First Year of Audit

Preliminary Questions (if any)

Are cash transactions ≤ 5%?*

Details of Preceding year's of Audit

Is capturing details of the preceding auditor applicable to this audit/form? *

Yes

Have you issued the audit report to the client previous/last year? *

Yes

Enter the UDIN of the audit report generated for the previous year *

UDIN

Details of Preceding year's of Audit

Is capturing details of the preceding auditor applicable to this audit/form? *
Yes

Have you issued the audit report to the client previous/last year? *
Audit done by partner in the same firm

Enter MRN of the previous Auditor *
MRN

Details of Preceding year's of Audit

Is capturing details of the preceding auditor applicable to this audit/form? *
Yes

Have you issued the audit report to the client previous/last year? *
No

Enter MRN of the previous Auditor *
MRN

Have you communicated previous auditor for your appointment? *
Yes No

Is there any outstanding audit fee related to the previous year's audit as per the financial statements audited by you? *
--Select--

Details of Preceding year's of Audit

Is capturing details of the preceding auditor applicable to this audit/form? *

Yes

Have you issued the audit report to the client previous/last year? *

First Year of Audit

Preliminary Questions (if any)

Are cash transactions ≤ 5%?*

--Select--

Yes

No

Figures/Values:

Figures/Values:

S.No.	Particulars	Figures/Values:	Denomination	Converted Value (For Standardisation)
1 *	Total Sales/ Turnover/ Gross Rece	Figures in INR	--Select--	
2 *	Net Profit/ Turnover (ratio) as per	Ratio		
3 *	WDV of Fixed Assets	Figures in INR	--Select--	
4 *	Assessment Year	--Select--		
5	PAN of the Assessee/ Auditee	PAN		

Add More

Document Description * (i)

Details of the document for which the UDIN is being generated are to be filled in 5 to 250 characters only

0 / 250 Characters

Remarks (i)

This information will not be shown to Authority.

0 / 250 Characters

Save Draft Send OTP

As per Page no 37 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

9. Tax auditor

9.31 (a) As per The Chartered Accountants (Limit on Number of Tax Audits) Guidelines, 2025 notified vide **Notification F. No.1-CA/(7)/234/2025 dated 25.7.2025 which are given in Appendix VIIIA, audit of books of account of persons carrying on businesses / professions covered by sections 44AD, 44ADA and 44AE, is not included in the aforesaid limit.**

The auditor is advised to maintain the details of the audits conducted by virtue of the provisions of section 44AD, 44ADA and 44AE separately.

As per Page no 38 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

9.33 In **the 442nd meeting of the Council of ICAI held on 26.5.2025 and 27.5.2025 and 443rd meeting of the Council of ICAI held on 30.6.2025 and 1.7.2025, the following changes tabulated below have been effected in respect of limit on number of tax audits with effect from 1.4.2026.**

The guidelines notified vide **Notification F. No.1-CA/(7)/234/2025 dated 25.7.2025 are given in Appendix VIIIA.**

It may be noted that as per the Council decision, **the ceiling of 60 would be in relation to the number of tax audit assignments accepted and signed by a member in a particular financial year.**

Also, **the changes would apply in respect of tax audits assignments with effect from 1.4.2026.**

As per Page no 39 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

This is the reason why "From 1.4.2026" has been mentioned in the heading of the last column.

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.**

Note 1 - It may be noted that in the case of revision of tax audit report, the revised tax audit report shall not be taken into account for the purpose of reckoning the said limit of 60.

As per Page no 40 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961

(Revised 2026)

9.37 It may also be noted that a chartered accountant is required to generate and mention UDIN (Unique Documentation Identification Number) on each attestation/audit reports issued by him.

The Institute of Chartered Accountants of India, through the Gazette notification dated 2nd August, 2019, has declared mandatory generation of UDIN for all kind of Certifications, GST and Tax Audit Reports and other Audit, Assurance and Attestation functions performed by practicing members as required by various regulators.

Further, the CBDT has made quoting of UDIN mandatory effective 27th April 2020, for all documents certified or attested by Chartered Accountants under the Income-tax Act, 1961.

The UDIN so mentioned for the tax audit reports/certificates by the Chartered Accountants on the e-filing portal, is validated online with the ICAI system level integration.

This validation of UDIN help in weeding out fake or incorrect tax audit reports not duly authenticated with the ICAI.

If, for any reason, a Chartered Accountant is unable to generate UDIN before submission of audit report/certificate, the income tax e-filing portal allows such submission.

However, the said Chartered Accountant has to generate and Update the UDIN within 60 calendar days from the date of form submission on the income tax e-filing portal.

As per Page no 41 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

9.38 While generating UDIN under the applicable sub-categories, audits of Head Office and branches of the same assessee for the same assessment year shall be treated as one Tax Audit assignment.

However, separate UDINs may be generated; 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.

As per Page no 41 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

10. Form of Financial Statements

10.1 In case of certain category of assesses e.g., company, society, charitable trusts etc., respective law governing the assessee prescribe form in which financial statements should be prepared and presented.

In such a case, relevant provisions of law should be complied with for preparation and presentation of the financial statements.

It should be noted that the responsibility for maintenance of books and records and that for preparation of financial statements is that of the assessee.

As per Page no 41 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

10.2 In case of certain assessee e.g. proprietorship, partnership, LLP etc., law does not prescribe any specific format or requirements for preparation and presentation of financial statements.

The ICAI has issued Guidance Note on Financial Statements of Non-Corporate Entities' and Guidance Note on Financial Statements of Limited Liability Partnerships (LLPs).

These Guidance Notes and presentation which were recommended for the initial period are effective for preparation and presentation of financial statements covering periods beginning on or after April 1, 2024 where no format for financial statements has been prescribed under the law.

Thereafter, **the Council in its 451st meeting held on 30th-31st March, 2026 has decided that these Guidance Notes shall be applicable to non-corporate entities such as proprietorship, partnership etc. and LLPs in a phased manner as under**:

	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**

As per Page no 42 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Note - 1 : The Guidance Note on Financial Statements of Non-Corporate Entities is applicable to

(a) **Sole proprietorship firms**
(b) Hindu Undivided Family
(c) Partnership Firms
i) Registered Partnership Firms
ii) Unregistered Partnership Firms
(d) Association of Persons
a. Partnership firms not covered above
b. Body of Individuals
c. Resident welfare Association
(e) Society registered under any law for the time being in force
(f) Trust (private or public) registered under any law for the time being in force or unregistered.
(g) Statutory Corporations, Autonomous bodies and Authorities
(h) Any form of organisation that is engaged fully or partially in any Business or Professional activities.

The Digital Personal Data Protection (DPDP) Act, 2023

As per Page no 52 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

13.13 The **Digital Personal Data Protection (DPDP) Act, 2023** introduces a **strict legal framework in India to protect personal data, significantly impacting tax auditors.**

In the course of **audits under Section 44AB** of the Income-tax Act, 1961, auditors routinely handle vast amounts of **sensitive personal data, such as PAN, Aadhaar, salary records, and bank details.**

As per Page no 52 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

13.14 While the **Chartered Accountants Act, 1949 and the Code of Ethics already mandate client confidentiality,** the **DPDP Act elevates this into a statutory obligation**.

Depending upon the facts and circumstances, the auditor should assess his obligation under the applicable data protection law and his role in relation to the processing of such data.

Auditor should **adopt robust data governance and information security practices proportionate to the nature, volume and sensitivity of the data handled.**

This may include **restricting data access or a need-to-know basis and securing digital tools like cloud platforms and AI applications.**

As per Page no 52 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

13.15 Furthermore, **auditors should update their engagement letters with clear data-processing clauses and draft strict confidentiality agreements for all staff and third-party vendors.**

Since data breaches or non-compliance can lead to massive statutory penalties, civil lawsuits and permanent damage to professional reputation, auditors must proactively document their security measures to demonstrate due diligence.

13.16 **The relevant provisions of the Digital Personal Data Protection Act, 2023 (DPDP Act) are fully applicable from 13 May 2027.**

Since the present Guidance Note pertains to periods prior to the applicability of the said provisions, the DPDP Act does not have a bearing on the guidance

This note is included only to **draw the attention of members to the forthcoming legal framework governing the processing and protection of personal data so that they may familiarise themselves with the compliance requirements for future audit engagements, wherever applicable.**

As per Page no 52 & 53 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

13.17 **It is noticed that AI is being employed for the purpose of Audit, in such a case, the ultimate responsibility lies with the auditor**.

Moreover, it is necessary to observe responsibilities flowing from the Act and Regulations, Code of Ethics (2026) and Standards on Auditing etc.

As per Page no 53 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

This is the last edition of the Guidance Note on Tax Audit under section 44AB of the Income-tax Act, 1961.

With effect from 1 April 2026, the Income-tax Act, 2025 has come into force and tax audits in respect of tax years governed by Income-tax Act, 2025, shall be governed by section 63.

However, tax audit or any proceeding in respect of previous years governed by the Income-tax Act, 1961, shall continue to be governed by the relevant provisions of the Income-tax Act, 1961 by virtue of the repeal and saving provisions contained in section 536 of the Income-tax Act, 2025.

Penalties (Schedule)

Monetary penalties up to **₹250 crore** for failure to take reasonable security safeguards. Other high penalties (up to ₹200 crore) for breach notification failures or children's data violations. Lower penalties for other non-compliances.

Penalties are per contravention and consider factors such as nature/sensitivity of data, scale, and mitigation efforts.

Maximum penalties under the Schedule

Breach	Maximum penalty
Breach of Act/rules	₹50 crore
Failure to maintain reasonable security safeguards	₹250 crore
Failure to notify personal-data breach	₹200 crore
Breach concerning children's data	₹200 crore
Breach of SDF obligations	₹150 crore
Breach of Data Principal duties	₹10,000
Breach of voluntary undertaking	Applicable penalty for underlying breach
Other specified breach	₹50 crore

Practical Implications & Action Points for Chartered Accountants / CA Firms

Classify role: Confirm whether the firm is a Data Fiduciary (usually yes for client data) or Processor.

Update engagement letters: Include clear purpose of processing, categories of data, retention policy, client rights under DPDP, sharing with staff/vendors/regulators, and consent/legitimate-use language.

Data inventory & mapping: Identify all personal data held (clients, employees, prospects), purposes, retention periods, and third-party sharing.

Consent & notice mechanisms: Implement clear notices and affirmative consent processes (or document legitimate-use basis).

Security & retention policies: Encryption, access controls, secure deletion, vendor contracts with data-protection clauses.

Breach response plan: Procedures for detection, containment, and timely reporting.

Training & governance: Staff awareness, internal policies, periodic reviews. Consider whether SDF status applies (unlikely for most mid-size firms, but monitor notifications).

Advisory opportunity: CAs are well-placed to offer DPDP compliance gap assessments, DPIAs, policy drafting, and ongoing advisory to clients.

As per Page no 19 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Virtual Digital Assets (VDAs)

5.13(iv) The aggregate amount of gross receipts arising from the sale of Virtual Digital Assets (VDAs) by a dealer engaged in the business of dealing in such assets. For details refer to the Guidance note on Crypto-Asset Reporting Obligations under section 509 of the Income Tax Act 2025 issued by the CBDT

(v) The aggregate amount of gross receipts arising from the sale of carbon credits by a dealer engaged in the business of dealing in carbon credits.

Section 2(47A) "virtual digital asset" means –

"virtual digital asset" means—

(a) any information or code or number or token (not being Indian currency or foreign currency), generated through cryptographic means or otherwise, by whatever name called, providing a digital representation of value exchanged with or without consideration, with the promise or representation of having inherent value, or functions as a store of value or a unit of account including its use in any financial transaction or investment, but not limited to investment scheme; and can be transferred, stored or traded electronically;

(b) a non-fungible token or any other token of similar nature, by whatever name called;

(c) any other digital asset, as the Central Government may, by notification in the Official Gazette specify;

[(d) any crypto-asset being a digital representation of value that relies on a cryptographically secured distributed ledger or a similar technology to validate and secure transactions, whether or not such asset is included in sub-clause (a) or sub-clause (b) or sub-clause (c):]

Provided that the Central Government may, by notification in the Official Gazette, exclude any digital asset from the definition of virtual digital asset subject to such conditions as may be specified therein.

Explanation.—For the purposes of this clause,—

(a) "non-fungible token" means such digital asset as the Central Government may, by notification in the Official Gazette, specify;

(b) the expressions "currency", "foreign currency" and "Indian currency" shall have the same meanings as respectively assigned to them in clauses (h), (m) and (q) of section of the Foreign Exchange Management Act, 1999 (42 of 1999)

What is a VDA?

A **Virtual Digital Asset (VDA)** broadly covers digital assets such as:

- Cryptocurrency
- Bitcoin
- Ethereum
- Certain other crypto/digital tokens
- NFTs and other digital assets falling within the statutory definition

The important point is that this reporting provision is concerned with a person **engaged in the business of dealing in VDAs**, rather than merely a person holding/investing in VDAs.

What has to be reported?

The amount to be reported is the **aggregate gross receipts from sale of VDAs**.

It is **not the profit** earned from VDA trading.

For example:

Particulars	Amount
VDA purchased	₹8,00,000
VDA sold	₹10,00,000
Gross receipts from sale	₹10,00,000
Profit	₹2,00,000

For this reporting requirement, the relevant figure would generally be **₹10,00,000**, being the gross sale receipts, and not merely ₹2,00,000 profit.

Why is "dealer" important?

Consider two situations:

A. Investor

A person buys Bitcoin for ₹5 lakh as an investment and subsequently sells it for ₹7 lakh.

B. Dealer

A person regularly purchases and sells VDAs as a business activity, with repeated transactions and business-like operations.

The quoted provision specifically refers to:

"a dealer engaged in the business of dealing in such assets.“

Therefore, the provision is targeted at **business dealers/traders in VDAs**, rather than automatically treating every person who has sold a VDA as a dealer.

Example – VDA dealer

Suppose a VDA dealer has the following transactions during the year:

Transaction	Sale value
Bitcoin	₹25 lakh
Ethereum	₹15 lakh
Other VDA	₹10 lakh
NFT	₹5 lakh
Aggregate gross receipts	₹55 lakh

The amount relevant for the reporting provision would be **₹55 lakh**, subject to the precise scope and definitions applicable under the Act and CBDT guidance.

Difference between gross receipts and income

This distinction is very important.

Suppose:

- Purchase cost = ₹40 lakh
- Sale proceeds = ₹55 lakh
- Profit = ₹15 lakh

The reporting requirement refers to **gross receipts of ₹55 lakh**, whereas the income-tax computation may separately determine the taxable income/profit in accordance with the applicable VDA provisions.

Thus:

Gross receipts ≠ taxable income ≠ profit

2. CBDT Guidance Note on Crypto-Asset Reporting Obligations

The provision specifically refers to the **CBDT Guidance Note on Crypto-Asset Reporting Obligations under section 509 of the Income-tax Act, 2025**.

The purpose of such reporting provisions is essentially to improve the information available with the Income-tax Department regarding transactions involving crypto-assets/VDAs.

The reporting framework is intended to enable the tax authorities to:

- identify persons dealing in VDAs;
- obtain information regarding VDA transactions;
- match reported transactions with ITR disclosures;
- identify possible undisclosed VDA income;
- verify turnover/gross receipts;
- detect mismatches between books, returns and third-party information.

Therefore, a dealer should maintain proper records of:

- Date of purchase
- Date of sale
- Type of VDA
- Quantity
- Purchase value
- Sale value
- Transaction charges
- Exchange/platform details
- Wallet/transaction details, wherever relevant
- Customer/counterparty details where applicable
- Gross receipts
- Profit/loss

Gross receipts from sale of Carbon Credits

The next provision is substantially similar:

The aggregate amount of gross receipts arising from the sale of carbon credits by a dealer engaged in the business of dealing in carbon credits.

Here also, the key words are:

"aggregate amount" + "gross receipts" + "sale" + "dealer" + "business of dealing".

What are carbon credits?

A carbon credit generally represents a unit associated with the reduction / removal / avoidance of greenhouse-gas emissions.

- Carbon credits may be generated through activities such as:
- Renewable energy projects
- Afforestation/reforestation
- Energy efficiency projects
- Methane capture
- Other emission-reduction projects
- Such credits may subsequently be transferred/sold.

Who is covered?

Again, the provision specifically refers to a:

dealer engaged in the business of dealing in carbon credits

Therefore, it is particularly relevant to businesses whose activity consists of buying and selling carbon credits.

What amount is reported?

Again, it is the **gross sale receipts**, rather than merely the profit.

Example:

Particulars	Amount
Carbon credits purchased	₹30 lakh
Carbon credits sold	₹42 lakh
Gross sale receipts	₹42 lakh
Profit	₹12 lakh

The reporting figure would be **₹42 lakh**, subject to the detailed rules/guidance applicable to the particular reporting requirement.

4. VDA vs Carbon Credit – comparison

Particulars	VDA	Carbon Credit
Asset	Virtual/digital asset	Emission-reduction related credit
Person covered	Dealer engaged in business of dealing in VDAs	Dealer engaged in business of dealing in carbon credits
Amount reported	Aggregate gross receipts from sale	Aggregate gross receipts from sale
Profit reported instead?	No – gross receipts are relevant	No – gross receipts are relevant
Purchase cost deducted for this reporting figure?	Generally no	Generally no
Purpose	Transaction/information reporting	Transaction/information reporting
Important consideration	Distinguish dealer from ordinary investor	Distinguish dealer from other holders/project participants

5. Important distinction – "sale" vs "profit"

This is perhaps the most important practical point.

Suppose a dealer undertakes the following:

VDA

Particulars	**Amount**
Purchases	₹1.00 crore
Sales	₹1.20 crore
Gross receipts	₹1.20 crore
Gross profit	₹20 lakh

The reporting requirement is based on **₹1.20 crore of gross sale receipts**, not ₹20 lakh.

Carbon credits

Particulars	Amount
Purchases	₹50 lakh
Sales	₹65 lakh
Gross receipts	₹65 lakh
Gross profit	₹15 lakh

Why the word "aggregate" is important

"Aggregate amount" means that the transactions should generally be **consolidated for the relevant reporting period**, rather than considering only individual transactions.

For example, if a VDA dealer has:

- Sale 1 – ₹5 lakh
- Sale 2 – ₹8 lakh
- Sale 3 – ₹12 lakh
- Sale 4 – ₹10 lakh

then:

Aggregate gross receipts = ₹35 lakh

It would not be appropriate to consider only the largest transaction of ₹12 lakh.

Practical reconciliation with books

For a dealer, the reported figure should be capable of reconciliation with the books.

A practical working can be maintained as follows:

Particulars	Amount
Gross VDA sales as per exchange/platform records	₹XX
Add: Other VDA sales	₹XX
Less: Cancellations/eligible reversals, if applicable	(₹XX)
Aggregate gross receipts	₹XX
Sales as per books	₹XX
Difference	₹XX

Dealer vs investor – practical issue

This distinction should **not be ignored**.

A person merely having a VDA investment does not necessarily become a **"dealer engaged in the business of dealing in VDAs"** merely because he sold a VDA.

For determining whether a person is carrying on a business of dealing, factors such as:

- frequency of transactions;
- volume;
- intention;
- systematic activity;
- holding period;
- business organisation;
- accounting treatment;
- nature of transactions; and
- surrounding facts

may become relevant.

Therefore, **a single sale of a personally held cryptocurrency should not automatically be equated with VDA dealership** merely because a sale has occurred.

Difference between this reporting provision and VDA taxation

Another important distinction is between **reporting of receipts** and **taxability of income**.

These are separate concepts.

For example:

VDA dealer:

Sale proceeds = ₹1 crore
Cost = ₹80 lakh
Profit = ₹20 lakh

There can be a requirement to report **₹1 crore gross receipts**, while the tax computation separately considers the applicable provisions for determining taxable income.

Therefore, when preparing the ITR/books, do **not** automatically substitute the gross-receipt reporting figure with the taxable profit figure.

In simple words

The provisions can be understood as follows:

If a person is carrying on a business of dealing in VDAs, the aggregate gross amount received from selling those VDAs is required to be reported.

And similarly:

If a person is carrying on a business of dealing in carbon credits, the aggregate gross amount received from selling those carbon credits is required to be reported.

The focus is therefore on **transaction value/gross receipts**, not merely the margin or profit.

Practical checklist for a dealer

- Identify whether the person is actually a **dealer/business trader**.
- Obtain complete VDA/carbon-credit transaction statements.
- Determine **gross sale receipts**.
- Aggregate the relevant sales.
- Reconcile the amount with books.
- Reconcile, wherever applicable, with exchange/platform/third-party information.
- Separately compute taxable income under the applicable provisions.
- Preserve transaction-wise supporting documents.
- Check the CBDT guidance and applicable rules for the exact reporting mechanism and threshold.

Note: Since you specifically referred to **section 509 of the Income-tax Act, 2025 and the CBDT Guidance Note**, the exact reporting form, threshold, reporting person, due date and transaction-level information should be checked against the latest notified rules/guidance applicable to the relevant financial year.

Obligation to furnish information on transaction of crypto-asset.

509. (1) Any person, being a reporting entity, as may be prescribed, in respect of a crypto-asset, shall furnish information in respect of a transaction of such crypto-asset in a statement, for such period, within such time, in such form and manner and to such income-tax authority, as may be prescribed.

(2) Where the prescribed income-tax authority considers that the statement furnished under sub-section (1) is defective, he may intimate the defect to the person who has furnished such statement and give him an opportunity of rectifying the defect within thirty days from the date of such intimation or such further period as may be allowed, and if the defect is not rectified within such period, the provisions of this Act shall apply as if such person had furnished inaccurate information in the statement.

(3) Where a person who is required to furnish a statement under sub-section (1) has not furnished the same within the specified time, the prescribed income-tax authority may serve upon such person a notice requiring him to furnish such statement within a period not exceeding thirty days from the date of service of such notice and he shall furnish the statement within the time specified in the notice.

(4) If any person, having furnished a statement under sub-section (1), or in pursuance of a notice issued under sub-section (3), comes to know or discovers any inaccuracy in the information provided in the statement, he shall within ten days inform the prescribed income-tax authority, the inaccuracy in such statement and furnish the correct information in such manner as may be prescribed.

(5) The Central Government may, by rules prescribe—

a) the persons referred to in sub-section (1) to be registered with the prescribed income-tax authority

b) the nature of information and the manner in which such information shall be maintained by the persons referred to in clause (*a*); and

c) the due diligence to be carried out by the persons referred to in sub-section (1) for the purpose of identification of any crypto-asset user or owner

(6) For the purposes of this section, the expression "crypto-asset" shall have the meaning assigned to it in section 2(*111*)(*d*)

Amendments in Form 3CD

As per Notification No. 23/2025 states that the Income-tax (Eighth Amendment) Rules, 2025 came into force on 01.04.2025

MINISTRY OF FINANCE

(Department of Revenue)

(CENTRAL BOARD OF DIRECT TAXES)

NOTIFICATION

New Delhi, the 28th March, 2025

INCOME-TAX

G.S.R. 207(E)-In exercise of the powers conferred by section 44AB and section 295 of the Income-tax Act (43 of 1961), the Central Board of Direct Taxes, hereby, makes the following rules further to amend the Income-tax Rules, 1962, namely:-

1. Short title and commencement-

(1) These rules may be called the **Income-tax (Eighth Amendment) Rules, 2025**.

(2) They shall come into force on the **1st day of April, 2025**.

2. In the Income-tax Rules, 1962, in Appendix II, in Form no. 3CD, in Part B, —

a. in clause (12), after the figures and letters “44BBB,”, the figures and letters **“44BBC” shall be inserted;**

12. Whether the profit and loss account includes any profits and gains assessable on presumptive basis, if yes, indicate the amount and the relevant section (44AD, 44AE, 44AF, 44B, 44BB, 44BBA, 44BBB, 44BBC, Chapter XII-G, First Schedule or any other relevant section.)

44BBC. Inserted by the IT (Eighth Amdt.) Rules, 2025, w.e.f. 1-4-2025.

Special provision for computing profits and gains of business of operation of cruise ships in case of non-residents.

44BBC(1)

- Notwithstanding anything to the contrary contained in sections 28 to 43A,
- in the case of an **assessee, being a non-resident,**
- engaged in the **business of operation of cruise ships**
- subject to such conditions as may be prescribed,
- a **sum equal to twenty per cent of the aggregate of the amounts specified in sub-section (2)**
- 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".**

44BBC(2)

The amounts referred to in sub-section (1) shall be the following, namely:-

(a) the **amount paid or payable to the assessee** or to any person on his behalf **on account of the carriage of passengers**; and

(b) the **amount received or deemed to be received** by or on behalf of the assessee **on account of the carriage of passengers**.]

b. in clause (19), the rows labelled as "**32AC", "32AD", "35AC" and "35CCB" shall be omitted;**

Amendments in clause 19

The following sections have been omitted from Clause 19 from AY 2025-26 onwards:

Section 32AC – Investment in new plant or machinery
Section 32AD – Investment in notified backward areas
Section 35AC – Expenditure on eligible projects
Section 35CCB – Expenditure on agricultural extension projects

CLAUSE - 19

Amounts admissible under sections :

Section	Amount debited to profit and loss account	Amounts admissible as per the provisions of the Income-tax Act, 1961 and also fulfils the conditions, if any specified under the relevant provisions of Income-tax Act, 1961 or Income-tax Rules,1962 or any other guidelines, circular, etc., issued in this behalf.
33AB		
33ABA		
35(1)(*i*)		
35(1) (*ii*)		
35(1)(*iia*)		
35(1)(*iii*)		
35(1)(*iv*)		

35(2AA)		
35(2AB)		
35ABB		
35AD		
35CCA		
35CCC		
35CCD		
35D		
35DD		
35DDA		
35E		

c. in the table, in clause (21), in sub-clause (a), after the row starting with the words “Expenditure incurred to provide any benefit or perquisite”, a row with the words “**Expenditure incurred to settle proceedings initiated in relation to contravention under such law as notified by the Central Government in the Official Gazette in this behalf” shall be inserted;**

As per Page no 184 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

33.24 (ix) Expenditure incurred to settle proceedings initiated in relation to contravention under such law as notified by the Central Government in the Official Gazette in this behalf.

(a) The Finance (No.2) Act, 2024 has inserted **clause (iv) in Explanation 3 to section 37(1) from the assessment year 2025-26.**

This clause provides that *for the removal of doubts, it is hereby clarified that the expression "expenditure incurred by an assessee for any purpose which is an offence or which is prohibited by law" under Explanation 1, shall include and shall be deemed to have always included the expenditure incurred by an assessee to settle proceedings initiated in relation to contravention under such law as may be notified by the Central Government in the Official Gazette in this behalf.*

As per Page no 185 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

(b) In exercise of the powers conferred by clause (iv) of Explanation 3 of sub-section (1) to section 37 of the Income-tax Act, 1961, the Central Government has vide Notification no. 38/2025 dated 23.04.2025 provided that **any expenditure incurred to settle proceedings initiated in relation to contravention or defaults under the following laws shall not be deemed to have been incurred for the purpose of business or profession and no deduction or allowance shall be made in respect of such expenditure, namely:–**

(i) the Securities and Exchange Board of India Act, 1992;

(ii) the Securities Contracts (Regulation) Act, 1956;

(iii) the Depositories Act, 1996;

(iv) the Competition Act, 2002.

The notification shall come into force on the date of its publication in the Official Gazette.

(c**) The tax auditor has to verify if any expenditure has been incurred to settle proceedings initiated in relation to contravention or defaults under the above Acts and if so, whether the appropriate reporting under this clause has been done.**

d. for clause (22), the following clause shall be substituted –

"22.	(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 a micro or small enterprise, as referred to in section 15 of the MSMED Act, during the previous year; (iii) Of amount referred to in (ii) above, amount - (a) paid up to time given under section 15 of the MSMED Act; (b) not paid up to time given under section 15 of the MSMED Act and inadmissible for the previous year.";	

Amendments in clause 22

1. Interest disallowance under Section 23 of the MSMED Act, 2006; **(Already existing requirement)**

2. Total amount payable to micro or small enterprises as referred to in Section 15 of the MSMED Act during the year; **(New requirement)**

3. Of the above, bifurcation into:

(a) Amounts paid within the prescribed time under Section 15, and **(New requirement)**

(b) Amounts not paid within the prescribed time, which are inadmissible for deduction. **(Already existing requirement)**

As per Page no 208 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

42. (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 a micro or small enterprise, as referred to in section 15 of the MSMED Act, during the previous year;

(iii) Of amount referred to in (ii) above, amount –

(a) paid up to time given under section 15 of the MSMED Act;

(b) not paid up to time given under section 15 of the MSMED Act and inadmissible for the previous year.”

[Clause 22]

As per Page no 209 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Clause (h), which was **inserted in section 43B of the Income-tax Act, 1961 w.e.f. 1.4.2024**, reads as follows:

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

(g) …….

(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:

As per Page no 209 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

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.

As per Page no 209 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Clause (e) and Clause (g) of Explanation 4 to section 43B has been substituted with the following by the Finance Act, 2023, **w.e.f. 1-4-2024:**

Explanation 4:

(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);

(f)……

(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).”

As per Page no 210 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

42.3 Clause 22 of Form No. 3CD deals with the reporting of certain transactions with entities covered under MSMED Act, 2006.

For verifying the reporting under the clause, the tax auditor must consider the relevant provisions and definitions under MSMED Act and the Income-tax Act, 1961 and should refer to the relevant notifications issued under both the statutes.

As per Page no 210 & 211 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

42.4 Clause 22 has two limbs

- under the first limb, covering sub-clause (i), the amount of interest inadmissible under section 23 of the MSMED Act needs to be stated.
- Under the second limb covering remaining two sub-clauses, under sub-clause (ii) the total amount required to be paid to a micro or small enterprise, as referred to in section 15 of the MSMED Act during the previous year needs to be stated.

Sub-clause (iii) begins with "Of the amount referred to in (ii) above", indicating that the amount to be reported in (a) and (b) of sub clause (iii) are out of the amount referred to in (ii) above.

In sub-clause (iii) under (a), the amount paid up to the time given under section 15 of the MSMED Act, and under (b) the amount not paid up to time given under section 15 of the MSMED Act and inadmissible for the previous year needs to be stated.

Thus, the amount to be reported under (b) is the payment which satisfies the dual conditions, namely, paid beyond the time given under section 15 of the MSMED Act and inadmissible for the previous year.

As per Page no 211 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

42.5 The provisions of the MSMED Act contained in section 15 and section 16 relate to Micro and Small Enterprises.

The meaning of the terms "Micro Enterprise" and "Small Enterprise" have to be understood from the relevant provisions of the MSMED Act 2006.

While the definitions provided under the MSMED Act has prescribed investment criteria separately for manufacturing enterprises and enterprises rendering services, **the Central Government vide MSME notification no. S.O. 2119(E) dated 26-6-2020 has prescribed a composite criterion of "investment in plant and machinery or equipment" and "annual turnover" which applies both to manufacturing enterprises and enterprises rendering services.**

These revised criteria were made applicable w.e.f. 1.7.2020 and accordingly, apply to reporting under clause 22 for A.Y. 2024-25 and A.Y.2025-26.

As per Page no 211 & 212 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

The **investments and turnover limits have been further revised with effect from 1-4-2025 vide MSME notification S.O. 1364(E) dated21.03.2025.**

These revised criteria are relevant for reporting for A.Y. 2026-27 and onwards.

The following table provides an overview of the criteria applicable for classification of micro, small and medium enterprises

Criterion	Applicable Period	Micro Enterprise	Small Enterprise	Medium Enterprise
Investment in Plant and Machinery or Equipment does not exceed	1.7.2020 to 31.3.2025 (relevant upto A.Y.2025- 26)	Rs.1 crore	Rs.10 crore	Rs.50 crore
	w.e.f. 1.4.2025 (relevant from A.Y.2026- 27)	**Rs.2.50 crore**	**Rs.25 crore**	**Rs.125 crore**
Annual Turnover does not exceed	1.7.2020 to 31.3.2025 (relevant upto A.Y.2025- 26)	Rs.5 crore	Rs.50 crore	Rs.250 crore
	w.e.f. 1.4.2025 (relevant from A.Y.2026- 27)	**Rs.10 crore**	**Rs.100 crore**	**Rs.500 crore**

Copy of MSME notification no. SO. 2119(E) dated 26th June, 2020 and MSME notification no. S.O. 1364(E) dated 21.03.2025 are given as Appendix XVII

As per Page no 212 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

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.

Section 15 provides for benefit of timely payments, and **Section 16 which provides for payment of interest on delayed payments, both apply to payments made by a buyer to a "supplier".**

A **supplier, by definition** (under section 2(n)), **needs to be registered under MSMED Act.**

As per Page no 212 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

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

The Udyam Registration Certificate also **specifies the activity type for which the registration has been granted.**

As per Page no 212 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

42.8 The following **provisions of the MSMED Act** are important in this regard:

Section 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.**

As per Page no 213 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Section 16: Date from which and rate at which interest is payable.

Where any **buyer fails to make payment** of the amount to the supplier**, as required under section 15,**
the buyer shall, notwithstanding anything contained in any agreement between the buyer and the supplier or
in any law for the time being in force,
be **liable** to pay **compound interest**
with monthly rests to the supplier
on that amount from the appointed day or, as the case may be,
from the date immediately following the date agreed upon,
at **three times of the bank rate notified by the Reserve Bank.**

As per Page no 213 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Section 23: Interest not to be allowed as deduction from income.

Notwithstanding anything contained in the Income-tax Act, 1961 (43 of 1961),

the **amount of interest payable or paid by any buyer,**

under or in accordance with the provisions of this Act,

shall not, for the purposes of **computation of income**

under the Income-tax Act, 1961, be allowed as deduction.

As per Page no 213 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Section 24: Overriding effect.

The provisions of sections 15 to 23 shall have effect notwithstanding anything inconsistent therewith contained in any other law for the time being in force.

Relevant Definitions:

Section of the MSMED Act, 2006	Term	Definition
2(d)	Buyer	Whoever buys any goods or receives any services from a supplier for consideration.
2(n)	**Supplier**	A **micro or small enterprise**, which has filed a **memorandum with the authority referred to in sub-section (1) of section 8,** and includes,-- (i) the National Small Industries Corporation, being a company, registered under the Companies Act, 1956; (ii) the Small Industries Development Corporation of a State or a Union territory, by whatever name called, being a company registered under the Companies Act, 1956; (iii) any company, co-operative society, trust or a body, by whatever name called, registered or constituted under any law for the time being in force and engaged in selling goods produced by micro or small enterprises and rendering services which are provided by such enterprises;

Section of the MSMED Act, 2006	Term	Definition
2(e)	Enterprise	An industrial undertaking or a business concern or any other establishment, by whatever name called, engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 (55 of 1951) or engaged in providing or rendering of any service or services.

Section of the MSMED Act, 2006	Term	Definition
2(b)	Appointed Day	'**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.**

As per Page no 215 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

42.9 The tax auditor should take note of the definition and scope of the term "enterprise" as per MSMED Act.

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.**

As per Page no 215 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

In this regard, **Office Memo dated 1st September 2021 of Ministry of MSME has categorically stated that the benefits to the retail and wholesale trade MSMEs are to be restricted to priority sector lending only**; and any other benefits, including provisions of delayed payments as per the MSMED Act, 2006, are excluded.

In effect, such retail or wholesale traders are eligible for registration under MSMED Act, 2006 for the limited purpose only.

Accordingly, **if the supplier is a retail or wholesale trader, the provisions of section 15 and 16 of the MSMED Act would not be attracted.**

Copy of the Office Memo dated 2nd July 2021 as well as 1st September, 2021 are given as Appendix XVIII and XIX may be referred to in this regard.

As per Page no 216 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

42.14 A **proper understanding of the specified time limit laid down in Section 15 is required for verifying the correct reporting under clause 22**.

(a) **Where the agreement is in writing:** The buyer and supplier may agree in writing for any day for making payment.

However, **the proviso to section 15 of MSMED Act** provides that for the purpose of section 15, the **period agreed upon between the buyers and suppliers** should **not exceed 45 days from the day of acceptance or the day of deemed acceptance.**

This means that **if the agreed upon period is 5 days or 15 days or 30 days or any other number of days (not exceeding 45 days), the payment should be made on or before such agreed upon period of 05 or 15 or 30 or such other number of days (not exceeding 45 days).**

Agreed period means period agreed in writing.

However, **if the agreed period is more than 45 days, say 60 days or 90 days, then, the same has to be restricted to 45 days** for the purpose of MSMED Act and **the buyer needs to pay within 45 days**.

As per Page no 216 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

The outstanding as on 31st March due to the Micro or small enterprise will not be disallowed under section 43B(h), if the said amount is duly paid before the agreed period in writing or 45 days, whichever is earlier.

In other words, the amount remaining outstanding as on 31st March of the financial year but payment whereof has duly been made in the next financial year but within the time limit [agreed period or 45 days, whichever is earlier) will not attract disallowance under section 43B(h)].

Some examples for applicability of Section 43B(h) in different cases

Sl. No	Day of acceptance or deemed acceptance	Agreed upon payment date in writing	Due date of payment as per Section 15 of MSMED Act	Actual Date of Payment	Status in terms of Section 43B(h)
1	20th March 2026	19th April 2026	19th April 2026	19th April 2026	Allowed in A.Y. 2026-27
2	20th March 2026	19th April 2026	19th April 2026	10th May 2026	Disallowed in A.Y. 2026-27; Allowed in T.Y. 2026-27
3	20th March 2026	19th April 2026	19th April 2026	10th June 2027	Disallowed in A.Y. 2026-27; Allowed in T.Y. 2027-28
4	20th March 2026	20th June 2026	04th May 2026	02nd May 2026	Allowed in A.Y. 2026-27
5	20th March 2026	20th June 2026	04th May 2026	08th May 2026	Disallowed in A.Y.2026-27; Allowed in T.Y. 2026-27

As per Page no 217 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

(b) **Where there is no agreement in writing:**

In such a case, the **payment needs to be made before the Appointed Day;**

Appointed Day means the day following immediately after the expiry of the period of 15 days from the day of acceptance or the day of deemed acceptance of any goods or any services by a buyer from a supplier.

Thus, in cases **where there is no agreement in writing, the maximum period of 45 days will not hold good and the payment will have to be made before the Appointed Day for the purpose of section 15 of MSMED Act, 2006.**

As per Page no 217 & 218 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

The **outstanding as on 31st March due to the Micro or small enterprise** will **not be disallowed** under section 43B(h) if the said amount is **duly paid before the Appointed Day** (i**.e. the day following immediately after the expiry of the period of 15 days from the day of acceptance or the day of deemed acceptance**), if there is no such agreement in writing.

In other words, the amount remaining outstanding as on 31st March of the financial year but payment whereof has duly been made in the next financial year but within the time limit of 15 days will not attract disallowance under section 43B(h).

As per Page no 218 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Some examples for applicability of Section 43B(h) in different cases

Sl. No	Day of acceptance or deemed acceptance	Agreed upon payment date in writing	Appointed Day	Due date of payment as per Section 15 of MSMED Act	Actual Date of Payment	Status in terms of Section 43B(h)
1	20th March, 2025	N.A.	5th April, 2025	04th April, 2025	29th March, 2025	Allowed in A.Y. 2025-26
2	20th March, 2025	N.A.	5th April, 2025	04th April, 2025	04th April, 2025	Allowed in A.Y. 2025-26
3	20th March, 2025	N.A.	5th April, 2025	04th April, 2025	10th April, 2025	Disallowed in A.Y. 2025-26 Allowed in A.Y. 2026-27

As per Page no 218 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Note - The **date of acceptance means the day of actual delivery of goods** or the rendering of services.

However, **where any objection is made in writing by the buyer** regarding the acceptance of goods or services **within 15 days from the day of delivery of goods** or rendering of services, **the date of acceptance would mean the day on which such objection is removed by the supplier.**

In such a case, appointed day would mean the day following immediately after the expiry of the period of 15 days of the day on which the objection is removed by the supplier.

As per Page no 220 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Reporting under Clause 22(i)

42.20 The tax auditor while verifying the reporting in clause 22(i) should take the following steps:

(a) Obtain a full list of suppliers of the assessee which fall within the purview of the definition of "Supplier" under section 2(n) of the MSMED Act.

It is the responsibility of the auditee to correctly classify and identify suppliers who are covered under that Act.

(b) In respect of payments made to such suppliers, obtain a list of all instances where there was delay in payment beyond the time limit specified under Section 15 of the MSMED Act, the interest payable for such delay and the interest actually paid.

(c) Review the list so obtained and verify the accuracy thereof on test check basis including the calculation of interest.

Also, cross check the disclosure made in the financial statements in terms of Section 22 of the MSMED Act with the list so obtained.

In case of company auditees, reference may also be made to half-yearly Form MSME-1, if any, furnished by such companies to the ROC.

As per Page no 220 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

(d) Verify from the books of account and Financial Statements whether any interest payable or paid to supplier(s) in terms of section 16 of the MSMED Act has been provided for in the books of account or has been debited to the Profit & Loss Account.

(e) Verify that only interest paid or payable in terms of Section 16 of the MSMED Act which has been debited to the Profit & Loss account is reported under clause 22(i). Such interest is not allowable as deduction for the purposes of computation of income under the Income-tax Act, 1961 in terms of Section 23 of the MSMED Act.

As per Page no 220 & 221 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

42.21 A question may come up as to what the disallowance would be in a case where the auditee is liable to pay interest under MSMED Act, but has not provided for the same in his books.

Where the tax auditor, upon due verification, finds that the auditee has neither provided for nor paid any interest payable under the MSMED Act, then no amount is inadmissible in terms of section 23 of MSMED Act and the amount to be reported under Clause 22 would be NIL.

42.22 **However, where the auditee has adopted mercantile system of accounting, non-provision of interest liability may affect the true and fair view of financial statements, and the tax auditor should give suitable qualification/observation in Form 3CB**.

As per Page no 221 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Reporting under Clauses 22(ii) and (iii)

42.23 **Sub-clause (ii) of Clause 22 requires reporting of amounts which are payable under the MSMED Act to Micro and Small Enterprises during the year.**

Sub-clause (iii) of Clause 22 requires reporting of (a) amount paid upto the time given under section 15 of the MSMED Act, 2006; and (b) amount not paid upto time given under section 15 of the MSMED Act and inadmissible for the previous year.

In the revised clause (iii)(b) applicable from 1.4.2025, reference to clause (h) of Section 43B has been replaced by the phrase "inadmissible for the previous year" with reference to Section 15 of MSMED Act.

It is presumed that the clause seeks to cover only such payments which are covered under clause (h) of Section 43B.

42.24 The provisions of section 43B(h) are applicable only in respect of sum payable by the assessee to a micro or a small enterprise, and not to a medium enterprise.

The second limb of Clause 22 now specifically seeks reporting in relation only to micro and small enterprises.

As per Page no 221 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

42.25 Section 43B(h) is applicable only in respect of 'a deduction otherwise allowable under this Act'.

Thus, amounts which are otherwise inadmissible or which have not been claimed in the Profit & Loss will not be covered under Section 43B(h).

For e.g. –

- amount due towards unpaid interest covered by Clause 22(i) which is inadmissible by virtue section 23 of the MSMED Act;
- payment to a supplier in violation to section 40A(3) which attracts disallowance under that provision;
- dues towards capital goods which are not expensed but are capitalised;
- Dues related to a period earlier than the Previous Year, etc.

As per Page no 221 & 222 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

42.26 The inadmissibility under section 43B(h) applies to only such sums payable by the assessee to a micro or small enterprise which are unpaid on the last date of the previous year, and are paid beyond the time limit specified under section 15 of MSMED Act.

Under clause 22, full disclosure is required to be made as required in sub-clauses (ii) and (iii). Accordingly –

(a) Reporting under Clause 22(ii) should include the **amount required to be paid** to **Micro and Small Enterprises** during the previous year (including amounts which are not claimed as a deduction in the Profit and Loss Account) irrespective of whether they have been paid during the year and whether or not they are outstanding on the Balance Sheet date.

Reporting under this sub-clause should also include amounts which have accrued during the year but are not due for payment as on 31st March.

Thus, under 22(ii) which requires reporting of **"total amount required to be paid to a micro or small enterprise, as referred to in section 15 of the MSMED Act, during the previous year", the total amount required to be paid during the year needs to be stated even if the said amount has been actually paid during the year.**

As per Page no 222 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

(b) Under Clause 22(iii) –

(a) Under (a), all payments out of that included under 22(ii), which have been settled within the time limit laid down in Section 15 of MSMED Act need to be stated.

(b) Under (b), only such amounts which will attract disallowance under Section 43B(h) should be reported.

This will include only amounts which-

(i) have been claimed as a deduction during the year excluding sums specified in Para 42.25;

(ii) are outstanding on the last date of the previous year; and

(iii) have not been paid within the time limit specified in Section 15 of the MSMED Act.

As per Page no 222 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

42.27 While verifying the amounts reported under this clause, the tax auditor should note that the **benefit available under the first proviso to section 43B for payments made upto the due date of filing the return is not available for payments covered under clause (h).**

Hence, any **payment beyond the time limit specified u/s 15 of MSMED Act** (and **which has not been paid during the previous year**) **will be inadmissible.**

As per Page no 222 & 223 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

42.28 The responsibility of properly identifying micro and small enterprises and making a correct claim for deduction is on the auditee, hence, the auditee should take appropriate steps to ensure that the classification made by him, and the claim of deduction is correct.

The tax auditor is responsible for verifying whether the steps taken by the auditee to ensure proper classification are adequate and whether the claim of deduction is as per law.

He is also required to verify if the amount which is inadmissible has been correctly arrived at.

As per Page no 223 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

42.29 It is recommended that the tax auditor should obtain the relevant particulars in the formats given below and should verify the details and retain the same as part of his working papers.

He should also cross verify the details with the disclosures given in the Financial Statements in terms of Section 22 of the MSMED Act.

In case of company auditees, reference should also be made to half-yearly Form MSME-1, if any, furnished by such companies to the ROC.

As per Page no 223 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

(a) Full list of entities covered under trade payables and current liabilities containing the following details:

	Sl. No.
	Name of Supplier
	Whether Registered under MSMED Act
	Udyam Regn Number
	Category (Micro/ Small)
	Major Activity (Manufacture/ Service/ Trading etc)
	Date of Regn. under MSMED

	Amount Due to the supplier on Last Day of Previous Year
	Amount Claimed as allowable expense for the Previous Year
	Amount which is not allowable as expense for the Previous Year
	Remarks

As per Page no 223 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

(b) In respect of all Micro and Small Enterprise covered u/s 15 of MSMED Act, the following details may be obtained:

Sl. No.	Name of Micro/Small Supplier	Total Purchase of Goods/Services during the year	Of this amount, paid within due date u/s 15 of MSMED Act	Amount Not Paid withing the Specified Time Limit	Interest not Allowable as deduction

As per Page no 223 & 224 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

(c) In respect of the amounts payable to a Micro and Small Enterprise outstanding on the Balance Sheet date which are claimed as allowable deduction for the Previous Year, the following further details may be obtained:

	Sl. No.
	Name of Micro/ Small Supplier
	Bill No
	Amount
	Date of Acceptance/ Deemed Acceptance
	Is there any Written Agreement regarding due date of payment*
	Due Date in case of Written
	In case where there is no written agreement, Appointed Day
	Date of Actual Payment
	Mode of Payment
	Remarks

*Terms of payments on invoice/purchase order might constitute a written agreement.

** The written agreement may provide for a payment due date which is lower than Appointed Day.

Suggested change As per Utility

Clause 22

* Indicates mandatory fields

22. (i)	Amount of interest inadmissible under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act)	₹
(ii)	Total amount required to be paid to a micro or small enterprise, as referred to in section 15 of the MSMED Act, during the previous year	₹ 500
(iii)	Of amount referred to in (ii) above, amount	
(a)	paid up to time given under section 15 of the MSMED Act	₹ 100
(b)	not paid up to time given under section 15 of the MSMED Act and inadmissible for the previous year	₹ 100

- Not paid up to time given u/s. 15 of the MSMED Act but paid during the previous year and admissible for the previous year. 300

Comments relating to Form 3CD is to be reported in para 3 of Form 3CA or Para 5 of Form 3CB

Scenario 1:

Verification on Test check basis and based on Representation received from Client regarding MSE Classification

In the course of our audit, for the purpose of verifying disallowances under section 43B(h) of the Income-tax Act, 1961 as per clause 22, we have conducted verification on a test check basis.

We have relied on the MSME classification provided by the auditee and the representations made by the management. We have not independently verified the accuracy of the MSME classification.

Consequently, our verification of the compliance with section 43B(h) is based on the information and representations provided by the auditee's management, and our opinion is formed based on the selected samples reviewed.

Our opinion is thus dependent on the correctness of these classifications, representations, and the sample's adequacy. Due to these limitations, the amount of disallowance mentioned in clause 22 may not be accurate or complete.

Scenario 2:

100% Verified however based on the auditee's MSME classification and management representations

In the course of our audit, for the purpose of verifying disallowances under section 43B(h) of the Income-tax Act, 1961 as per clause 22, we have relied on the MSME classification provided by the auditee and the representations made by the management.

We have not independently verified the accuracy of the MSME classification.

Consequently, our verification of the compliance with section 43B(h) is based on the information and representations provided by the auditee's management.

Our opinion is thus dependent on the correctness of these classifications and representations

Scenario 3:

Absence of necessary records hence unable to verify under section 43B(h)

In the course of our audit, we noted that the auditee does not maintain complete records necessary to verify disallowances under section 43B(h) of the Income-tax Act, 1961.

Consequently, we are unable to determine whether all amounts claimed under this section have been correctly accounted for and duly paid within the specified timeframes.

This limitation restricts our ability to verify the completeness and accuracy of the compliance with section 43B(h) and thereby reporting in Clause 22.

As such, our report is qualified to this extent.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports it was observed that where the auditee has 'provided for' or 'paid' any interest payable under the MSME Act, as per audited financial statements, the same was not reported under this clause as an amount so inadmissible under section 23 of MSME Act.

(e) in clause (26), –

(i) the words, brackets and letters “clause (a), (b), (c), (d), (e), (f) or (g) of” shall be omitted;

(ii) in sub-clause (A), for the word “allowed”, the word “allowable” shall be substituted;

(iii) in sub-clause (B), for the words “and was”, the words, brackets, letters and figures, “and (for clauses other than clause (h) of section 43B) was,” shall be substituted;

Amendments in clause 26

The words, brackets and letters "clause (a), (b), (c), (d), (e), (f) ,(g) of" shall be omitted.

The expenses covered under these clauses are as follows:

a. Taxes, duties, cess or fees to be submitted to the government
b. Employer contribution to the Employee Funds, like Provident Fund, Superannuation, gratuity, etc.
c. Certain allowances for bad debts
d. Interest on loans (from Public financial institutions, State financial institutions or State industrial investment corporation)
e. Interest on loan from Non-Banking and Financial Companies (NBFC)
f. Payments for leave encashment
g. Payment to the Indian railway for the use of its assets

The Eighth Amendment rules omit the letter codes only.

The auditor still checks if the expenses under these letter codes are allowable for deduction.

In sub-clause A, the word ‘allowed’ shall be substituted with the word, ‘**allowable**’.

This means that earlier, the auditor checks if the above-said expenses have been claimed in the previous year.

But now, the auditor will check if the payments are paid until the return filing deadline and therefore, eligible for deduction.

In sub-clause B, for the words, “and was”, the words, brackets, letters and figures, “and **(for clauses other than clause (h) of section 43B)** was”, shall be substituted.

Earlier, the auditor checked whether the expenses were paid by the return filing deadline to be claimed as a deduction in the earlier year.

But now, this part excludes payments to micro and small businesses covered under clause (h) of section 43B.

As per Page no 233 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

46. In respect of any sum referred to in section 43B, the liability for which:-

(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;

(b) not paid during the previous year;

(B) was incurred in the previous year and ((for clauses other than clause (h) of section 43B) was

(a) paid on or before the due date for furnishing the return of income of the previous year under section 139(1);

(b) not paid on or before the aforesaid date.

(State whether sales tax, customs duty, excise duty or any other indirect tax, levy, cess, impost etc. is passed through the profit and loss account.)

Clause 26

As per Page no 235 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

46.3 Section 43B is applicable in respect of expenditure for which a deduction is otherwise allowable under the Act.

Therefore, where any expenditure is reported under any other clause indicating that deduction is otherwise not allowable, there is no need of reporting such expenditure under this clause.

46.4 The liability which pre-existed on the first day of the previous year is allowable as deduction if paid during the previous year. This is required to be reported in clause 26(A)(a).

If such liability is not paid during the previous year, then, the same has to be reported in clause 26(A)(b).

The liability which is incurred in the previous year (except under clause (h) of section 43B) is allowable to the extent it is paid on or before the due date for furnishing the return of the income under section 139(1). Such items are to be disclosed in clause 26(B)(a).

If such liability is not paid before the due date, the same is reported in clause 26(B)(b).

As per Page no 235 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

46.5 It may be noted that if the **liability which pre-existed** on the first day of the previous year but **not allowable** in assessment of any preceding previous years is paid after the end of the previous year, then, **the amount will be allowed as a deduction in the previous year in which it is paid.**

The proviso allowing payment till due date of furnishing of return is not applicable to such a liability.

In respect of reporting made under clause (A), amount of pre-existing liability should be verified from previous year ITR Form.

As per Page no 235 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

46.6 **With effect from 1.4.2025, the term "allowed" has been replaced with "allowable" in this clause to imply that any sum which was otherwise allowable but not allowed in any preceding previous year(s) due to operation of provisions of section 43B can be allowed in this previous year on payment basis.**

This will include, in case of any sum referred to in clauses (a) to (g), the amount paid after the due date of filing of income-tax return of any relevant preceding previous year, and in case of clause (h), the sum which was paid after the due date specified in section 15 of the MSMED Act.

As per Page no 236 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

46.7 Therefore, the liability incurred during the previous year in respect of all the specified sums referred to in clauses (a) to (g) should be clearly distinguished from the liability that pre-existed on the first day of the relevant previous year.

In respect of any sum referred to in clause (h) of section 43B, reported under (A) of this clause as pre-existed on the first day of the previous year, the tax auditor should cross-check the amount so reported with the sum reported as inadmissible in clause 22 during the immediately preceding previous year.

If the same is paid during the year it should be reported in (a) and if it is not paid during the year it should be reported in (b).

In the next year, tax auditor should cross check the amount reported in Clause 26(A)(a) with the amount reported as inadmissible in clause 22 (iii)(b) and the amount reported in Clause 26A(b) during the immediately preceding previous year.

There is no reporting required under (B) in respect of any sum referred to in clause (h) of section 43B.

As per Page no 236 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

46.8 If the assessee is following the cash basis of accounting, sums referred to in clause (a), (b), (c), (d), (da), (e), (f) and (g) of section 43B which are debited to the profit and loss account will be allowable as they would have been actually paid during the year.

As per Page no 237 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

46.15 Section 43B starts with **non-obstante clause viz. "Notwithstanding contained in any other section** ……." which means **irrespective of the accounting treatment in the profit and loss account** drawn for the previous year under consideration following **mercantile or cash basis** of accounting as permissible u/s 145 of the Income-tax Act, 1961, **deduction under section 43B is allowable only on payment basis.**

As per Page no 237 & 238 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

46.16 Under the first proviso to section 43B, deduction is available in respect of any sum [other than mentioned in clause (h)] 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.

Since the due date of filing of the return would usually be subsequent to the signing of the tax audit report, the tax auditor would be able to verify information in respect of matters only up to the date of signing of the tax audit report.

The payment made subsequent to that date but before the date of filing of the return, will still be eligible for deduction under section 43B.

Where due date for filing of return of income is extended, payments made up to the extended due date also qualify for deduction.

As per Page no 238 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

46.17 Under section 43B(a), Central sales-tax/VAT/excise duty/GST when paid is allowed as a deduction.

Although under clause (a) of section 43B, items that have been debited to the profit and loss account but not paid during the previous year, are to be specified, where it is the practice of the company to maintain a separate central sales-tax/ VAT/excise duty/ GST account and treat the central sales tax/excise duty/VAT/GST collected as a liability, it would be necessary to show by way of note under this clause, the amount of central sales tax/ excise duty/VAT/GST etc collected but not paid.

In case, any sum has been paid before the due date of filing the return, the date and the amount of payment along with the amount paid should also be disclosed.

As per Page no 238 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

46.18 The Finance Act, 2021 added Explanation 5 to Section 43B to clarify that the provisions of this section shall not apply to a sum received by the assessee from any of his employees to which the provisions of sub-clause (x) of clause (24) of section 2 applies.

Similarly, Explanation 1 and 2 have been added to section 36(1)(va).

In view of the above Explanations, if there is a delay in payment of these sums to the concerned authority after the relevant due date specified under the respective Act, then such sum even though paid at any time beyond the due date will be disallowable permanently.

As per Page no 238 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

46.20 The Explanations 3C, 3CA and 3D to section 43B clarify that a deduction of any sum being interest payable under clause (d), clause (da) and clause (e) of section 43B shall be allowed, if such interest has been actually paid and any interest referred to in that clause which has been converted into a loan or advance or debenture or any other instrument by which liability to pay is deferred to a future date shall not be deemed to have been actually paid.

As per Page no 239 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

46.22 As per clause (f) of section 43B, sum payable by the assessee as an employer in lieu of any leave at the credit of his employees will be disallowed if not paid before the due date of filling of the return under section 139(1).

46.23 The above particulars are required to be given irrespective of the fact whether they have been debited to profit and loss account or not and such a fact should be stated under this clause.

For example, where GST etc collected could be accounted for as a Balance Sheet item in cases where assessee is following the exclusive method of accounting for reporting of the taxes.

As per Page no 239 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

46.24 In some cases, the **tax auditor** may find amounts of the **nature referred to in section 43B being credited to the profit and loss account** although the relevant provisions for such liability had **not been allowed as a deduction** in any previous year **in view of the specific provisions of section 43B** requiring actual payment as a condition precedent to allowance.

The amounts so credited to the profit and loss account are not chargeable to tax since the conditions referred to in section 41(1) have not been satisfied.

The tax auditor should **identify such items and maintain the same in his working papers.**

As per Page no 239 & 240 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Clause (g) refers to any sum payable by the assessee to the Indian Railways for the use of railway assets.

Payments for the use of railway assets would not include basic rail freight, as such freight is for the service of transport and not for use of railway assets.

The distinction between contracts of transportation and contracts for user (hire) of assets has been brought out, in the context of tax deduction at source, by the High Courts in the following cases:

- **CIT v Reliance Engineering Associates (P) Ltd [2012] 209 Taxman 351 (Guj)**
- **CIT v Bharat Electronics Ltd [2015] 230 Taxman 651 (All)**
- **CIT(TDS) v Indian Oil Corporation Ltd. [2018] 92 taxmann.com 281 (Uttarakhand)**

As per Page no 240 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

46.25 Sums payable for use of railway assets would, however, include amounts payable for hire of railway wagons, or for hire of rail sidings, or lease rent payable for use of railway land or buildings.

In case of payments for use of hoardings/display panels put up on railway premises, whether the payment is for use of railway assets would depend upon the terms of the contract and parties to the contract.

46.26 In case of GST liability under reverse charge mechanism (RCM), if liability is booked but not paid on or before the due date of filing return under section 139(1), the amount must be reported under this clause.

Auditor must obtain and verify the same with GST payable ledger or GSTR-3B reconciliations.

As per Page no 240 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

46.27 It is recommended that the tax auditor maintains the following information in his working papers for the purpose of verifying the reporting in this clause in the format provided in the e-filing utility:

S. No.	Section	Nature of liability	Amount
1	2	3	4

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports it was observed that in certain cases when excise duty was passed through profit and loss account, instead of reporting the fact as 'YES', 'NO' was reported under this clause.

(f) clauses (28) and (29) shall be omitted;

~~28 Whether during the previous year the assessee has received any property, being the share of a company not being a company in which the public are substantially interested, without consideration or for inadequate consideration as referred to in section 56(2)(viia), if yes, please furnish the details of the same.~~

~~29. Whether during the previous year the assessee received any consideration for issue of shares which exceeds the fair market value of the shares as referred to in section 56(2)(viib), if yes, please furnish the details of the same.~~

Omitted by the IT (Eighth Amdt.) Rules, 2025, w.e.f. 1-4-2025.

(g) in clause (31), in sub-clauses (a) and (b), for item (ii), the following item shall be substituted, namely :–

(ii)	Amount of each loan or deposit taken or accepted and code of the nature of such amount, as given in Note 1; [Dropdown to be provided];	

(h) in clause (31), in sub-clause (c), for item (ii), the following item shall be substituted, namely :–

(ii)	Amount of each repayment of loan or deposit or any specified advance and code of the nature of such amount, as given in Note 1; [Dropdown to be provided]‖;	

(i) after clause (31), the following Note shall be inserted, namely:—

"Note 1. – The code for the nature of amount/ receipt/ repayment is as below –

S. No	Nature of amount or receipt or repayment	Code
(1)	(2)	(3)
1.	Cash payment	A
2.	Cash receipt	B
3.	Payment through non account payee cheque	C
4.	Receipt through non account payee cheque	D
5.	Transfer of asset	E
6.	Transfer of liability	F
7.	Conversion of assets	G
8.	Conversion of liabilities	H
9.	Journal entry [Debit]	I
10.	Journal entry [Credit]	J
11.	Any other mode [Debit]	K
12.	Any other mode [Credit]	L";

(j) after clause (36A), the following clause shall be inserted, namely :–

"36B. a)	Whether the assessee has received any amount for buyback of shares as referred to in sub-clause (f) of clause (22) of section 2? (Yes/No)	
b)	If yes, please furnish the following details:	
(i)	Amount received (in Rs.)	
(ii)	Cost of acquisition of shares bought back".	

Section 2(22)[(f)

any payment by a company on purchase of its own shares from a shareholder in accordance with the provisions of section 68 of the Companies Act, 2013 (18 of 2013);]

The taxation of share buybacks in India has evolved through three distinct phases.

Until 1 October 2024, companies paid Buyback Distribution Tax under Section 115QA of the Income Tax Act, 1961, while shareholders enjoyed a complete exemption under Section 10(34A).

From 1 October 2024 to 31 March 2026, the Finance Act, 2024 shifted the tax burden to shareholders by treating the entire buyback consideration as a deemed dividend under Section 2(22)(f), taxable at applicable rates without allowing deduction for the cost of acquisition, although the cost could be claimed as a deemed capital loss.

From 1 April 2026, the Income Tax Act, 2025 restores capital gains taxation, allowing shareholders to deduct the cost of acquisition.

However, promoters face an additional tax under Section 69(2), with higher rates depending on their status, and the Finance Act, 2026 further imposes a flat 12% surcharge on this additional tax component.

Conclusion

The taxation of share buybacks has transitioned from a company-level distribution tax to a shareholder-level deemed dividend tax, and finally to a capital gains tax under the Income Tax Act, 2025.

While the new regime restores the deduction of the cost of acquisition for all shareholders, it implements a targeted anti-abuse mechanism for promoters.

Promoters are subject to an additional tax of up to 17.5% under Section 69(2), which is further subject to a flat 12% surcharge introduced by Section 2(6) of the Finance Act, 2026, thereby ensuring tax parity with dividend distributions.

Sections to refer

1. Section 115QA and 10(34A) Income Tax Act 1961

2. Section 2(22)(f) Income Tax Act 1961

3. Section 69 Income Tax Act 2025

4. Section 196,197,198 of Income Tax Act 2025

5. Section 2(6) of the Finance Act 2026

TAX AUDIT REPORTS
U/S. 44AB WITH SPECIAL REFERENCE TO FORM 3CA, 3CB AND FORM 3CD

CA's are class by themselves

Supreme Court in case of **T.D. Venkat Rao** v. **UOI (237 ITR 315)** has upheld the superiority of CAs by noting that *Chartered Accountants, by reason of their training have special aptitude in the matter of audits and no other person can be held eligible to conduct audit under Section 44AB. Supreme Court further held that CA's are a Class by themselves meaning that CAs are the brand for auditing itself.*

Audit of accounts of certain persons carrying on business or profession.

44AB. 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 -

(a) 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

(b) 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 rupees" 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

44AB(b)

- carrying on profession shall,
- if his gross receipts in profession
- exceed fifty lakh rupees
- in any previous year; or

44AB(*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

44AB(*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

44AB(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 a person,
- who declares profits and gains for the previous year in accordance with the provisions of
- sub-section (1) of section 44AD or sub-section (1) of section 44ADA:]

- **Provided further** that this section shall not apply to the person,
- who derives income of the nature referred to in section 44B or section 44BBA,
- on and from the 1st day of April, 1985 or,
- as the case may be,
- the date on which the relevant section came into force,
- whichever is later :

- **Provided also** that in a case
- where such person is required by or under any other law to get his accounts audited,
- it shall be sufficient compliance with the provisions of this section
- if such person gets the accounts of such business or profession audited under such law
- before the specified date and
- furnishes by that date the report of the audit as required under such other law and
- a further report by an accountant in the form prescribed under this section.

Explanation - For the purposes of this section, -

(i) "accountant" shall have the same meaning as in the Explanation below sub-section (2) of section 288;

(ii) "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.

Special provision for computing profits and gains of business on presumptive basis.

44AD(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.

44AD(2)

- Any deduction allowable
- under the provisions of sections 30 to 38 shall,
- for the purposes of sub-section (1),
- be deemed to have been already given full effect to and
- no further deduction under those sections shall be allowed :

44AD(3)

- The written down value
- of any asset of an eligible business
- shall be deemed to have been calculated
- as if the eligible assessee had claimed and
- had been actually allowed the deduction
- in respect of the depreciation
- for each of the relevant assessment years.

44AD(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).

44AD(5)

- Notwithstanding anything contained in the foregoing provisions of this section,
- an eligible assessee to whom the provisions of sub-section (4) are applicable 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 (2) of section 44AA and
- get them audited and
- furnish a report of such audit as required under section 44AB.

44AD(6)

- 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;

(*ii*) a person earning income in the nature of commission or brokerage; or

(*iii*) a person carrying on any agency business.

Explanation - For the purposes of this section,-

(*a*) "eligible assessee" means,-

(i) an individual, Hindu undivided family or a partnership firm, who is a resident, but not a limited liability partnership firm as defined under clause (n) of sub-section (1) of section 2 of the Limited Liability Partnership Act, 2008 (6 of 2009); and

(ii) who has not claimed deduction under any of the sections 10A, 10AA, 10B, 10BA or deduction under any provisions of Chapter VIA under the heading "C. - Deductions in respect of certain incomes" in the relevant assessment year;

(*b*) "eligible business" means, -

(i) any business except the business of plying, hiring or leasing goods carriages referred to in section 44AE; and

(ii) whose total turnover or gross receipts in the previous year does not exceed an amount of two crore rupees:

Following provisos shall be inserted after sub-clause (ii) of clause (b) of Explanation to section 44AD by the Finance Act, 2023, w.e.f. 1-4-2024:

- **[Provided that** where the amount or aggregate of the amounts
- received during the previous year, in cash,
- does not exceed five per cent of the total turnover or gross receipts of such previous year,
- this sub-clause shall have effect as if for the words "two crore rupees",
- the words "three crore rupees" had been substituted:

- **Provided further that** for the purposes of the first proviso,
- the receipt of amount or aggregate of amounts by a cheque drawn on a bank or by a bank draft,
- which is not account payee,
- shall be deemed to be the receipt in cash.]

Special provision for computing profits and gains of profession on presumptive basis.

44ADA(1)

- Notwithstanding anything contained in sections 28 to 43C,
- in 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 a 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":

- **[Provided that** in case of an assessee
- where the amount or aggregate of the amounts
- received during the previous year, in cash,
- does not exceed five per cent of the total gross receipts of such previous year,
- this sub-section shall have effect as if for the words "fifty lakh rupees",
- the words "seventy-five lakh rupees" had been substituted:

- **Provided further that** for the purposes of the first proviso,
- the receipt of amount or aggregate of amounts
- by a cheque drawn on a bank or by a bank draft,
- which is not account payee,
- shall be deemed to be the receipt in cash.]

44ADA(2)

- Any deduction allowable
- under the provisions of sections 30 to 38 shall,
- for the purposes of sub-section (1),
- be deemed to have been already given full effect to and
- no further deduction under those sections
- shall be allowed.

44ADA(3)

- The written down value
- of any asset used for the purposes of profession
- shall be deemed to have been calculated as if
- the assessee had claimed and
- had been actually allowed the deduction
- in respect of the depreciation
- for each of the relevant assessment years.

44ADA(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.

ISSUE - 1

How to avail of the benefit of the enhanced limit of Rs. 10 crores for the tax audit?

The increased threshold limit of Rs. 10 crores shall apply only if cash receipts and cash payments during the year do not exceed 5% of the total receipt or payment, respectively.

In other words, more than 95% of business transactions should be done through banking channels.

It should be noted that any payment or receipt by cheque drawn on a bank or by a bank draft, not being an account payee cheque or draft, should be considered payment or receipt in cash. *For example*, any payment or receipt by a bearer or crossed cheque (not an account payee cheque) should be considered as payment or receipt in cash.

It may be noted that conditions in respect of 'amounts received' and 'payments made' should be fulfilled separately. A threshold limit of 5% is prescribed separately for receipts/payments and should be applied accordingly.

It means that if one of the conditions is not satisfied, the enhanced turnover limit will not apply.

The onus would be on the assessee to prove that he is eligible for an increased threshold limit for not getting his accounts audited. He needs to ensure that his aggregate cash receipts and payments are within the limit of 5%.

If he fails to do so, the consequences would be a penalty under Section 271B for failure to get accounts audited. However, if there is reasonable cause, then in terms of Section 273B, such a penalty may not be imposed.

For example, Mr. A is engaged in the business of trading readymade garments. He has a turnover of less than Rs. 10 crores during the financial year 2025-26. He made the following transactions during the relevant year:

Particulars	Mode of transaction	
	Cash (Rs. in lakhs)	Bank (Rs. in lakhs)
Receipts		
- Sales	20	**480**
- Advance from customers	10	**20**
- Unsecured loan	10	**100**
Total receipts	40	**600**
Payments		
- Purchase	15	**400**
- Rent	*Nil*	**50**
- Loan repayment	5	**50**
Total Payments	**20**	**500**

The turnover of Mr. A during the financial year 2025-26 is up to Rs. 10 crores.

He shall not be liable for tax audit if his cash receipt and payment during the year do not exceed 5% of the total receipt or payment, as the case may be.

Computation of percentage of cash receipts & payments:

Particulars	Total (A)	Cash (B)	% in cash (B/A*100)
Receipts	640	40	**6.25%**
Payments	**520**	**20**	**3.85%**

Though the payment made in cash during the year does not exceed 5% of total payments, the percentage of cash receipts exceeds the limit of 5%.

Thus, Mr. A is not entitled to the benefit of the increased threshold limit of Rs. 10 crores for the tax audit. Hence, the tax audit is applicable.

ISSUE - 2

Do the professionals have the enhanced turnover limit of Rs. 10 crore for the tax audit?

Clause *(a)* of Section 44AB talks about a person carrying on a business, whereas clause (b) talks about a person carrying on a profession.

The *proviso* to Section 44AB providing the enhanced turnover limit of Rs.10 crores for the tax audit is placed below clause *(a)* to Section 44AB.

Thus, the persons engaged in the profession are not entitled to claim an enhanced turnover limit of Rs. 10 crores for the tax audit.

ISSUE - 3

Whether a person opting for a presumptive taxation scheme under section 44AD is required to get his accounts audited?

Section 44AB prescribes the conditions under which an assessee is required to get his accounts audited. It excludes a person from getting books of account audited if he opts for a presumptive taxation scheme under Section 44AD, provided the turnover of the business does not exceed Rs. 2 crores.

Clause *(e)* of Section 44AB states that a person, who has opted for the presumptive taxation scheme under Section 44AD in any of the last 5 previous years but does not opt for the same in the current previous year, shall be liable to get his accounts audited if his total income exceeds the maximum amount not chargeable to tax.

Clause *(a)* of Section 44AB provides for an audit of books of account if a person is engaged in a business and the turnover of such business exceeds Rs. 1 crore.

However, the threshold shall be increased to Rs. 10 crores if the cash receipt and payment do not exceed 5% of the total receipt and payment, respectively.

If an assessee is covered under both the clauses, *that is*, clause (a) and clause (e) of Section 44AB, will he be liable to get the books of account audited?

For example, if the turnover of an assessee is more than Rs. 1 crore and his cash payment and receipt are less than 5%, is he liable for a tax audit?

Let's understand this with the help of the table below:

Situation *	Turnover	Whether liable for a tax audit?
The assessee has opted for Section 44AD in any of the last 5 years but is not opting for the same in the current year.	Up to Rs. 1 crores Up to Rs. 2 crores	Yes, if income is more than the maximum amount not chargeable to tax [Section 44AB(e)]
	More than Rs. 2 crores but up to Rs. 10 crores.	No [Proviso to Section 44AB(a)]
	More than Rs. 10 crores	Yes
The assessee has not opted for Section 44AD in any of the last 5 years and is not opting for the same during the current year as well.	Up to Rs. 10 crores	No [Proviso to Section 44AB(a)]
	More than Rs. 10 crores	Yes

** Assuming cash receipts or payments do not exceed 5% of the aggregate amount received or paid during the year.*

ISSUE - 4

Is a salaried employee required to get accounts audited if he is also trading in derivatives (futures and options)?

The gains or losses arising from trading in F&O are always taxable under the head 'Profits and Gains from Business or Profession'. Income or loss from dealing in F&O shall be deemed as normal business income (non-speculative business) even though delivery is not affected in such transactions.

To check the applicability of tax audit in such cases, the turnover from trading in derivatives must be computed first. The computation of turnover is an essential factor, as the applicability of a tax audit is determined based on turnover.

If total sales, turnover, or gross receipt from the business during the previous year exceeds Rs. 1 crore, the tax audit shall be required in such cases.

However, the increased threshold limit of Rs. 10 crores shall be applicable if cash receipts and cash payments during the year do not exceed 5% of the total receipt or payment, as the case may be.

In other words, more than 95% of business transactions should be done through banking channels.

For example, during the year, Mr. A has earned salary income and incurred losses from trading in futures and options (F&O). The details of his transactions are as follows:

Transaction	Buy Value	Sell Value	Realised P&L	Computation of Turnover
Transaction 1	40,00,000	50,00,000	10,00,000	**10,00,000**
Transaction 2	60,00,000	30,00,000	(30,00,000)	**30,00,000**
Transaction 3	75,00,000	60,00,000	(15,00,000)	**15,00,000**
Transaction 4	3,20,00,000	2,00,00,000	(1,20,00,000)	**1,20,00,000**
Transaction 5	2,30,00,000	1,30,00,000	1,00,00,000	**1,00,00,000**
Total	**7,25,00,000**	**4,70,00,000**	**(55,00,000)**	**2,75,00,000**

The turnover, in this case, shall be Rs. 2,75,00,000, and the loss from F&O shall be Rs.55,00,000. The tax audit requirement arises if the business turnover from F&O exceeds Rs. 1 crore.

However, the tax audit shall not be required if more than 95% of business transactions are done through banking channels and turnover is less than Rs. 10 crores.

Since in F&O transactions, the trading shall be through digital means only, the enhanced limit of Rs. 10 crores shall apply to determine the applicability of tax audit.

Thus, the tax audit shall not be required in this case.

ISSUE - 5

Analysis of the applicability of tax audit under different scenarios in case of professionals:

Case	Gross Receipts	Profit	Whether tax audit applicable?	Reason
Case 1	40 Lakhs	25 Lakhs	No	Gross receipts are less than Rs. 50 lakhs and profit is more than 50% of the gross receipts.
Case 3	40 Lakhs	10 Lakhs	Yes	Profits are lower than 50% of total gross receipts, and total income exceeds the maximum exemption limit.
Case 4	40 Lakhs	2 Lakhs	No	Although profits are less than 50% of total gross receipts, but the total income is less than the maximum exemption limit.
Case 5	70 Lakhs	50 Lakhs	Yes	Gross receipts exceed Rs. 50 lakhs.
Case 6	70 Lakhs	15 Lakhs	Yes	Gross receipts exceed Rs. 50 lakhs. The profit percentage is irrelevant here.

ISSUE - 6

Do the provisions of tax audit under Section 44AB apply to the business income of Charitable/Religious Trusts registered under Section 12AB?

Sections 11 to 13 are special provisions governing the taxation of charitable or religious institutions. Section 12A provides the conditions to be fulfilled by any trust or institution to claim an exemption under Sections 11 and 12.

Registration, maintenance of books of account, audit and filing of return of income are the conditions to be fulfilled to claim the exemption under Sections 11 and 12. Once these conditions are complied with, such an institution's income shall be computed as per Sections 11 and 12.

The "income," as referred to in Section 11(1), must be computed following commercial principles and not under the ordinary provisions of the Act.

In other words, Section 14 and five heads of income do not apply to organisations registered under Section 12AB.

The requirement of audit under section 44AB is under the head 'Profit & Gain from Business', and therefore, this audit is required only when the income is computed under the head 'Profit & Gain from Business' or there is a specific requirement of Tax audit under Section 44AB.

The Delhi Tribunal, in the case of **United Educational Society v Jt. CIT [2019] 107 taxmann.com 127**, held that Provisions of Chapter IV-D, i.e., Sections 28 to 44D are applicable while computing the income of business or profession. These provisions do not apply in respect of charitable institutions whose income is to be computed under Sections 11 and 12 falling under Chapter III.

The Mumbai Tribunal, in the case of **Asstt. CIT v. India Magnum Fund [2002] 81 ITD 295 (Mum.)** held that provisions of Section 44AB cannot and do not apply in relation to incomes enumerated under Chapter III and are expressly excluded from total income.

To reiterate, Section 44AB is operational only when profits and gains of business or profession are to be computed for the purpose of computation of total income to meet the requirements of the provisions of Section 4.

That being so, any income that is designated as "incomes which do not form part of total income" has nothing to do with and cannot be subjected to the provisions of Section 44AB.

There are specific provisions for the audit of Charitable trusts under Section 12A.

In such cases, the audit report has to be filed in Form 10B/10BB.

Nothing in the Income-tax Act suggests that tax audit under Section 44AB shall apply to a business under Section 11(4A).

Sections 11 to 13 are independent of the five heads of income.

As long as the registration under Section 12AB is intact, the income cannot be computed under the five heads of income.

Tax audit is a specific requirement for the assessee having income under the head 'Business and Profession'.

Therefore, there is no obligation on the charitable institutions to get the accounts audited under Section 44AB.

However, such institutions are subject to the audit under Section 12A(1)(b) read with Rule 17B, and a report of such audit is to be furnished in Form 10B /10BB.

However, the "Guidance Note on Tax Audit" issued by the ICAI provides that a trust or institution carrying on business may enjoy exemptions under Sections 10(21), 10(23A), 10(23B), 10(23BB), 10(23C) or 11.

Such institutions will have to get their accounts audited and furnish such audit reports for purposes of Section 44AB if their turnover in business exceeds the prescribed limit (Rs. 1 crore and Rs. 10 crore in certain specified cases).

ISSUE - 7

Tax audit in respect of Agriculturist

But an agriculturist who does not have any income under the head "Profits and gains of business or profession" chargeable to tax under the Act need not get his accounts audited for purposes of Section 44AB even though his total sales of agricultural products may exceed the prescribed limit.

Issue - 8

Whether the turnover of a firm running a nursing home, where doctors declare their fees separately, should be treated as professional income for the firm.

The courts have consistently drawn a fine line, often distinguishing between the provision of medical facilities (which can be a business) and the rendering of personal professional services (which is a profession).

1. Demarcation between Business and Profession for a Nursing Home

The Income Tax Appellate Tribunal (ITAT) in the case of **Shalini Hospitals vs. Assistant Commissioner of Income-tax vs. Circle 2(3) vs. Hyderabad, /[2007] 108 ITD 534 (Hyderabad)/[2006] 10 SOT 662 (Hyderabad)/[2008] 110 TTJ 690 (Hyderabad)[26-05-2006]**, provided a detailed analysis of the narrow demarcation between a profession and a business. The assessee, a partnership firm running a nursing home, accounted for only room rent, operation theatre rent, and nursing charges in its books, while professional fees for surgeons and doctors were directly received by them. The ITAT observed that:

- "A 'profession' in the present use of language involves the idea of an occupation requiring either purely intellectual or if any manual skill, as in painting and sculpture, or surgery, skill controlled by the intellectual skill of the operator, as distinguished from an occupation which is substantially the production or sale, or arrangement for the production or sale of commodities." (Para 5.6)

- The Tribunal acknowledged that a professional might carry on activities on commercial lines, expanding their base and hiring other professionals and non-professionals. Such a "composite activity is conceivable and indeed plausible in modern days." (Para 5.7)
- Crucially, the ITAT held that "what is earned by the assessee-firm in the course of business is for letting out the facilities possessed by it as a nursing home and for provision of nursing and other supportive services provided by it to the patients who take treatment from the doctors in the nursing home. Therefore, the activities of a nursing home constitute business and not profession." (Para 5.8)

This ruling is highly relevant as it establishes that if the firm's income primarily stems from providing infrastructure and support services, rather than the direct rendering of medical professional services by the firm itself, it leans towards a business activity.

2. Nursing Home as a Business Activity when Doctors' Fees are Separate

Building on this principle, the Mumbai ITAT in the recent case of **Kety Medicare Centre vs. ACIT, [2025] 171 taxmann.com 728 (Mumbai - Trib.)[10-02-2025]**, directly addressed a similar factual matrix. Here, a partnership firm running a nursing home declared its turnover from patient room rentals, X-ray facilities, and other ancillary inpatient department (IPD) services as business income under Section 44AD (presumptive business income). The income generated from doctors' fees was separately declared by the respective doctors in their individual tax returns. The Assessing Officer had attempted to treat the firm's income as professional income.

The ITAT held that:

- The assessee-firm's activities were “in the nature of business and not profession as per provisions of section 44AD(6) and section 44AA(1).” (Para 14)
- The Tribunal explicitly stated that “the assessee is a partnership firm providing services such as patient room rentals, X-ray facilities, and other ancillary inpatient department (IPD) services. The income generated from doctors' fees is separately declared by the respective doctors in their individual tax returns. Therefore, the assessee cannot be classified as a ‘person’ engaged in the ‘medical profession.’ Accordingly, the turnover of the assessee-firm should not be considered as professional income.” (Para 15)

This judgment is a direct answer to your query. It clearly distinguishes the firm's income from providing facilities and support services (classified as business income) from the individual doctors' professional fees. The fact that doctors declare their fees separately is a key differentiator.

3. The "Facilitative" vs. "Independent Practice" Test

The ITAT Jodhpur Bench in **Sunil Chandak vs. Income-tax Officer vs. Ward 1(4) vs. Jodhpur, [2012] 21 taxmann.com 76 (Jodhpur)/[2012] 136 ITD 324 (Jodhpur)/[2012] 149 TTJ 788 (Jodhpur)[12-04-2012]**, while remanding a case, provided a useful test. The court observed that if doctors to whom payments are made are rendering services in respect of the principal activity of the nursing home (e.g., surgery, assisting the owner-doctor), the firm would remain a professional firm. However, "if the doctors are practicing independently, i.e., examining and rendering consultancy to patients, who come for being examined and treated by them or for their consultancy, the assessee's nursing home assumes the character of a business, i.e., providing a facility to the patients at large, where doctors of different disciplines come and engage in their respective areas of practice for a separate charge." (Para 4.4)

This distinction is critical. If the partnership firm merely provides the infrastructure and administrative support, and the doctors are independently practicing and billing patients (even if the collection is facilitated by the nursing home), the firm's income from such facilities would be business income.

4. Corporate Entities and Professional Income

It is also pertinent to note the observation in **Income-tax Officer vs. Ward 37(4) vs. Ashalok Nursing Home (P.) Ltd., /[2006] 156 Taxman 86 (Delhi) (Mag.)/[2006] 103 TTJ 820 (Delhi)[19-05-2006]**, where the ITAT held that "a company being an artificial person cannot be said to possess any personal skills. A company being an artificial person does not have a mind or a body and, therefore, cannot be engaged in any profession." While your query pertains to a partnership firm, this principle underscores that the personal skill is central to a profession. A firm, while not an artificial person in the same way a company is, can still operate in a manner that primarily provides a commercial platform rather than directly rendering professional services through its collective identity.

5. Impact on Presumptive Taxation

The classification as 'business' or 'profession' has direct implications for presumptive taxation. Section 44ADA of the 1961 Act) applies to specified professions, while Section 44AD of the 1961 Act applies to eligible businesses.

The Kety Medicare Centre case (supra) specifically allowed the firm to report profit under Section 44AD, treating its income as business income, precisely because the doctors' professional fees were declared separately.

Computation of Gross receipts or Turnover

How to calculate the gross receipt or sales turnover for a tax audit?

Applicability of tax audit under Section 44AB depends upon gross receipts, sales, or turnover of an assessee, so the foremost thing is their calculations.

Sales turnover.

As per 'Guidance Note on Terms Used in Financial Statements' published by the ICAI, the meaning of the term' sale turnover' shall be the aggregate of the amount for which sales are affected by an enterprise. The terms gross turnover and net turnover are sometimes used to differentiate the turnover before and after deducting returns and discounts.

An invoice may involve various extra and ancillary charges. Some of these charges may form part of the sale turnover, whereas some may be excluded while determining the value of sales turnover. The treatment thereof is explained in the below table.

Particular	Treatment
Trade discount or turnover discount	To be excluded from sales turnover if discounts are allowed in the sales invoice.
Cash discount	Not to be excluded from sales turnover.
Special Rebate	To be excluded from sales turnover if it is in the nature of trade discount. If it is in the nature of commission on sales, the same cannot be deducted from the figure of turnover.
Commission on sales	Not to be excluded from sales turnover.
Sales return	To be excluded from sales turnover.
Sale proceeds from the transfer of fixed assets	To be excluded from sales turnover.
Sale proceeds of property held as an investment	To be excluded from sales turnover.
Sale proceeds from the transfer of securities held as stock-in- trade	Not to be excluded from sales turnover.
Scrap	To be excluded from sales turnover unless the assessee is engaged in the business of dealing in scrap.

Gross receipt

The term 'Gross Receipts' is not defined in the Income-tax Act. The 'Guidance Note on Tax Audit' issued by ICAI provides that in the case of professionals, 'Gross receipts' include all receipts arising from carrying on a profession. However, certain receipts may or may not be included in the gross receipts.

The following receipts shall be included in the gross receipts:

a. Cash assistance (by whatever name called) received or receivable by any person against exports under any scheme of the Government of India;
b. Any indirect tax re-paid or repayable as drawback to any person against exports under the Customs and Central Excise Duties and Service Tax Drawback Rules, 1995;
c. The aggregate of gross income by way of interest received by the money lender;
d. The aggregate amount of gross receipts arising from the sale of Virtual Digital Assets (VDAs) by a dealer engaged in the business of dealing in such assets. For details refer to the Guidance note on Crypto- Asset Reporting Obligations under section 509 of the Income Tax Act 2025 issued by the CBDT.

e. The aggregate amount of gross receipts arising from the sale of carbon credits by a dealer engaged in the business of dealing in carbon credits.

f. Commission, brokerage, service and other incidental charges received in the business of chit funds;

g. Reimbursement of expenses incurred (e.g. packing, forwarding, freight, insurance, travelling etc.), and if the same is credited to a separate account in the books, only the net surplus on this account should be added to the turnover for the purposes of Section 44AB;

h. The net exchange rate difference on export sales during the year on the basis of the principle explained in (vii) above will have to be added;

i. Hire charges of cold storage;

j. Liquidated damages;

k. Insurance claims - except for fixed assets;

l. Sale proceeds of scrap, wastage etc. unless treated as part of sale or turnover, whether or not credited to miscellaneous income account;

m. Gross receipts including lease rent in the business of operating lease;
n. Finance income to reimburse and reward the lessor for his investment and services;
o. Hire charges and instalments received in the course of hire purchase;
p. Advance received and forfeited from customers.
q. The value of any benefit or perquisite, whether convertible into money or not, arising from business or the exercise of a profession.

The following receipts shall be excluded from the gross receipts:

a. Sale proceeds of fixed assets including advance forfeited, if any;
b. Sale proceeds of assets held as investments;
c. Rental income unless the same is assessable as business income;
d. Dividends on shares except in the case of an assessee dealing in shares;
e. Income by way of interest unless assessable as business income;
f. Reimbursement of customs duty and other charges collected by a clearing agent;
g. In the case of a recruiting agent, the advertisement charges received by him by way of reimbursement of expenses incurred by him;
h. In the case of a travelling agent, the amount received from the clients for payment to the airlines, railways etc. where such amounts are received by way of reimbursement of expenses incurred on behalf of the client. If, however, the travel agent is conducting a package tour and charges a consolidated sum for transportation, boarding and lodging and other facilities, then the amount received from the members of group tour should form part of gross receipts;

i. In the case of an advertising agent, the amount of advertising charges recovered by him from his clients provided these are by way of reimbursement. But if the advertising agent books the advertisement space in bulk and recovers the charges from different clients, the amount received by him from the clients will not be the same as the charges paid by him and in such a case the amount recovered by him will form part of his gross receipts;
j. Share of profit, interest, remuneration, bonus, commission, etc. received by a partner from the partnership firm
k. Agriculture receipts [as covered in section 2(1A)]
l. Write back of amounts payable to creditors and/or provisions for expenses or taxes no longer required.
m. Bad Debts recovery – The corresponding sales was considered as turnover earlier, therefore if the recovery of this is shown as turnover, it will lead to duplication.
n. Section 41 – Remission of Liability – Amounts which are not payable written off cannot be treated as sales / turnover
o. Capital Receipt (Whether credited or not to statement of P&L) – cannot be treated as sales / turnover because it does not arise from regular business activity.

In case of sale by a commission agent or by a person on a consignment basis, if the property in goods or all significant risks and rewards of ownership of goods continue to belong to the principal, the relevant sale price shall not be part of the turnover of the commission agent.

In this case, the turnover shall be the amount of commission earned by the agent.

However, if the property in the goods, significant risk and reward of ownership belong to the commission agent, the sale price received / receivable shall form part of his turnover.

ISSUE – 9

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

The expression "gross receipts" in profession would include all receipts arising from carrying on of the profession.

Normally, in the case of solicitors, advocates or chartered accountants, such out of pocket expenses received in advance are credited in a separate client's account and utilised for making payments for stamp duties, registration fees, counsel's fees, travelling expenses etc. on behalf of the clients. **These amounts, if collected separately either in advance or otherwise, should not form part of the "gross receipts".**

If, however, such out of pocket expenses are not specifically collected but are included / collected by way of a consolidated fee, the whole of the amount so collected shall form part of gross receipts and no adjustment should be made in respect of actual expenses paid by the professional person for and / or on behalf of his clients out of the gross fees so collected.

However, the amount received by way of advance for which services are yet to be rendered will not form part of the receipts, as such advances are the liabilities of the assessee and cannot be treated as his receipts till the services are rendered.

Issue – 10

How to calculate the turnover of the commission agent?

Turnover of a commission agent or a person selling goods on a consignment basis is determined concerning the transfer of significant risk or reward of ownership.

Where the property in goods or all significant risks and rewards of ownership of goods continue to belong to the principal, the relevant sale price shall not form part of the turnover of the commission agent. In this case, the turnover shall be the amount of commission earned by the agent. However, if the property in the goods, significant risk, and reward of ownership belong to the commission agent, the sale price received / receivable shall form part of his turnover.

ICDS-IV (Revenue Recognition) also provides that in the case of an agency relationship, the revenue of an agent shall be the amount of commission and not the gross inflow of cash, receivables or other consideration.

The CBDT has also clarified that **while determining the turnover in the case of Kachha Arahtias, the turnover does not include the sales effected on behalf of the principals, and only the gross commission has to be considered.**

However, **in the case of Pucca Arahtias, the total sales/turnover of the business should be taken into consideration.**

Issue – 11

How to calculate the turnover of a share broker?

When a share broker purchases securities on behalf of his customers, he does not get them transferred in his name, but they are delivered in the name of the customer. The same is true in the case of sales.

The share broker holds the delivery merely on behalf of his customer. The property in securities does not get transferred to the share-brokers. Only brokerage, which is being accounted for in the books of share brokers, should be considered for calculating the turnover.

However, **in the case of transactions entered into by a share broker on his personal account, the sale value should be considered while calculating the sales turnover.**

The case of a sub-broker is not different from that of a share broker.

As per Page no 18 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

5.12.(a) Further, an issue may arise whether such transactions of purchase or sale of **stocks and shares undertaken by the assessee are in the course of business or as investment.** The answer to this issue will depend on the facts and circumstances of each case taking into consideration the **nature of the transaction, frequency and volume of transactions etc.** For this, attention is invited to the following judgments where this issue has been considered.

(i) CIT v. P.K.N. and Co Ltd (1966) 60 ITR 65 (SC)

(ii) Saroj Kumar Mazumdar v. CIT (1959) 37 ITR 242 (SC)

(iii) CIT v. Sutlej Cotton Mills Supply Agency Ltd. (1975) 100 ITR 706 (SC)

(iv) G. Venkataswami Naidu & Co. v. CIT (1959) 351TR 594 (SC)

Further, CBDT Clarifications may also be referred to

i. CBDT Circular No.4/2007 dated 15.06.2007

ii. Circular No. 6/2016 dated 29.02.2016

iii. Letter F.No. 225/12/2016/ITA.II dated 02.05.2016-Appendix V

As per Page no 18 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

(b) 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 is to be **included in the sales, turnover or gross receipts** as the case may be, of the assessee for determining the applicability of audit under section 44AB.

Issue - 12

How to calculate the turnover in case of a speculative transaction?

A 'speculative transaction' means a transaction in which a contract for the purchase or sale of any commodity or securities is periodically or ultimately settled otherwise than by the actual delivery or transfer of commodity or scrips.

Thus, in **speculative transactions, both positive and negative differences can arise from the settlement of contracts.**

Each transaction, whether resulting in a positive or negative difference, is an independent transaction.

In such transactions, **though the contract notes are issued for the full value of the purchased or sold asset, the entries in the books of account are made only for the differences.**

Accordingly, **the aggregate of both positive and negative differences is considered as the turnover.**

For example, Mr. X is an assessee engaged in speculative business. He derives the following profits or losses while dealing in securities:

Securities	Amount of gain or (loss)
A	15,000
B	(24,000)
C	(14,200)
D	16,000
Total	69,200

While computing the turnover of Mr. X, all the differences, whether positive or negative, shall be aggregated.

Issue - 13

How to calculate the turnover in the case of derivatives?

The Income-tax Act does not contain any provision or guidance for the computation of turnover in F&O trading. However, the Guidance Note on Tax Audit issued by the ICAI prescribes the method of determining turnover, which shall be as follows:

i. **The total of favourable and unfavourable differences in case of squared off transactions shall be taken as turnover.**
ii. **Premium received on sale of options is also to be included in turnover. However, where the premium received is included for determining net profit for transactions, then such net profit should not be separately included.**
iii. **In respect of any reverse trades entered, the difference thereon, should also form part of the turnover.**

(iv) In case of an open position as at the end of the financial year (i.e., trades which are not squared off during the same financial year), the turnover arising from the said transaction should be considered in the financial year when the transaction has been actually squared off.

(v) In case of delivery-based settlement in a derivatives transaction, the difference between the trade price and the settlement price shall be considered as turnover. Further, in the hands of the transferor of underlying asset, the entire sale value shall also be considered as business turnover where the underlying asset is held as stock in trade.

For example, Mr. A enters into the following transaction during the financial year:

Security name	Type	Premium received	Buy Amount	Sell Amount	Profit/(Loss)
Cipla	Futures	-	7,47,500	8,05,000	57,500
Nifty	Call	-	3,375	6,000	2,625
BHEL	Call	-	41,600	20,800	(20,800)
ONGC	Futures	-	3,48,500	3,28,000	(20,500)
IOC	Put (Sell)	500	-	-	500
ITC	Put (Sell)	1,000	4,000 (Square Off Price)	-	(3,000)
Reliance Ltd.	Put	-	4,500	2,500	(2,000)

In derivative transactions, the aggregate of both favourable and un-favourable differences (i.e., income and loss) is considered as the turnover.

Further, the premium received on the sale of options is also included in turnover if the same is not included while determining the net profit or loss from the transaction.

Thus, the turnover of Mr A shall be as follows:

Security Name	**Profit/(Loss)**
Cipla	57,500
Nifty	2,625
BHEL	(20,800)
ONGC	(20,500)
IOC	500
ITC*	(3,000)
Reliance Ltd.	(2,000)
Total Turnover	1,06,925
* As the amount of premium received is already considered for computing the profit or loss from the transaction, it is not included again while computing the turnover.	

Issue – 14

How to calculate turnover in the case of multiple businesses?

Where **an assessee is carrying on more than one business, sale turnover or gross receipts from all businesses shall be clubbed together.**

However, if **the assessee is opting for the presumptive taxation scheme, the turnover of such businesses shall be excluded while determining his total sales turnover or gross receipts.**

Issue – 15

How to check the threshold limit if the assessee is carrying on business and profession at the same time?

The ICAI, in the guidance note on tax audit, provides that if an assessee is carrying on a business and a profession, then a **tax audit is required if turnover/receipts from either business or profession exceed the prescribed threshold limit.**

For example, **the professional receipts of an assessee are Rs. 54 lakhs and the total turnover from the business is Rs. 72 lakhs.**

It will be necessary for him to get the accounts of the profession and business audited because the gross receipts from the profession exceed Rs. 50 Lakhs.

Similarly, if the professional receipts are Rs. 42 lakhs and total turnover from business are Rs. 86 lakh. In this circumstance, as the gross receipt or turnover from a profession or business does not exceed the limits specified in Section 44AB, there is no need to conduct a tax audit.

Issue – 16

Whether GST shall be included while calculating the gross turnover or receipt?

Section 145A provides for the inclusion of taxes, cess, etc., in the value of sale, purchase, and inventory.

However, the purpose of this provision is limited to the calculation of income taxable under the head 'Profits and Gains from Business or Profession'.

Whether this provision can be applied to calculate 'sales turnover' for Section 44AA, Section 44AB, Section 44AD, and Section 44ADA has always been a matter of disagreement between the revenue and taxpayer.

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.

In the case of other assessees, as GST is charged from the customer and is recognised separately in the books of accounts, it is not clear whether the amount of GST shall be included in the turnover for calculation of taxable income only (as provided by Section 145A) or for every other provision which has a reference to 'turnover'.

Unless the CBDT clarifies its stand on this matter, it would be appropriate to ignore the amount of GST while calculating the gross turnover or gross receipts for the following reasons:

Section 145A begins with 'for the purpose of determining the income chargeable under the head Profits and gains of business or profession', which makes this provision inapplicable for other purposes.

a) **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. ICAI's 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.**

b) **The inclusion of GST in the turnover would have a cascading effect, as presumptive income would be computed on the component of GST, which is never treated as income of the assessee.**

Issue – 17

Mr. A, a partner in a firm, has obtained a remuneration of Rs. 12 crores from the firm during the FY 2022-23. Is it mandatory for Mr. A to get the accounts audited since the remuneration received from a firm exceeds the specified limit?

a) Perizad Zorabian Irani v. Pr. CIT [2022] 139 taxmann.com 164/287 Taxman 406

The Court held that section 44AB(b) would apply in the case of a person carrying on profession if gross receipts exceed Rs.50 lakhs. Where the gross receipt is less than Rs.50 lakhs the presumptive provisions contained in section 44ADA would apply.

The term 'profession' defined in section 2(36) includes 'vocation'. **The income earned as remuneration in the capacity of working partner cannot be held as carrying on 'profession' as well as 'business' simultaneously in different field.**

The income earned from business is liable for tax audit under section 44AB(a) and income from profession is liable for audit under section 44AB(b) and they are mutually exclusive.

While the first one is for business, the second one is in respect of profession. None of the clauses of section 44AB envisages a situation where the assessee is carrying on both the profession as well as business.

The Court adverted to the Madras High Court decision in the case of Anandkumar (Supra) and concurred with the findings of the Madras High Court that remuneration and interest received from the firm cannot be termed to be turnover of the assessee.

The Court accordingly held that the provisions of section 44AB would not apply to the assessee since the remuneration from partnership firm cannot be treated as gross receipt in profession.

b) Anand Kumar v. Asstt. CIT [2020] 122 taxmann.com 252/[2021] 278 Taxman 342/430 ITR 391 (Mad.)

The court held that the for the purpose of availing section 44AD benefit, the taxpayer must satisfy four main criteria mentioned in section 44AD(1) read with Explanation (a) and (b) in the said provision viz.

(i) it should be an eligible business;

(ii) the assessee should be carrying on an eligible assessee;

(iii) such business should have a total turnover or gross receipt; and

(iv) the income admitted must be the presumptive percentage.

The remuneration and interest received when not termed as turnover of the assessee, it will not qualify as gross receipts.

The court took note of the analysis carried out by the tribunal as regards the correctness of the order passed by the Assessing Officer and CIT (A).

The tribunal while deciding the case took note of section 28(v) which deals with profits and gains of business or profession and noted that as per clause (v) any interest, salary, bonus, commission or remuneration received by partner of a firm from such firm shall be chargeable to income-tax under the head 'Profits and gains of business or profession'.

It may be noted that the proviso to section 28(v) limits such income liable to tax to the extent it is allowed in the hands of the firm.

The tribunal had considered Circular No.5/2010 dated 03.06.2010 where the CBDT had explained as to why the scope of section 44AD was enlarged (by enhancing the turnover limit).

The Court held that when the provisions of section 44AD are opted the assessee is exempted from maintenance of books of account as required under section 44AA of the Act and section 44AD enlarged the scope of coverage as against the erstwhile provision of section 44AF which was meant only for retail business.

The Court held that the words used in section 44AD are 'total turnover' or 'gross receipts' which pre-supposes that it pertains to sales turnover and no other meaning could be given to the said words and if done so, the purpose of introducing section 44AD would stand defeated.

Thus, the decision of the Court was in favour of the Revenue.

SA 700 'Forming an Opinion and Reporting on Financial Statements

Assessee's Responsibility for the Financial statements and the statement of Particulars in Form 3CD

Tax Auditor's Responsibility

Assessee's Responsibility

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.

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 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(l)(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.

My / Our responsibility is to express an opinion on these financial statements based on my audit.

I/We have conducted this audit in accordance with the Standards on Auditing issue the Institute of Chartered Accountants of India.

Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Tax Auditor's Responsibility

An audit involves performing procedures to obtain audit evidence about the amounts and 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.

In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control.

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.

I / We believe that the audit evidence I / we have obtained is sufficient and appropriate to provide a basis for my / our audit opinion.

I / 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(I)(b) of Income-tax Rules, 1962.

I / 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.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports, it was observed that:

a) Many of the tax audit reports, did not have the paragraphs relating to Assessee's responsibility and Tax Auditor's responsibility as required by the Guidance Note in respect of SA 700.

b) Some of the tax audit reports contained a reference about the attached notes/report which mentioned 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.

REPORTING REQUIREMENTS

SR NO	FORMS	PARTICULARS	FORMS
1	3CA	Person carrying on business or profession and required to get under any other law to get his accounts audited	FORM 3CA
2	3CB	Person carrying on business or profession and not covered in point 1	FORM 3CB
3	3CD	Particulars to be furnished under section 44AB shall be in this form	FORM 3CD

- **To indicate –**
  - Whether the statutory audit was conducted by the Tax auditor or any other auditor; the name in case of any other auditor
  - Whether the Audit Report, Audited Balance Sheet and Statement of Profit and Loss and other documents to be part of or annexed thereto are annexed in Form No. 3CA
  - Reference as to the date of Statutory Audit Report
- **To indicate –**
  - Whether the particulars required is annexed in Form No. 3CD
  - Whether the particulars given in Form No. 3CD are true and correct
  - Any observation/qualification
- **To examine -**
  - The books of account
  - Other relevant documents
- **To state reasons,** if any of the observations or qualifications
- **To indicate** if the branch audit is carried out, the same have been considered.

FORM NO. 3CA

[See rule 6G(1)(a)]

Audit report under section 44AB of the Income - tax Act, 1961, in a case where the accounts of the business or profession of a person have been audited under any other law

1. *I / we report that the statutory audit of M/s. _____ (Name and address of the assessee with Permanent Account Number) was conducted by *me / us / M/s.

_____in pursuance of the provisions of the_____Act, and*I/we annex hereto a copy of *my / our / their audit report dated _____along with a copy of each of :-

(a) the audited *profit and loss account / income and expenditure account for the period beginning from ----------to ending on ----------.

(b) the audited balance sheet as at, _____; and

(c) documents declared by the said Act to be part of, or annexed to, the *profit and loss account / income and expenditure account and balance sheet.

2. The statement of particulars required to be furnished under section 44AB is annexed herewith in Form No. 3CD.

3. In *my / our opinion and to the best of *my / our information and according to examination of books of account including other relevant documents and explanations given to *me / us, the particulars given in the said Form No.3 CD are **true and correct** subject to the following observations/qualifications, if any:

a. ……..
b. ……..
c. ……..

List provided in e-utility

**(Signature and stamp/Seal of the signatory)

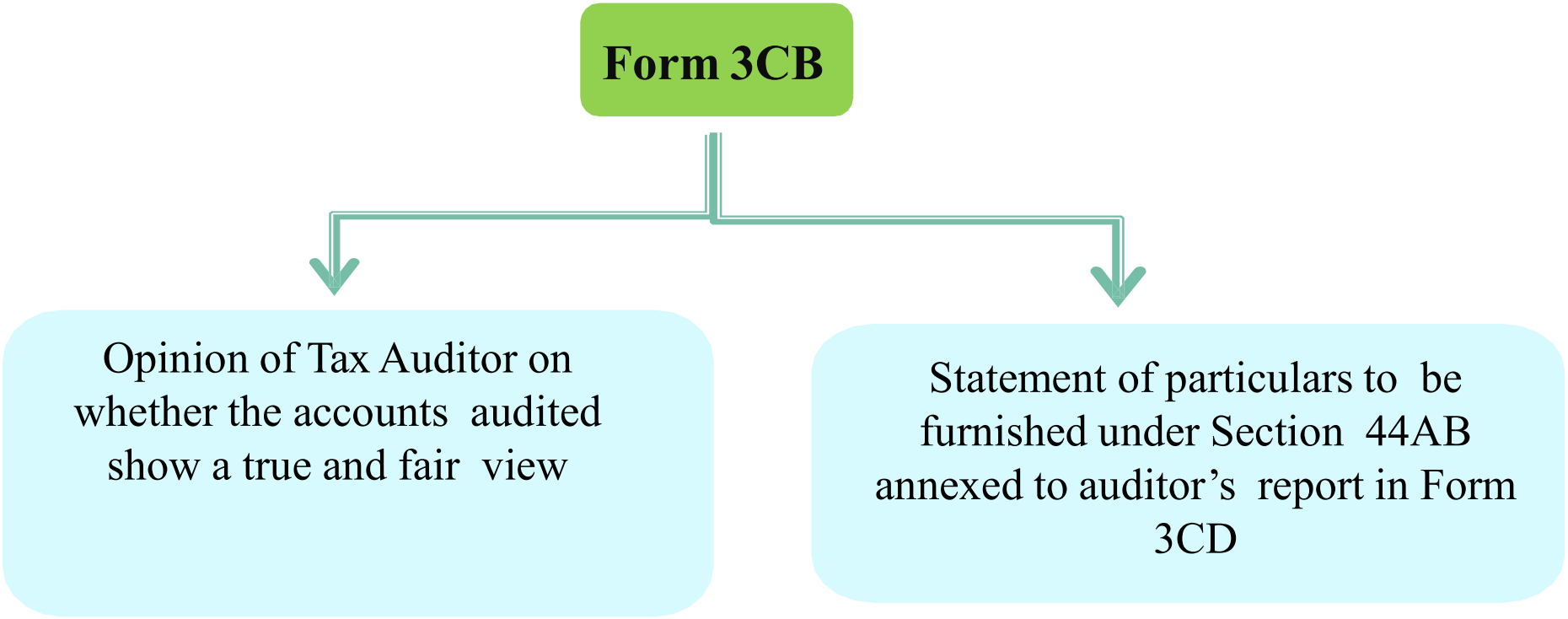
Place : _____

Date : _____

Name of the signatory …..

Full address……

Form No. 3CB...


Form 3CB
Opinion of Tax Auditor on whether the accounts audited show a true and fair view
Statement of particulars to be furnished under Section 44AB annexed to auditor's report in Form 3CD

- To indicate –
  - Whether the Balance Sheet and Statement of Profit and Loss have been examined by the Tax Auditor
  - Whether the Balance Sheet and Statement of Profit and Loss are attached to Form No. 3CB
  - Whether Balance Sheet and Statement of Profit and Loss are in agreement with the books of account
  - Any observations / comments / discrepancies / inconsistencies
  - Whether all the information and explanations are received
  - Whether the accounts give a true and fair view
- To indicate –
  - Whether the particulars required is annexed in Form No. 3CD
  - Whether the particulars given in Form No. 3CD are true and correct
- To state reasons in case of observations / qualifications
- To indicate if the branch audit is carried out, the same have been considered

FORM NO. 3CB

[See rule 6G(1)(b)]

Audit report under section 44AB of the Income - tax Act 1961,

in the case of a person referred to in clause (b) of sub - rule (1) of rule 6G

1.*I / we have examined the balance sheet as on, ____, and the *profit and loss account / income and expenditure account for the period beginning from ----------to ending on ----------., attached herewith, of _____(Name), _____(Address), _____(Permanent Account Number).

2. *I / we certify that the balance sheet and the *profit and loss / income and expenditure account are in agreement with the books of account maintained at the head office at _____ and ** _____ branches.

Mention the total number of branches

3.(a) *I / we report the following observations / comments / discrepancies / inconsistencies; if any:

(b) Subject to above, -

(A)*I / we have obtained all the information and explanations which, to the best of *my / our knowledge and belief, were necessary for the purpose of the audit.

(B) In *my / our opinion, proper books of account have been kept by the head office and branches of the assessee so far as appears from*my / our examination of the books.

(C) In *my / our opinion and to the best of *my / our information and according to the explanations given to *me / us, the said accounts, read with notes thereon, if any, give a **true and fair** view :-

(i) in the case of the balance sheet, of the state of the affairs of the assessee as at 31st March, ;and

(ii) in the case of the *profit and loss account / income and expenditure account of the *profit / loss or *surplus / deficit of the assessee for the year ended on that date.

4. The statement of particulars required to be furnished under section 44AB is annexed herewith in Form No.3CD.

5. In *my/our opinion and to the best of *my / our information and according to explanations given to *me / us, the particulars given in the said Form No.3 CD are **true and correct** subject to following observations/qualifications, if any:

a. ……
b. ……
c. ……

List provided in e-utility

**(Signature and stamp/Seal of the signatory)

Place : _____

Date : _____

Name of the signatory …..

Full address……

Form 3CB…..

Contd….

Auditor Details

○ Income-Tax ⊙ Final Accounts **Select Auditor**

Name	First Name	Middle Name
	Last Name	
Membership No.		FRN
Address Line 1		
Address Line 2		
City		
State		
Pincode		

Unique Document Identification Number (UDIN) (UDIN is for printing purpose only, not for e-Filing)

Note:

1. This report has to be signed by person eligible to sign the report as per the provisions of section 44AB of the Income-tax Act, 1961
2. Stamp/ Seal of Signatory to Tax Audit Report required on physical copy of report.
3. **Generating UDIN to file tax audit report is now mandatory.**

FORM 3CA & 3CB

In the utility, for qualifications, the following format is prescribed:

Sr No.	Qualification Type (to select from a drop-down list)	Observations/ Qualifications
1	Proper books of account, to enable reporting in form 3CD, have not been maintained by the assessee	
2	All the information and explanations which to the best of my/our knowledge and belief were necessary for the purpose of my/our audit has not been provided by the assessee	
3	Documents necessary to verify the reportable transaction were not made available.	
4	Proper stock Records are not maintained by the assessee	
5	Valuation of Closing stock is not possible	
6	Yield / Percentage of wastage is not ascertainable.	

Sr No.	Qualification Type (to select from a drop-down list)	Observations/ qualifications
7	Records necessary to verify personal nature of expenses not maintained by the assessee	
8	T D S returns could not be verified with the books of account	
9	Records produced for verification of payments through account payee cheque were not sufficient	
10	Amount of expenses related to exempt income U/s 14 A of Income-tax Act, 1961 could not be ascertained	
11	Creditors under Micro, Small and Medium Enterprises Development Act, 2006 are not ascertainable	
12	Prior Period expenses are not ascertainable from books of account	

Sr No.	Qualification Type (to select from a drop-down list)	Observations/ qualifications
13	Fair market value of shares u/s 56(2)(viia) / (viib) is not ascertainable	
14	Reports of audits carried by excise / Service tax Department were not made available	
15	GP ratio is not ascertainable from the financial statements prepared by the assessee.	
16	Information regarding demand raised / refund issued during the previous year under any tax laws other than Income-tax Act, 1961 and wealth-tax Act, 1957 was not made available.	
17	Others (Maximum1000 Alphabets)	

Impact of audit qualification in assessment

Delhi High Court in case of **PCIT vs. Escorts Limited [2018] 98 taxmann.com 291 (Delhi)** has clearly held that **Auditor‘s opinion though relevant and material would not be final and conclusive even when against the assessee.**

Auditor's report in a way is a third party and an independent report that can be equated with an expert opinion. It may be accepted or rejected or partly accepted and partly rejected. It has to be considered with other material.

It cannot be treated as final or binding on the Assessing Officer, or for that matter even on the assessee, except when mandated by a statutory provision, which requires an unqualified auditor's report or certification.

In the absence of statutory provision it would not be right to hold that a reservation or qualifying note in the audit report would be a conclusive and bind finding against the assessee.

Gujarat High Court in **Rajkot Engg. Association v. Union of India [1986] 162 ITR 28/26 Taxman 60 (Guj.)** had appropriately referred to the affidavit file by the Union of India repelling and quelling misgiving expressed by the assessee on the **binding nature of qualifications or reservations expressed in audit reports** to clarify and observe:-

"53. It was, therefore, submitted that if the auditor finds that the financial information furnished to him is not according to the acceptable accounting policy and principles or not according to the relevant regulations and statutory requirements, he may refuse to give an unqualified opinion in which case an assessee would be exposed to grave consequences of not only a best judgment assessment but also to penalty. We can appreciate this apprehension expressed on behalf of the assessee. However, in view of the clarification made by the Union Government in the reply affidavit of Shri Kalyanchand, ***Under Secretary in the Finance Ministry to the Government of India in paragraph 15 that opinions given by the chartered accountants are not binding either on the assessees or on the assessing officer, we do not think that the assessee will be prejudiced by the Qualified opinion given by the tax auditor in any given case.***

When can audit report be revised ?????

Revision of Tax Audit Report

As per Page no 56 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

15.12 In certain cases, members are called upon to report on the accounts reopened and revised by the board of directors.

The accounts of a company once adopted at its annual general meeting should not normally be re-opened and revised.

The Institute and the Ministry of Corporate Affairs have affirmed this position.

In case of revision, the audit report should be given in the manner as required by the Institute in SA-560 (Revised), *Subsequent Events*.

The Ministry of Corporate Affairs had also clarified that accounts can be revised to comply with technical requirements.

It may be pointed out that report under section 44AB should not normally be revised.

However, sometimes a member may be required to revise his tax audit report on grounds such as:

(i) **revision of accounts of a company after its adoption in annual general meeting.**

(ii) **change of law e.g. retrospective amendment.**

(iii) **change in interpretation, e.g., CBDT Circulars, judgements of Jurisdictional High Courts/Supreme Courts, etc.**

As per Page no 57 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

15.13 In case where a member is called upon to report on the revised accounts, then, he must mention in the revised report that the said report is a revised report and a reference should be made to the earlier report also.

In the revised report, reasons for revising the report should also be mentioned.

As per Page no 57 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

15.14 **Under Sub-rule (3) in Rule 6G**, the auditor is **expressly allowed to revise the Audit Report in certain circumstances.**

Sub-Rule (3) reads as under:

(3) The report of audit furnished under this rule may be **revised by the person** by getting **revised report of audit from an accountant, duly signed** and verified by such accountant, and furnish it **before the end of the relevant assessment year** for which the report pertains, **if there is payment by such person after furnishing of report under sub-rule (1) and (2) which necessitates recalculation of disallowance under section 40 or section 43B.**

As per Page no 57 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

15.15 Thus, a situation might arise where **after issuing the audit report, but before the due date for filing the return under section 139(1),** the assessee makes **payment of sums referred to in sections 40 and 43B, deduction of which is allowed only on actual payment basis, which may require revision of the Tax Audit Report.**

15.16 As per the law, **there is no restriction for the number of times for revision of tax audit reports.**

The same can be revised a number of times, but **revision should be done only to meet some technical requirements or amendments in law.**

It should be ensured that the **revised report should carry the reference of old reports and should be signed in the current date.**

It is recommended that **all the revisions required should be done at a time.**

However, **there may reasons, like, a court ruling subsequent to the signing and uploading of the revised tax audit report which may necessitate further revision of tax audit report.**

In such cases, the auditor may, if he deems fit, amend the tax audit report.

As per Page no 57 & 58 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

15.17 The tax auditor must ensure that the latest amended report must contain the reference to the earlier report(s) and he must sign the same on the present date and generate a new UDIN.

The tax auditor should also ensure that Guidance Notes and SA-560 as well as the guidelines and the rules specified for revision for tax audit report by the CBDT are being followed.

15.18 The tax auditor is required to mention in the revised book of account and in the Revised Tax Audit Report that the report is the Revised Tax Audit Report giving the reference of the previous report.

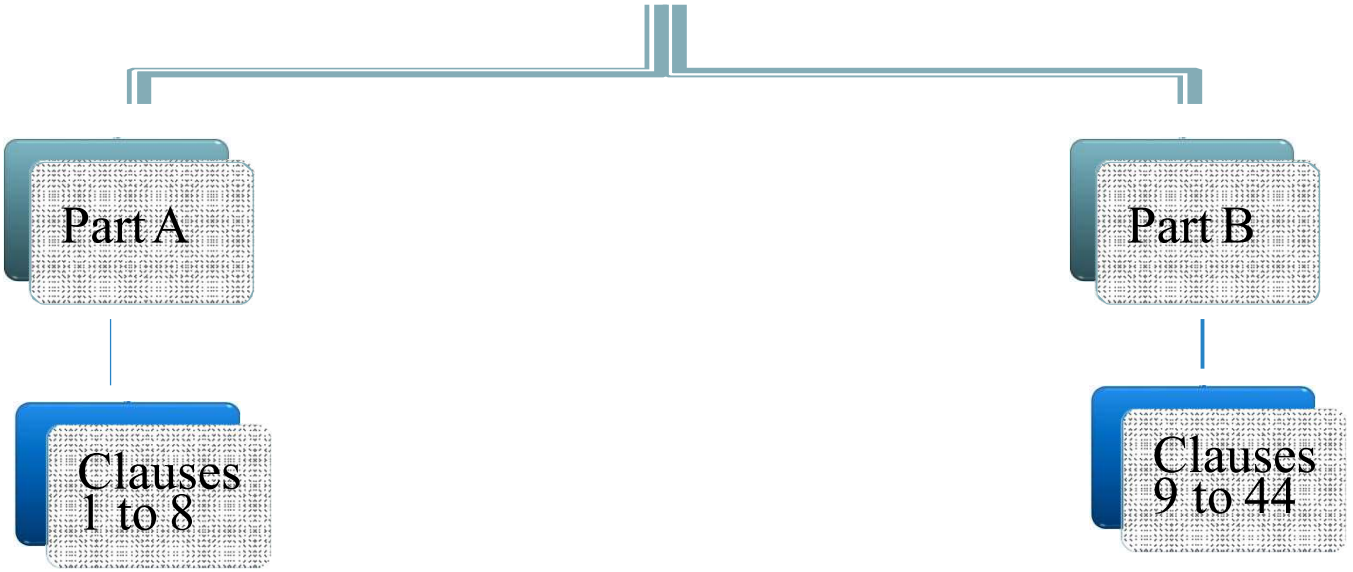
The tax auditor is also required to mention the reason for revision both in the revised books of account as well as in the Revised Tax Audit Report.

As per Page no 58 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

15.19 The e-filing portal permits uploading the revised audit reports via CA login id. Further, the e-filing utility permits insertion of comments under the heading OTHERS in the tab, and uploading it on the e-filing portal. The tax auditor should insert the comments or observations in Form No. 3CA/Form3CB in the space given in the e-form.

15.20 Revision of tax audit has to be done by the same tax auditor who has done the original tax audit and not by another tax auditor. It is to be noted that a new UDIN is required to be generated for the Revised Tax Audit Report and the same has to be generated each time. The UDIN so generated should also be updated on the online Income-tax Portal.

Form No. 3CD

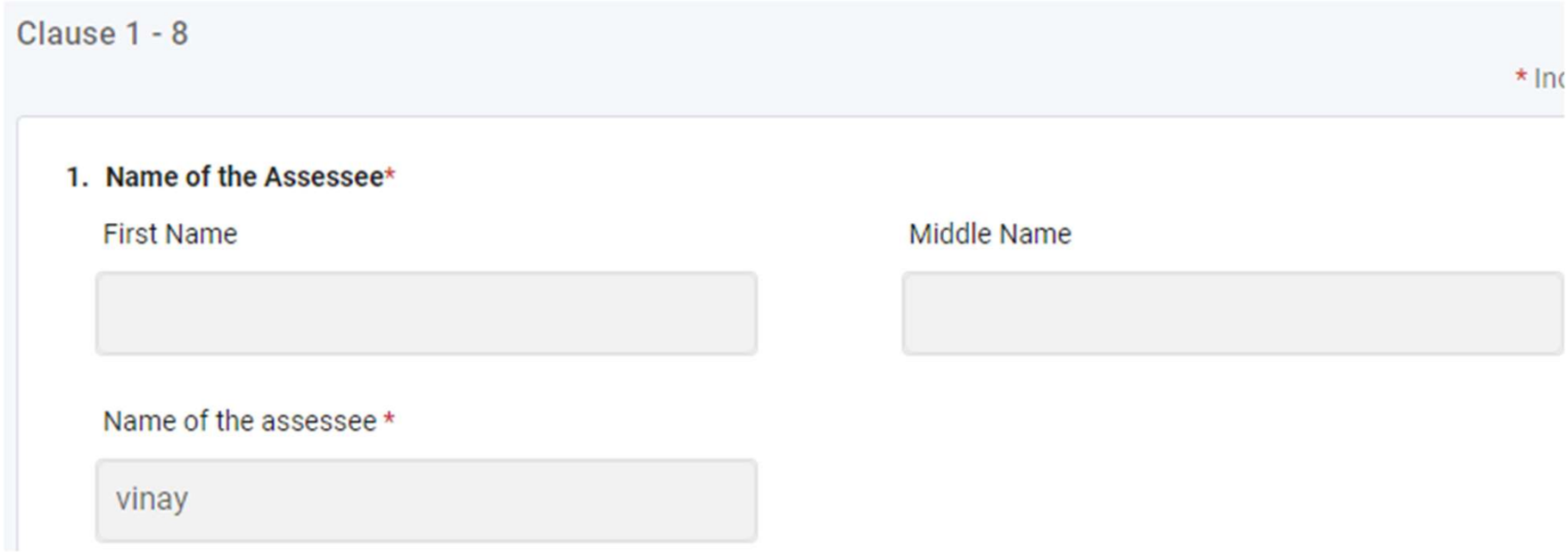


PART - A

Clause - 1

1	Name of the assessee

Format in e-utility



As per Page no 68 & 69 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

20.1. Under clause 1, the **name of the assessee** whose accounts are being audited under section 44AB should be given as specified in PAN and in case there is a different trade name, the same should be reported.
However, if the **tax audit is in respect of a branch, name of such branch** should be mentioned along with the name of the assessee.
In case of **change in the name of the assessee,** if the change has taken place during the financial year, **name at the end of the financial year** should be stated.
However, if the change in name has taken place after the close of the financial year but before signing of tax audit report, name as at the year ending date should be mentioned.
In either case, fact of name change should be suitably clarified by the tax auditor as an observation in audit report.

Clause – 2

2	Address

Format in e-utility

2. Address of the Assessee*

Country/Region *

India

Flat / Door / Building *

17

Road / Street / Block / Sector

magadi road

Pincode *

560091

Post Office *

Viswaneedam S.O

Area / Locality *

Bangalore North

District *

BANGALORE

State *

Karnataka

As per Page no 69 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

20.2 **The address** to be mentioned under clause 2 should be the same as has been communicated by the assessee to the **Income-tax Department as on the date of signing of the audit report.**

If the **tax audit is in respect of a branch or a unit**, the **address of the branch or the unit should be given.**

In the case of a **company, the address of the registered office** should be stated.

In the case of a **new assessee,** the address should be that of the **principal place of business.**

The tax auditor should verify the relevant details of the assessee from the **available income tax records or from the profile of the assessee on Income Tax portal.**

In case of difference, the same should be given as an observation in the audit report.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports it was observed that the address reported under this clause was different from the one mentioned in Annual report or as registered with Ministry of Corporate Affairs.

Clause – 3

3	Permanent Account Number (PAN)

Format in e-utility

3. Permanent Account Number(PAN) *

AESPH2206K

Aadhaar Number of the assessee, if available

As per Page no 69 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

20.3 Under clause 3, **the permanent account number (PAN) allotted to the assessee should be indicated.**

Clause further asks to **mention Aadhaar number (in case of Individuals) as an alternative.**

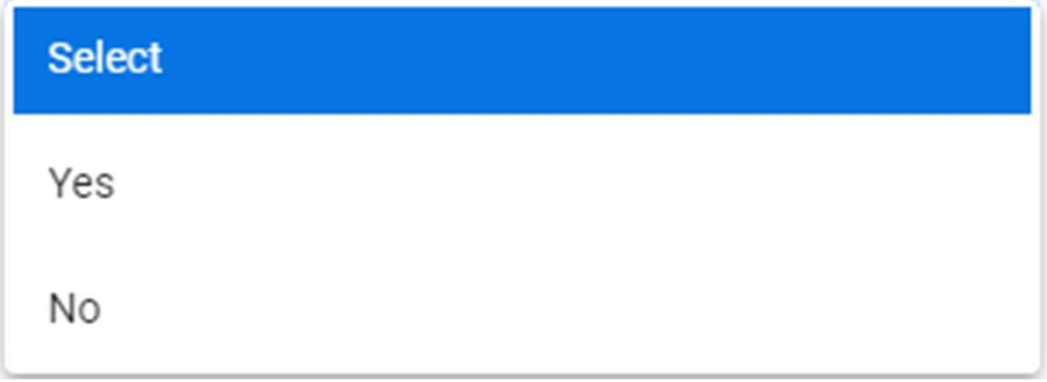
It may be noted that **in the e-filing format, PAN is a mandatory field and Aadhaar is an optional field.**

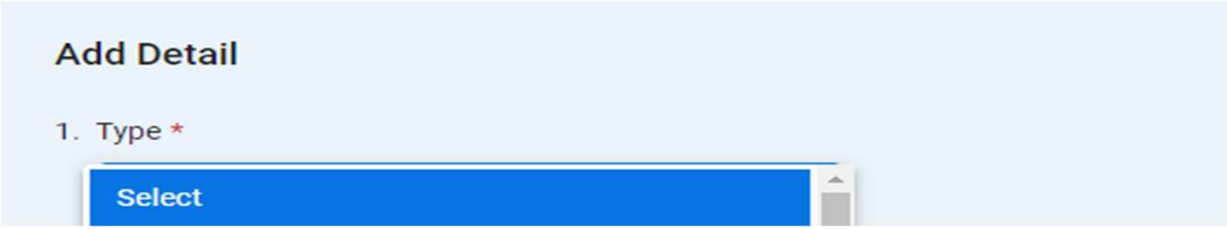
Clause – 4

Whether the assessee is liable to pay indirect tax like excise duty, service tax, sales tax, goods and services tax, customs duty, etc. if yes, please furnish the registration number or GST number or any other identification number allotted for the same.

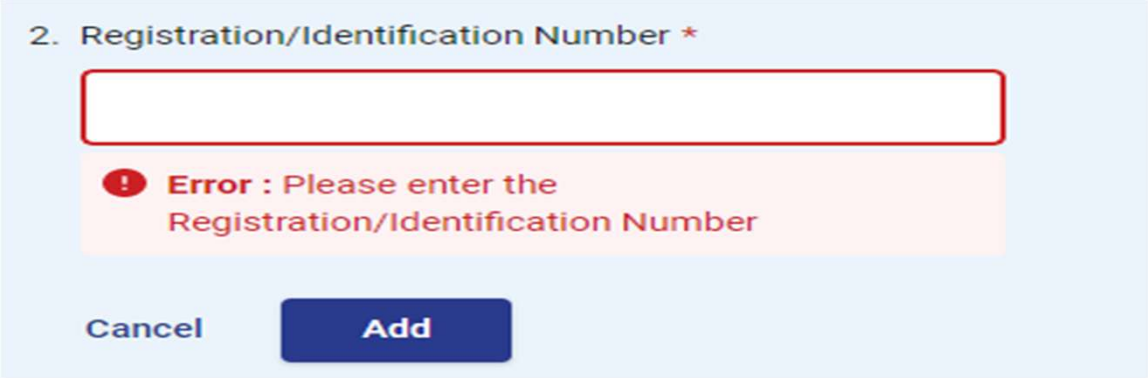
Format in e-utility

4. Whether the assessee is liable to pay indirect tax like excise duty, service tax, sales tax, goods and services tax,customs duty,etc. if yes, please furnish the registration number or,GST number or any other identification number allotted for the same ? *





Central Excise Duty
Customs Duty
Goods and Services Tax
Service Tax
Sales Tax/VAT
State Excise Duty
Other Indirect Tax/duty



As per Page no 69 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

20.4 Under clause 4, the auditor is required to examine from appropriate evidence, **the registration number or any other identification number, if any, allotted,** in case the assessee is **liable to pay indirect taxes like customs duty, excise duty, VAT, sales tax, goods and services tax, etc.**

Moreover, for any indirect tax, **if multiple registration numbers are available, the tax auditor should ensure that all such registration numbers are duly reported.**

As per Page no 69 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

20.5 Part A of Form No. 3CD generally requires the **factual details of the assessee.**

Thus, the **auditor is primarily required to furnish the details of registration numbers as provided to him by the assessee.**

The reporting is however, to be done **in the manner or format specified by the e-filing utility in this context.**

As per Page no 69 & 70 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

20.6 The term **"Indirect taxes" is neither defined in the Income -tax Act, 1961 nor under any other law.**

The **levy of different types of indirect taxes** on various transactions may **differ from State to State.**

Thus, it is recommended that the auditor should **obtain from the assessee the list of indirect taxes applicable to him.**

Once the auditor obtains this management representation, he is required to **obtain a copy of the registration certificate clearly mentioning the registration number under that relevant law.**

For example, GSTIN, State Excise, State VAT etc.

As per Page no 69 & 70 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

The assessee may have **multiple registrations for various manufacturing units, service units, branches, godowns etc** under the same law.

In such circumstances also, a **copy of all registration certificates is to be obtained from the assessee for appropriate disclosure under this clause.**

Where the indirect tax law does not require any registration, appropriate identification number may be reported in this clause.

For example, in **Customs Act, 1962,** since **there is no registration number,** a copy of **Import Export Code (IEC) may be obtained** and information be accordingly furnished.

CLAUSE NO. 4 - In the Utility, the following format is prescribed:

Sl No	Type	Registration / Identification Number
	Central Excise Duty	
	Central Custom Duty	
	Service Tax	
	Goods and Service Tax	
	Sales Tax / VAT	
	State Excise Duty	
	Other Indirect Tax / duty	

One can add further rows as per requirement - no limitation

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports, it was observed that:

a) Registrations under all the other Indirect Tax Laws which have been mentioned in the Report issued under Companies (Auditor's Report) Order (CARO) have not been reported under this clause.

b) Registration numbers under the Indirect Tax laws, some of which are based on assessee's PAN, did not match with the PAN as reported under clause 3 of Form No. 3CD. Appropriate reporting of this mismatch was not found under Clause (3) of Form No.3CA or Clause (3) and/or Clause (5) of Form No.3CB, as the case may be.

CLAUSE NO. 5

5	Status

Format in e-utility

5	Status *	Select

Artificial Juridical Person
Association of Person
Body of Individuals
Co-operative Society
Co-operative Bank
Company
Firm
Hindu Undivided Family
Individual
Limited Liability Partnership
Local Authority
Trust

As per Page no 70 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

20.9 Under clause 5, the **status of the assessee** is to be mentioned. This refers to the different classes of assessees included in the definition of **"person" in section 2(31)** of the Act, namely, **individual, Hindu undivided family, company, firm, an association of persons or a body of individuals whether incorporated or not, a local authority or artificial juridical person.**

CLAUSE NO. 6

6	Previous year from……to…….

Format in e-utility

6. Previous Year from *

01 Apr 2024

Previous Year To *

31 Mar 2025

As per Page no 70 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

20.10. Under clause 6, the period of the previous year has to be stated. Since the **previous year** under the Act now uniformly begins on **1st April and ends on 31st March,** the relevant previous year should be mentioned.

In case of **amalgamations, demergers, reconstitution, new business, closure of existing business etc the date of beginning/ ending of the previous year may be different,** accordingly, **the relevant date of beginning and ending of the previous year may be mentioned in this clause.**

Hence, the tax auditor has to apply his professional judgement depending on the facts and circumstances of the same.

CLAUSE NO. 7

7	Assessment year

Format in e-utility

7. Assessment year *

2025-26

As per Page no 71 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

20.11. Under clause 7, the assessment year relevant to the previous year for which the accounts are being audited should be mentioned.

CLAUSE NO. 8

8	Indicate the relevant clause of section 44AB under which the audit has been conducted

Format in e-utility

8. Indicate the relevant clause of section 44AB under which the audit has been conducted *

+ Add Details

- Clause 44AB(a)- Total sales/turnover/gross receipts of business exceeding specified limits
- Clause 44AB(b)- Gross receipts of profession exceeding specified limits
- Clause 44AB(c)-i- Profits and gains lower than deemed profit u/s 44AE
- Clause 44AB(c)-ii- Profits and gains lower than deemed profit u/s 44BB
- Clause 44AB(c)-iii- Profits and gains lower than deemed profit u/s 44BBB
- Clause 44AB(d)- Profits and gains lower than deemed profit u/s 44ADA
- Clause 44AB(e)- When provisions of section 44AD(4) are applicable.
- Third Proviso to sec 44AB : Audited under any other law
- Clause 44AB(a)- Proviso where cash receipts and cash payments do not exceed the specified percentage of total transactions, but the turnover exceeds the specified limit.

CLAUSE 8

The relevant clauses of Audit U/s 44AB are as follows:

44AB(a) carrying on business if total sales, turnover or gross receipts, exceeds one crore rupees.

44AB(b) carrying on profession if gross receipts exceed Fifty lakh rupees

CLAUSE 8

44AB(c) Carrying on the business referred to in sections 44AE or 44BB or 44BBB and claiming his income from any such business to be lower than the income prescribed under the relevant section; or

44AB(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]

44AB(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.

CLAUSE 8

Relevant clause of section 44AB under which the tax audit has been conducted.

The Auditor has to report under which clause of Tax Audit, the Audit has been conducted.

The **Auditor has to report if the Audit is of Business or Profession or under Presumptive taxation scheme.**

CLAUSE NO.8

Relevance of distinction between Business & Profession:

Section 2(13) defines business :

"Business" includes any trade, commerce, or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.

Section 2(36) defines Profession :

"Profession" includes vocation

Whether a particular activity can be classified as 'business' or 'Profession' will depend on the facts and circumstances of the each case - **CIT v. Manmohan Das (Deceased) (1966) 59 ITR 699 (SC)**

All professions are businesses, but all businesses are not professions. Only those businesses are professions the profit of which are dependent mainly upon the personal qualification and in which no capital expenditure is required or only capital expenditure of comparatively small amount - **P.Stanwill & Co. v/s. CIT (1952) 22 ITR 316, 320-21 (All)**

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports it was observed that the companies (which are required to get their accounts audited under Companies Act, 2013) had selected option (a) [Clause 44AB(a)-Total sales / turnover / gross receipts in business exceeding specified limits"] instead of option "Third Proviso to section 44AB: Audited under any other law".

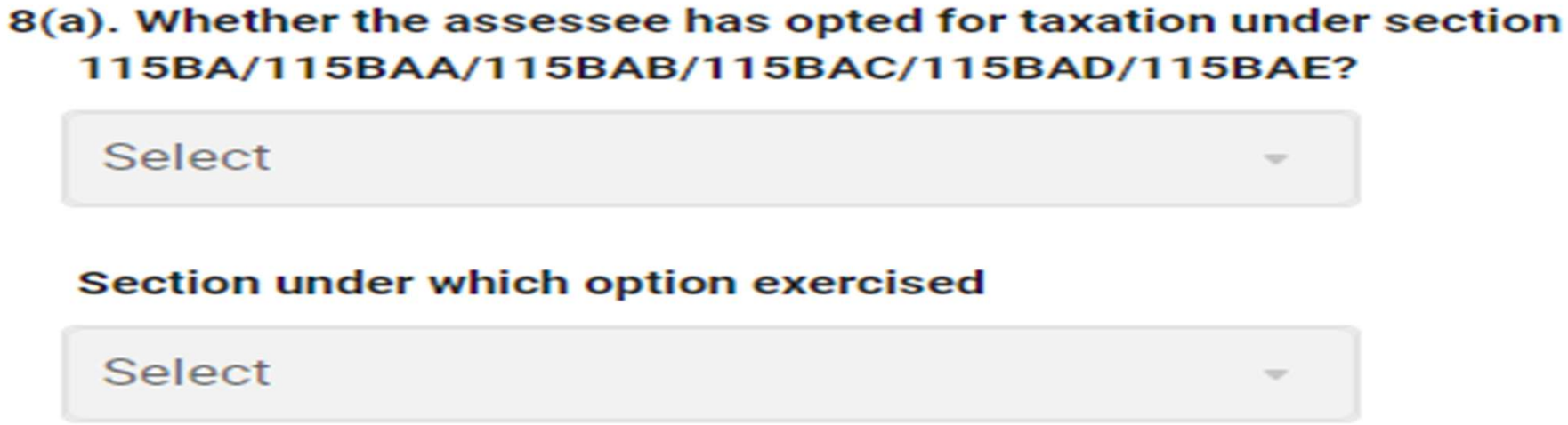
Clause no. 8(a)

{Inserted in Form-3cd updated on 22.10.2020,Subs. vide Rules,2021}

Indicate the **option for taxation under Section 115BA/ 115BAA/ 115BAB/ 115BAC/ 115BAD, which are applicable for Companies and Individual and HUF.**

Brief: Whether the company has opted for taxation under section 115BA / 115BAA / 115BAB?

- If NO, then it disables the section showing in the drop-down menu.
- If YES, it will show the section under which the assessee company going to opt for tax purposes. The screenshot is given below:



As per Page no 72 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

20.15 Under the regular provisions of the Act, an assessee is required to pay income-tax at the rates specified in the relevant Finance Act.

However, sections 115BA, 115BAA, 115BAB, 115BAC, 115BAD and 115BAE provide for concessional tax rates, subject to computation of total income, without claiming certain deductions, exemptions etc.

The assessee can opt to pay tax under the rates prescribed in the Finance Act or at the concessional rates specified in any of the aforesaid sections.

In either case, certain income would be chargeable to tax at the rates specified in Chapter XII of the Income-tax Act, 1961, such as, long-term capital gains taxable under section 112/112A, short-term capital gains taxable under section 111A etc.

As per Page no 72 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

20.16 Clause 8A requires whether the assessee has opted for taxation under any of the aforesaid sections and in case answer is yes, then, the appropriate section has to be selected.

The tax auditor is advised to examine the previous year Income-tax return to verify the option which has been exercised by the assessee.

However, as the assessee has to file the return, he may opt for different alternative rates than reported by the auditor.

Hence, the auditor should mention the selection or the choice of the assessee as on the date of signing of the Report.

As per Page no 72 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

For the purpose of verifying the reporting under clause 8a, the tax auditor should examine whether the relevant form being 10-IB, 10-IC, 10-ID, 10-IF and 10-IFA furnished under section 115BA, 115BAA, 115BAB, 115BAD and 115BAE respectively for availing new tax regime is already filed by the assessee.

In case, the assessee has not filed the relevant form, written representation from the assessee should be obtained whether he will be availing the new regime or otherwise and based on written representation, the reporting under this clause should be made.

Where reporting is made solely on the basis of assessee's representation, the fact should be stated in paragraph (3) of Form 3CA or paragraph (5) of Form 3CB.

PART - B

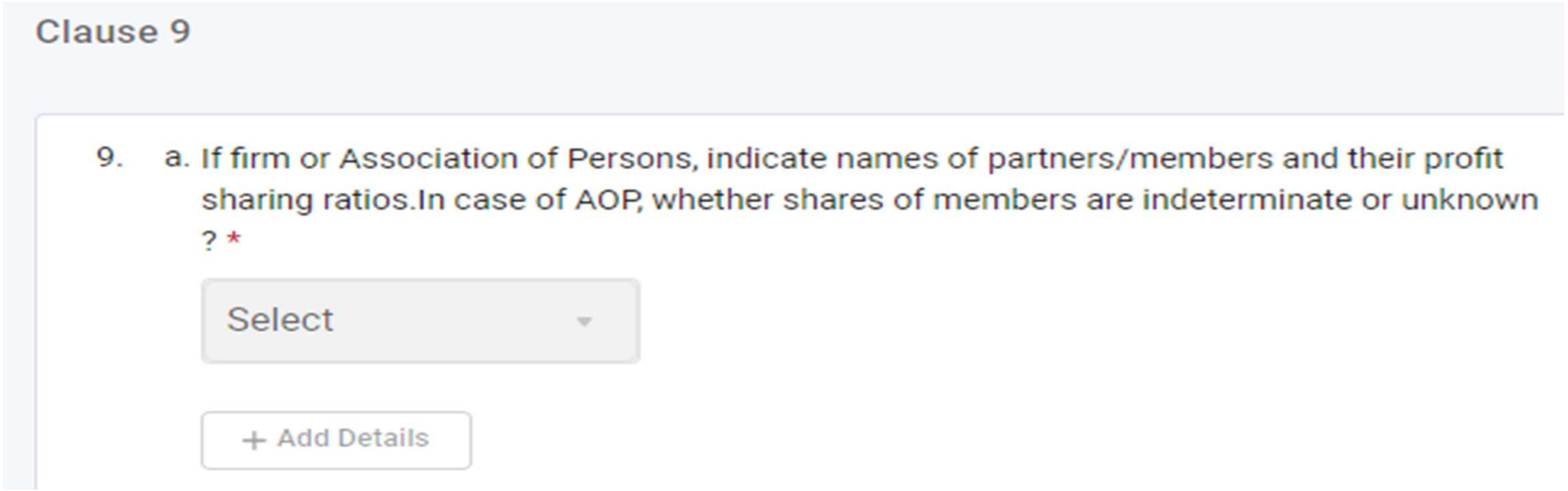
CLAUSE – 9

9. (a) If firm or association of persons, indicate names of partners/members and their profit sharing ratios.

(b) If there is any change in the partners or members or in their profit sharing ratio since the last date of the preceding year, the particulars of such change

Format in e-utility

9(a)



Format in e-utility

9(b)

b. If there is any change in the partners or members or in their profit sharing ratio since the last date of the preceding year, the particulars of such change ? *

Select

+ Add Details

As per Page no 86 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

21.2 If there is any **change in the partners** of the firm or members of the association of persons / body of individuals **or their profit or loss sharing ratio since the last date of the preceding year, the particulars of such change must be stated.**

All the **changes occurring during the entire previous year** must be stated.

As per Page no 72 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

21.3 The particulars in this clause should be **verified from the instrument or agreement** or any other document evidencing partnership or association of persons including any supplementary documents or other documents effecting such changes. For this purpose, **the tax auditor may also verify:**

(i) in case of registered firms (including Indian LLPs), whether the relevant documents have been filed with the concerned authorities,

(ii) whether notice of changes, if required, has been given to the registrar of firms, and

(iii) any minutes or any other understanding recording any changes in the partners/members or their profit sharing ratios.

As per Page no 72 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

21.4 The **tax auditor should obtain certified copies of the deeds, documents, understanding, notice of changes etc. including certified copies of the acknowledgment, if any, evidencing filing of documents with the concerned authorities, if registered.**

21.5 In certain cases of association of persons or body of individuals, it may be possible that the shares of the members are not precisely ascertainable during the previous year resulting in a situation whereby the shares of the members are indeterminate or unknown. In such circumstances, the relevant fact should be stated.

As per Page no 72 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

21.6 As per **section 2(23) of the Income-tax Act, 1961; the term "Firm" shall have the meaning assigned to it in the Indian Partnership Act, 1932, and shall include a Limited Liability partnership firm as defined in Limited Liability Partnership Act, 2008.**

Income on receipt of capital asset or stock in trade by specified person from specified entity.

9B(1)

- Where a **specified person receives** during the previous year
- any **capital asset or stock in trade** or both from a **specified entity**
- in connection with the **dissolution or reconstitution of such specified entity,**
- then the **specified entity shall be deemed to have transferred**
- such **capital asset or stock in trade** or both,
- as the case may be,
- **to the specified person** in the year
- in which **such capital asset or stock in trade or both**
- **are received by the specified person.**

9B(2)

Any **profits and gains arising from such deemed transfer of capital asset or stock in trade** or both, as the case may be, **by the specified entity** shall be—

(i) **deemed to be the income of such specified entity** of the previous year in which **such capital asset or stock in trade or both were received by the specified person**; and

(ii) **chargeable to income-tax as income of such specified entity under the head "Profits and gains of business or profession" or under the head "Capital gains"**, in accordance with the provisions of this Act.

9B(3)

- For the purposes of this section,
- **fair market value of the capital asset or stock in trade** or both
- on the **date of its receipt by the specified person**
- shall be **deemed to be the full value of the consideration received or accruing**
- as a **result of such deemed transfer of the capital asset or stock in trade** or both by the specified entity.

9B(4)

- If any difficulty arises in giving effect
- to the provisions of this section and sub-section (4) of section 45,
- the Board may, with the approval of the Central Government,
- issue guidelines for the purposes of removing the difficulty.

9B(5)

- Every guideline issued by the Board under sub-section (4) shall,
- as soon as may be after it is issued,
- be laid before each House of Parliament, and
- shall be binding on the income-tax authorities and on the assessee.

Explanation.—For the purposes of this section,—

(i) "**reconstitution of the specified entity"** means, where—

(a) **one or more of its partners or members**, as the case may be, **of such specified entity ceases to be partners or members; or**

(b) **one or more new partners or members**, as the case may be**, are admitted in such specified entity** in such circumstances **that one or more of the persons who were partners or members, as the case may be, of the specified entity, before the change, continue as partner or partners or member or members after the change;** or

(c) **all the partners or members, as the case may be, of such specified entity continue with a change in their respective share or in the shares of some of them;**

(ii) "**specified entity" means a firm or other association of persons or body of individuals** (not being a company or a co-operative society);

(iii) "**specified person" means a person, who is a partner of a firm or member of other association of persons or body of individuals (not being a company or a co-operative society) in any previous year.**

Capital gains.

45(4)

- Notwithstanding anything contained in sub-section (1),
- where a **specified person receives** during the previous year
- any **money or capital asset or both from a specified entity**
- **in connection with the reconstitution of such specified entity**,
- then any **profits or gains arising from such receipt**
- by the specified person shall be **chargeable to income-tax**
- as **income of such specified entity under the head "Capital gains"** and
- shall be **deemed to be the income of such specified entity of the previous year**
- in which **such money or capital asset or both**
- **were received by the specified person,** and

notwithstanding anything to the contrary contained in this Act,

such profits or gains shall be determined in accordance with the following formula, namely:—

A = B + C – D

Where,

A = income chargeable to income-tax under this subsection as income of the specified entity under the head "Capital gains";

B = value of any money received by the specified person from the specified entity on the date of such receipt;

C = the amount of fair market value of the capital asset received by the specified person from the specified entity on the date of such receipt; and

D = the amount of balance in the capital account (represented in any manner) of the specified person in the books of account of the specified entity at the time of its reconstitution:

Provided that if the value of "A" in the above formula is negative, its value shall be deemed to be zero :

Provided further that the balance in the capital account of the specified person in the books of account of the specified entity is to be calculated without taking into account the increase in the capital account of the specified person due to revaluation of any asset or due to self-generated goodwill or any other self-generated asset.

Explanation 1.—For the purposes of this sub-section,—

(i) the expressions "reconstitution of the specified entity", "specified entity" and "specified person" shall have the meanings respectively assigned to them in section 9B;

(ii) "self-generated goodwill" and "self-generated asset" mean goodwill or asset, as the case may be, which has been acquired without incurring any cost for purchase or which has been generated during the course of the business or profession.

Explanation 2

For the removal of doubts,
it is clarified that when a capital asset is received
by a specified person from a specified entity
in connection with the reconstitution of such specified entity,
the provisions of this sub-section shall operate
in addition to the provisions of section 9B and
the taxation under the said provisions thereof
shall be worked out independently.

CLAUSE – 10

10. (a) Nature of business or profession (if more than one business or profession is carried on during the previous year, nature of every business or profession)

(b) If there is any change in the nature of business or profession, the particulars of such change.

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10(a)

10. a. Nature of business or profession (if more than one business or profession is carried on during the previous year, nature of every business or profession). *

+ Add Details

S No	Sector	Total Sub Sector
1	Agriculture, Animal Husbandry, Forestry	18
2	Computer and Related Service	10
3	Construction	10
4	Culture & Sport	25
5	Education Services	7
6	Electricity, Gas & Water	4
7	Extra Territorial Organisations and Bodies	1
8	Financial Intermediation Services	18
9	Fish Farming	6
10	Health Care Services	20
11	Hotels, Restaurants And Hospitality Services	12

S No	Sector	Total Sub Sector
12	Manufacturing	99
13	Mining & Quarrying	16
14	Other Services	9
15	Post & Telecom	6
16	Profession	21
17	R&D	3
18	Real Estate & Renting	5
19	Renting of Machinery	9
20	Social & Community Work	9
21	Transport & Logistics	15
22	Wholesale / Retail Trade	27
23	Co-operative Society Activities	14
		364

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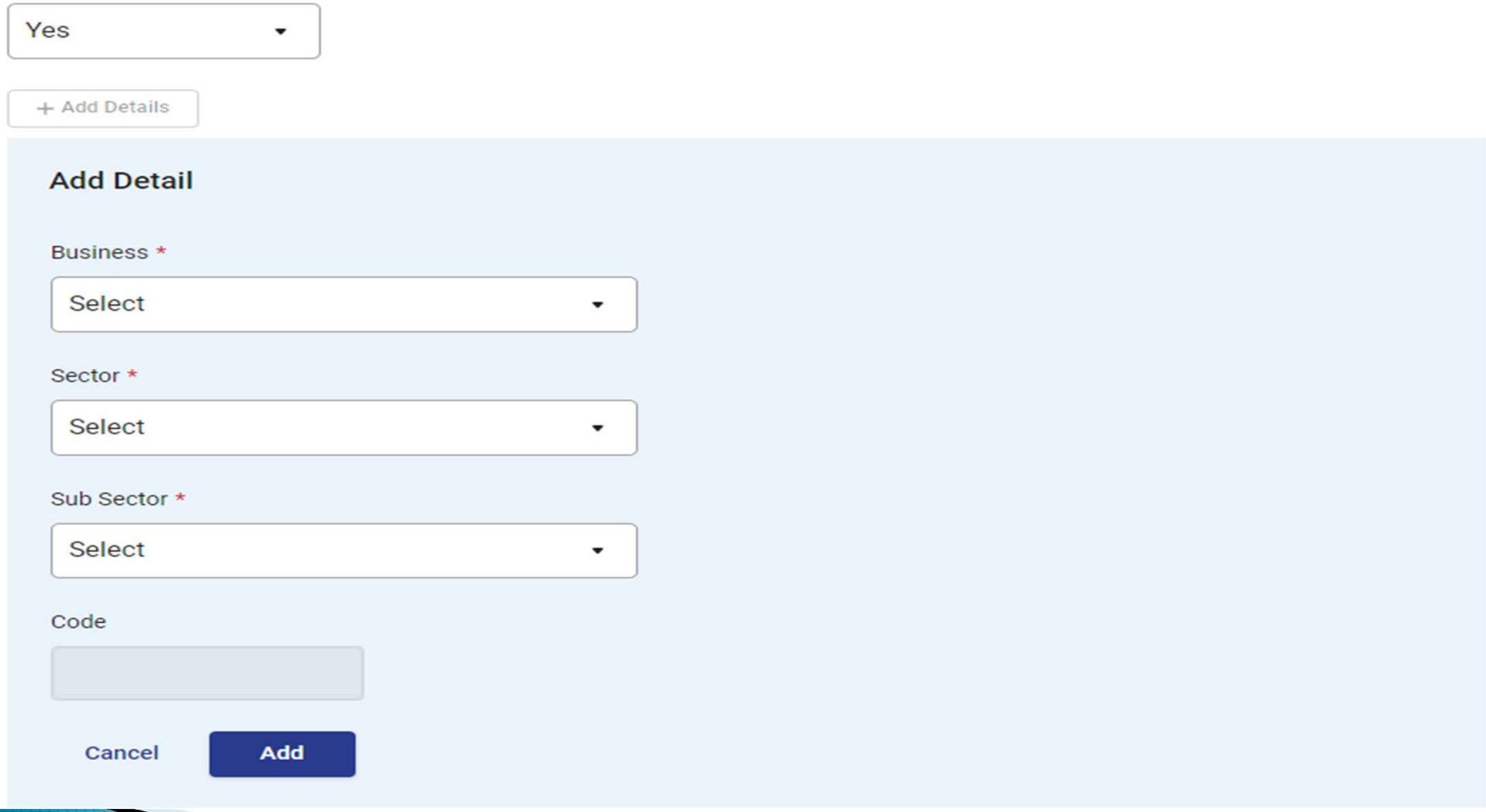
10.(b) If there is any change in the nature of business or profession, the particulars of such change.



As per Page no 87 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

22.1 In **regard to the nature of business, the principal line of each business is to be determined and stated in this clause, i.e. the sector** in which the business or profession falls **such as manufacturing, trading, commission agent, builder, contractor, professionals, service sector, financial service sector or entertainment industry.**

In case a person belongs to **service sector, the nature of each type of service should be broadly stated.**

Thereafter, the **sub-sector pertaining to the sector selected has to be mentioned.**

22.2. **Information has to be furnished in respect of each business profession carried on during the previous year based on review of the profit and loss account.**

The code to be mentioned against the nature of business pertains to the main area of business activity.

For ease of reference, the list of business/ profession code for tax audit form is provided in the Appendix XVI to this Guidance Note.

As per Page no 87 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

22.3. Any material **change in the nature of business should be precisely set out.**

The change will include **change from manufacturer to trader as well as change in the principal line of business.**

For example, an assessee switching over from wholesale business to retail business or an assessee switching over from manufacturing his own commodities to manufacturing goods on job basis for others.

Likewise, **any addition to or other than temporary discontinuance of, a particular line of business may also amount to change requiring reporting.**

However, **temporary suspension of the business may not amount to change and therefore need not be reported.**

As per Page no 87 & 88 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

22.4 A **review of business report or the minutes of meetings would enable the tax auditor to note the changes,** if any.

Based thereon, he may make necessary enquiries and seek information and determine whether any change has occurred or not.

If need be, the tax auditor should get a declaration from the assessee regarding change in the nature of business, if any.

22.5 In the case of **business reorganization/ reconstruction, if there is a similar line of activity, no reference needs to be made.**

However, if a new line of activity emerges because of business reorganization/ reconstruction, the same may be stated.

In the case of restructuring, **if any line of activity is being hived off, the same may also be reported.**

22.6 The auditor should keep in mind the above guidance while verifying information under this clause.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports it was observed that codes for business or profession for all main activities (principal line of each of the businesses) were not reported.

Where they could be located clearly from the Annual report.

Clause – 11

11. (a) Whether books of account are prescribed under section 44AA, if yes, list of books so prescribed.
(b) **List of** books of account maintained **and the address at which the books of accounts are kept.** (In case books of account are maintained in a computer system, mention the books of account generated by such computer system. **If the books of accounts are not kept at one location, please furnish the addresses of locations along with the details of books of accounts maintained at each location.)**
(c) List of books of account **and nature of relevant documents** examined.

Clause – 11

11 (a) Whether books of accounts are prescribed under section 44AA, if yes, list of books so prescribed.

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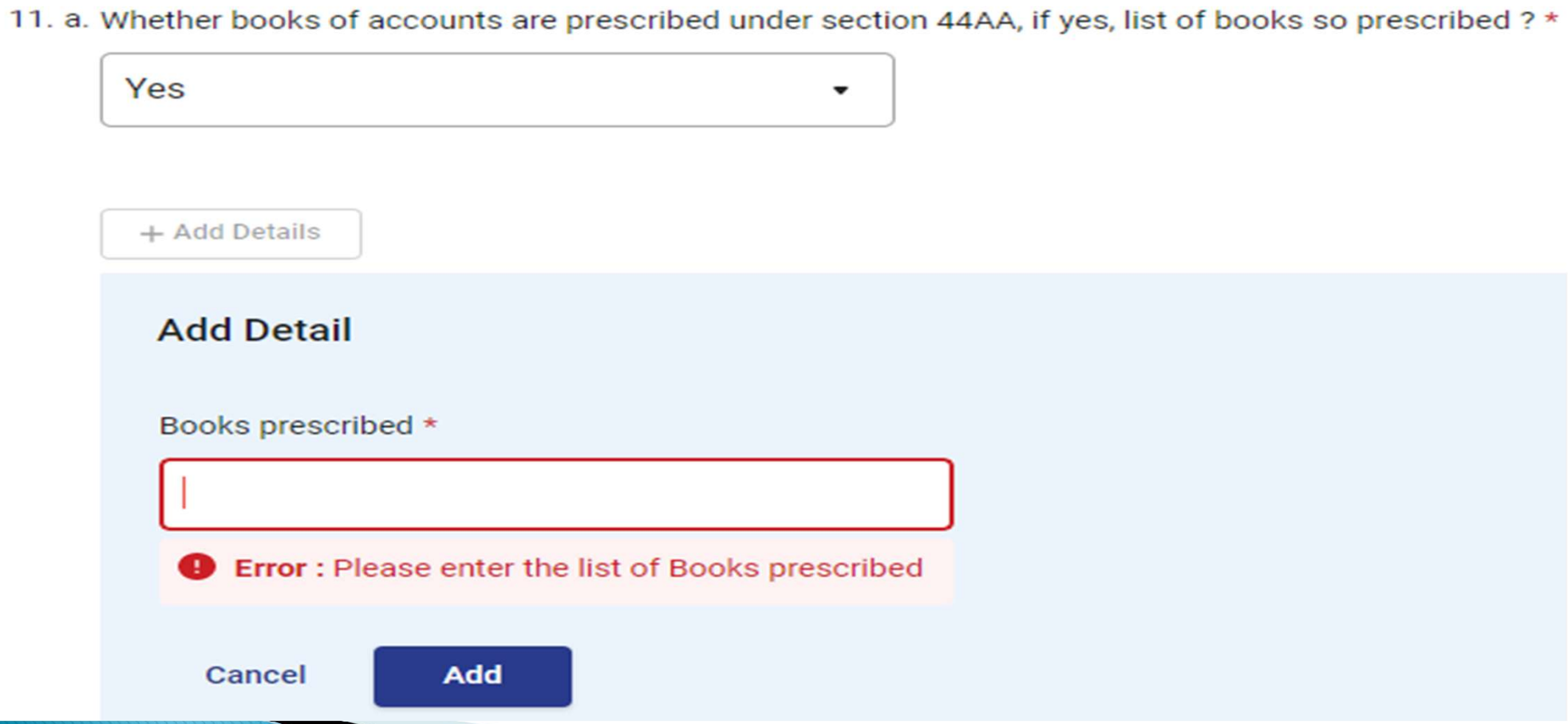

Clause – 11

(b) **List of** books of account maintained **and the address at which the books of accounts are kept.** (In case books of account are maintained in a computer system, mention the books of account generated by such computer system. **If the books of accounts are not kept at one location, please furnish the addresses of locations along with the details of books of accounts maintained at each location.)**

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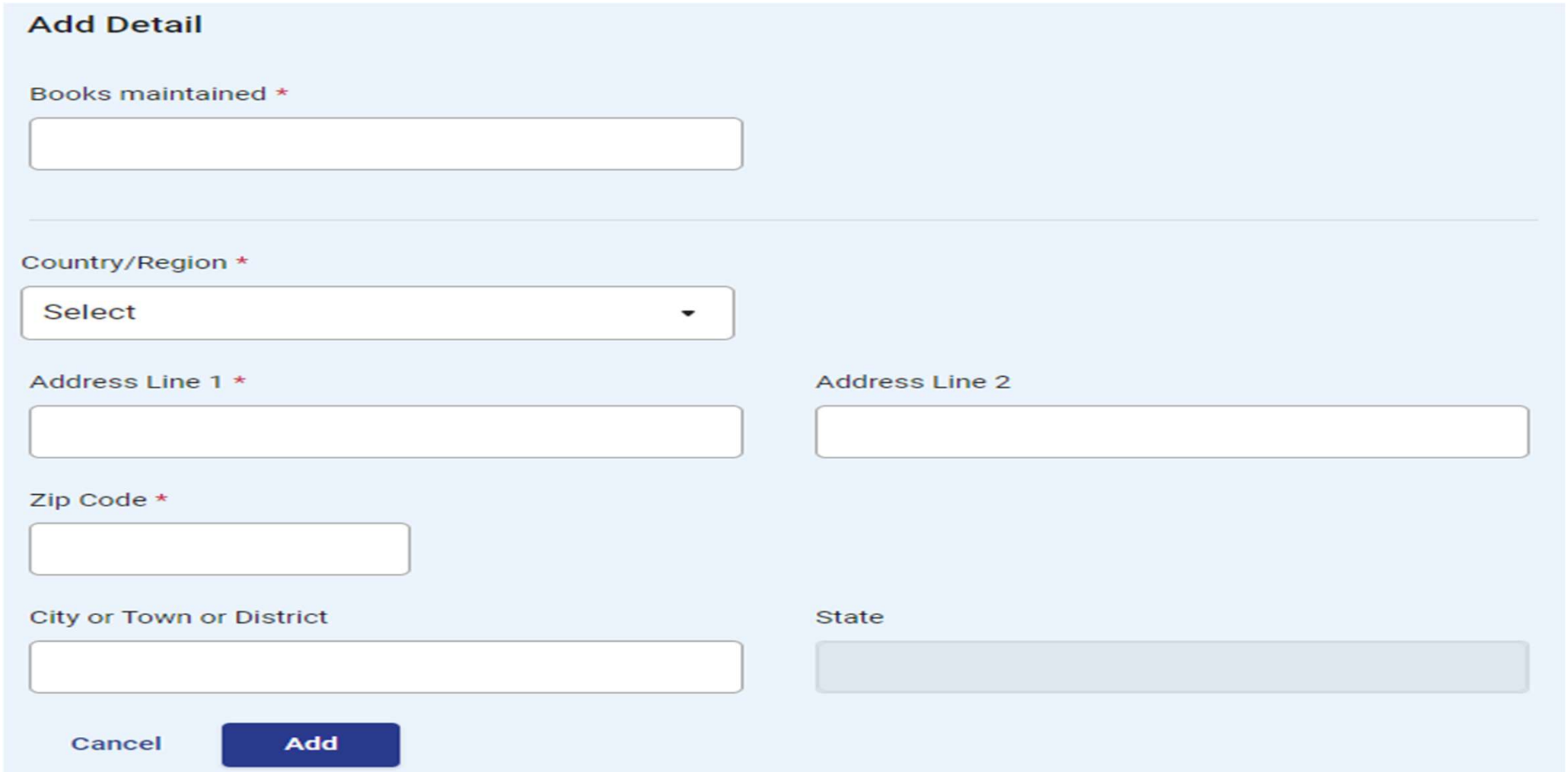
b. List of books of account maintained and the address at which the books of accounts are kept.(In case books of account are maintained in a computer system, mention the books of account generated by such computer system. If the books of accounts are not kept at one location, please furnish the addresses of locations along with the details of books of accounts maintained at each location.)

☐ Same as 11(a) above

+ Add Details


Add Detail
Books maintained *
Country/Region *
Select
Address Line 1 *
Address Line 2
Zip Code *
City or Town or District
State
Cancel
Add

Clause – 11

(c) List of books of account **and nature of relevant documents** examined.

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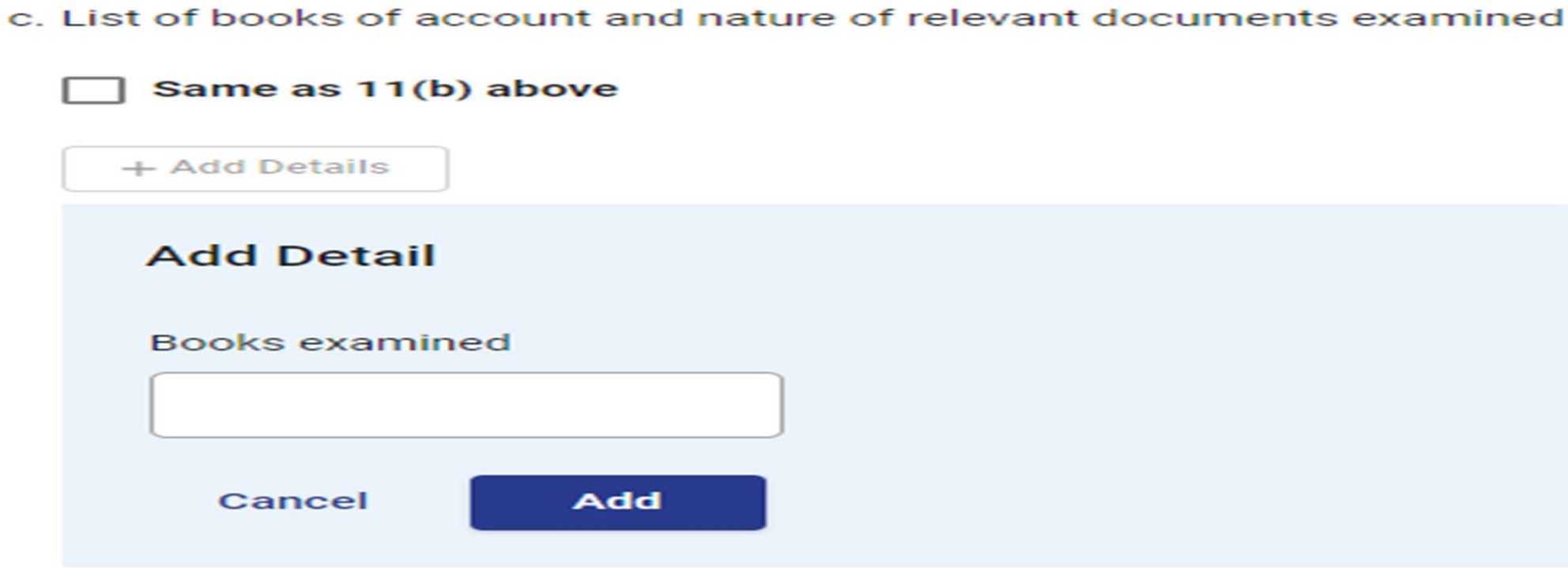

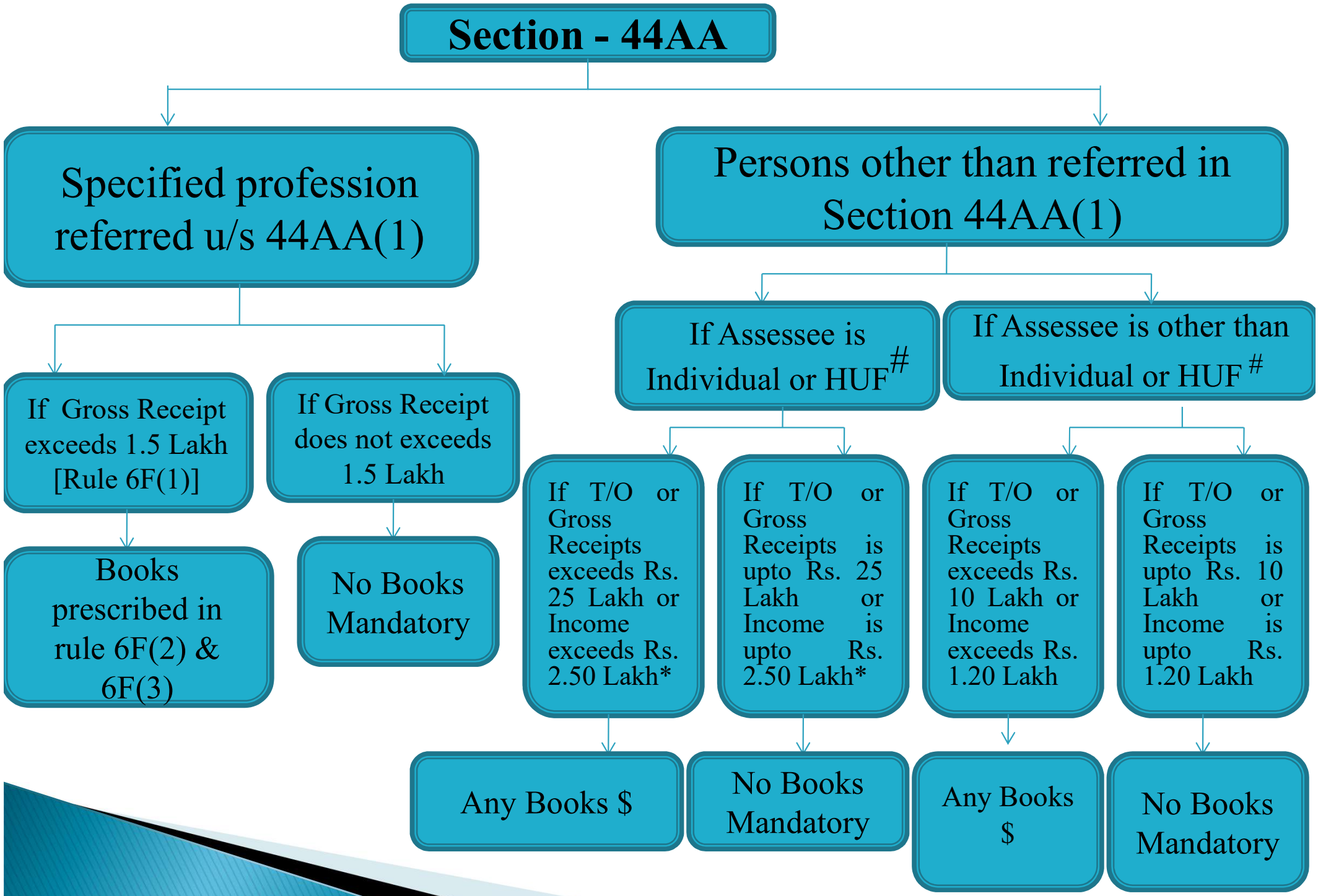
Section - 44AA
Specified profession referred u/s 44AA(1)
Persons other than referred in Section 44AA(1)
If Gross Receipt exceeds 1.5 Lakh [Rule 6F(1)]
If Gross Receipt does not exceeds 1.5 Lakh
Books prescribed in rule 6F(2) & 6F(3)
No Books Mandatory
If Assessee is Individual or HUF#
If Assessee is other than Individual or HUF #
If T/O or Gross Receipts exceeds Rs. 25 Lakh or Income exceeds Rs. 2.50 Lakh*
If T/O or Gross Receipts is upto Rs. 25 Lakh or Income is upto Rs. 2.50 Lakh*
If T/O or Gross Receipts exceeds Rs. 10 Lakh or Income exceeds Rs. 1.20 Lakh
If T/O or Gross Receipts is upto Rs. 10 Lakh or Income is upto Rs. 1.20 Lakh
Any Books $
No Books Mandatory
Any Books $
No Books Mandatory

Analysis of Section 44AA …..

Contd…

Note:

***For Individual & HUF - Limit for total Income was Rs.1,20,000/- & for T/O or Gross Receipt was Rs.10,00,000/- [prior to Finance Act, 2017 (w.e.f . 01-04-2018]**

 # For limits in relation to Gross Receipts or Turnover –

(A) For Newly Setup Business – For computing threshold limits the Turnover or Gross Receipts shall be considered for that year only.

(B) For Other Business – For computing threshold limits the Turnover or Gross Receipts shall be Limits Shall be considered for three years immediately preceding the P.Y. and books will be required to maintain if such threshold is fulfilled in any one of three years.

$ **Any books**: means the books so as to enable the AO to compute his total income in accordance with the provisions of this Act.

Where gross professional receipts in 1 of 3 years preceding the previous year in question have not exceeded Rs.1,50,000, assessee is not required to maintain books of account for that previous year even though such gross receipts have exceeded Rs.1,50,000 in the other 2 preceding years. **A. Keshava Bhat v. ITO [2001] 237 ITR 83 (Kar.)**

Meaning of Books of account and Document - Sec.2(12A) & Sec 2(22AA)

The expression ‘books or books of account’ includes ledgers, day-books, cash books, account-books and other books, whether kept in the written form or in electronic form or in digital form or as print-outs of data stored in such electronic form or in digital form or in a floppy, disc, tape or any other form of electro-magnetic data storage device - **Sec.2(12A).**

The term "document" includes an electronic record as defined in clause (t) of sub-section (1) of section 2 of the Information Technology Act, 2000 (21 of 2000); - **Sec 2(22AA).**

Meaning of Electronic record as per Section 2(1)(t) of the Information Technology Act, 2000 as referred above is reproduced below:

"Electronic record" means data, record or data generated, image or sound stored, received or sent in an electronic form or micro film or computer-generated micro fiche.

IS THE DATA KEPT IN ELECTRONIC FORMAT CONSIDERED AS BOOKS OF ACCOUNTS?

Section 4 of the Information Technology Act, 2000 states that "Where any law provides that information or any other matter shall be in writing or in the typewritten or printed form, then, notwithstanding anything contained in such law, such requirement shall be deemed to have been satisfied if such information or matter is-

(i) rendered or made available in an electronic form; and

(ii) accessible so as to be usable for a subsequent reference."

Prescribed Books Under Rule 6F

Books to be maintained by persons referred in Section 44AA(1) [Rule 6F(2)]

- Cash book
- Journal (if the accounts are kept on mercantile bases)
- Ledger
- Serial numbered carbon copies of the bills and receipts issued
- Original purchase bill/payment vouchers.

For a person carrying on medical profession is required to keep the following apart from the aforesaid books of accounts :

A daily case register in Form No. 3C and an inventory of stock of drugs, medicines & other consumable accessories used for his profession as on the 1st & last day of the P.Y. For clarification, **these do not constitute books of accounts & thus, same need not be mentioned under Clause 11(a). [RULE 6F (3)]**

- Prescribed books of account are to be kept at the place of profession or principal place of profession, if carried at more than one place **[RULE 6F (4)]**
- To be maintained for a period of **6 years** from the end of the relevant assessment year. **[RULE 6F (5)]**

Note: Any books means the books so as to enable the Assessing Officer to compute his total income in accordance with the provisions of this Act.

Specified Profession

- Legal,
- medical,
- engineering,
- accountancy,
- architectural profession,
- technical consultancy,
- interior decoration or
- other notified profession.
- **Notified Specified Profession**

Authorized representative and **film artist** - vide notification : No. SO 17(E), dated 12-1-1977.

Company Secretary - vide Notification : No. SO 2675, dated 25-9-1992.

Profession of information technology - vide Notification : No. SO 385(E), dated 4-5-2001.

Minutes, Statutory Registers and Records of the Company are required to be maintained for more than 8 (Eight) Years?

As per **section 128(5) of the Companies Act, 2013,** the books of accounts of every company relating to a **period of not less than 8 (Eight) financial years immediately preceding a financial year shall be maintained.**

However, **with regard to minutes and statutory registers and records it shall be maintained by the company since inception.** Since minutes and statutory records are the **principal documents of the company that needs to be maintained and preserved.**

CLAUSE 11(c)

What does “nature of relevant documents” mean?

List of documents is not required – only nature

Examples of relevant documents

i. Bills / Invoices / Receipts issued / received by assessee.
ii. Credit / Debit Notes issued / received by assessee.
iii. Statutory registers maintained under various laws.
iv. Contracts / agreements entered into by the assessee.
v. Correspondence between the assessee and others.
vi. Third party confirmations / statements of account.

vii. Fixed assets register

viii. Payroll records

ix. Lease Deed

x. VAT Audit report

xi. Cost audit report

xii. Excise audit report

xiii. Service tax audit report

xiv. Sale deed of property pur/sold

xv. Board minutes

xvi. VAT / Excise / Service Tax returns

xvii. TDS returns

In the utility, there is no separate section or drop down list for "nature of documents"

As per Page no 90 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

23.5 In the case of a **person for whom the books of account have been prescribed under rule 6F, the list of books so prescribed have to be stated under clause 11(a).**

It may be noted that the daily case register and the inventory under broad heads do not constitute books of account and hence the same need not be mentioned under clause 11(a).

Sometimes an assessee may carry on multiple activities.

Books of account might have been prescribed for one of the activities.

In that case, mention may be made of the activity for which books have been prescribed.

As per Page no 90 & 91 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

23.8 For a person whose accounts of the business or profession have been audited under any other law, the requirement for maintenance of books of account is contained in the relevant statutes.

In the case of other assessees, normal books of account to be maintained will be cash book/bank book, sales/purchase journal or register and ledger.

Assessees engaged in trading/manufacturing activities should also maintain quantitative details of principal items of stores, raw materials and finished goods.

While giving his report in Form No. 3CB about maintenance of proper books of account, the tax auditor should ensure that they are maintained in accordance with the above requirements.

In case stock records are not properly maintained by the assessee due to the nature, level, volume and variety of items/ transactions, the tax auditor will have to consider the concept of materiality and practicality while giving his report in Form No. 3CB.

As per Page no 91 & 92 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

23.10. The **address at which the books so maintained are kept is also required to be mentioned under clause 11(b).**

In case the books of account are kept at more than one location, the details of address of each such location along with the details of books of account maintained thereof is required to be mentioned.

The auditor is advised to obtain from the assessee a list in the following format and accordingly, verify the same with details reported in clause 11(b).

In case of a company assessee, auditor should also verify as to whether any forms are filed under the Companies Act for maintenance of books of account at a place other than the registered office:

Sr. No.	Principal Place of Maintenance of Books of Accounts	Details of books maintained
1	2	3

As per Page no 92 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

23.11. In case, **books of account are maintained and generated through computer system,** the auditor should obtain from the assessee **the details of address of the place where the server is located or the principal place of business/Head office or registered office** by whatever name called and mention the same accordingly in clause 11(b).

Where the books of account are stored on cloud or online, IP address (unique) of the same may be reported.

The auditor should also **verify the specification as to which books of account have been maintained in computer system and which of the records have been maintained in hard copy form.**

As per Page no 92 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

23.12 **Books of account examined would constitute the books of original entry and the other books of account.**

In addition to the list of books of account examined, the **nature of relevant documents examined also required to be mentioned.**

The assessee is required to maintain evidence such as **bills, vouchers, receipts, debit note, credit note, inventory register, agreements, orders etc,** as the auditor generally examines these documents while conducting audit.

The **underlying documents would differ** from assessee to assessee **depending on the nature of activity** carried on by the assessee.

Reference to such supporting evidence/ relevant documents is also required to be made under this clause.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports, it was observed that:

a) For Companies, 'NO' books of account have been specifically prescribed under section 44AA of the Income-tax Act, 1961 and /or under Rule 6F of the Income-tax Rules, 1962. In some cases, 'YES' was reported while 'NO' should have been reported under this clause.

b) In various cases, location of maintenance of books of account was not reported while the same is the requirement of the format as well as the Guidance Note on tax audit under section 44AB of the Income-tax Act, 1961.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

c) Also, the fact that the books of account are maintained in a computer system was not reported in many cases.

d) The various other relevant documents examined such as bills, vouchers, receipts, debit note, credit note, inventory register, agreements, orders, original purchase invoice, copy of bank statements, various agreements/ contracts or any other document on the basis of which preliminary entries are passed in the books of account, have missed reporting in various cases. As per para 23.11 of the Guidance Note, reference to such supporting evidence/ relevant documents is also required to be made under sub-clause 11(c).

Clause - 12

12. Whether the profit and loss account includes any profits and gains assessable on presumptive basis, if yes, indicate the amount and the relevant section (44AD, 44AE, 44AF, 44B, 44BB, 44BBA, 44BBB, 44BBC, Chapter XII-G, First Schedule or any other relevant section.)

44BBC. Inserted by the IT (Eighth Amdt.) Rules, 2025, w.e.f. 1-4-2025.

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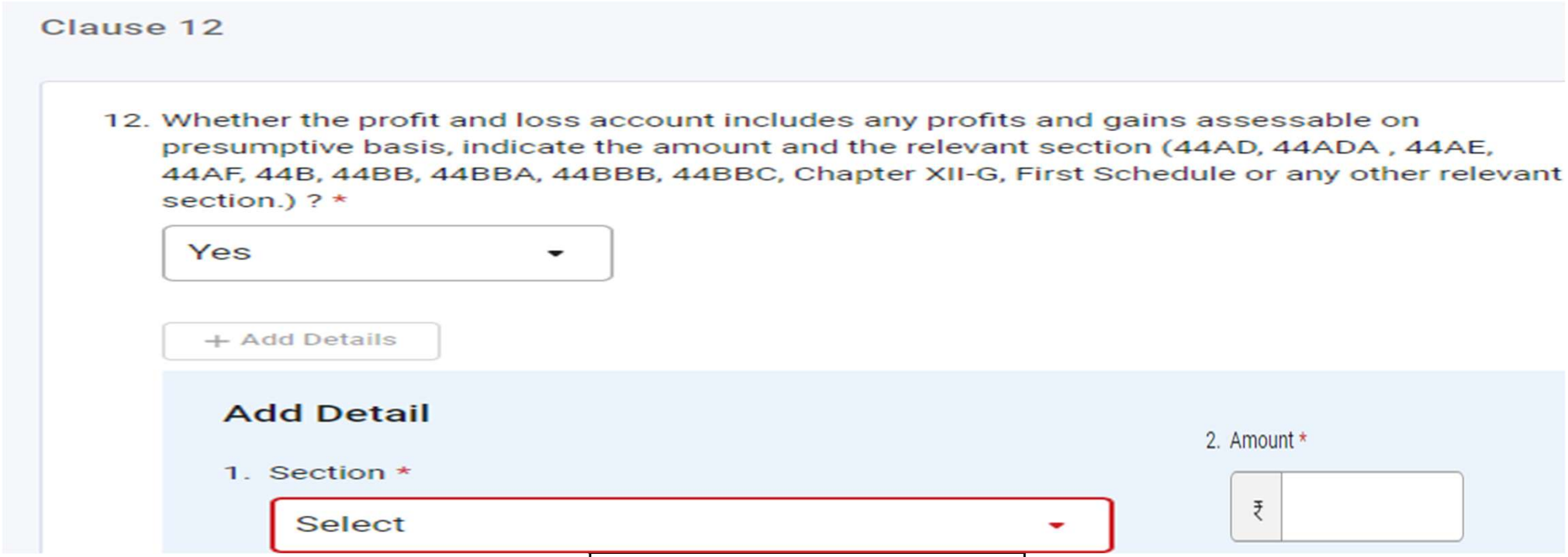


Section
44AD
44ADA
44AE
44AF
44B
44BB
44BBA
44BBB
44BBC
Chapter XII-G
First Schedule
Any other relevant section

As per Page no 93 & 94 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

24.3. Where the profits and gains of the business are assessable to tax under presumptive basis under any of the sections mentioned below, the amount of such profits and gains credited/debited to the profit and loss account should be indicated under this clause:

S No	Section	Business covered
1	44AD	Eligible business of an eligible assessee resident in India
2	44ADA	Professions referred to in section 44AA(1)
3	44AE	Business of plying, hiring or leasing goods carriages of an assessee owning not more than ten goods carriages at any time during the previous year.
4	44AF	Not relevant from A.Y.2011-12.
5	44B	Shipping business other than cruise shipping in case of non-residents

As per Page no 93 & 94 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

S No	Section	Business covered
6	44BB	Business (of a non-resident) of providing services or facilities in connection with, or supplying plant and machinery on hire used, or to be used, in prospecting for, or extraction or production of, mineral oils
7	44BBA	Business of operation of aircraft in case of a nonresident
8	44BBB	*Business (of a foreign company) of civil construction/erection of plant or machinery or testing or commissioning thereof, in connection with a turnkey power project approved by the Central Government*
9	44BBC	*Business of operation of cruise ships in case of nonresidents*
10	Chapter XII-G	Tonnage income of shipping companies

As per Page no 93 & 94 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

S No	Section	Business covered
11	First Schedule	Insurance Business
12	Any other relevant Section	This refers to the sections not listed above under which income may be assessable on presumptive basis and will include any other section that may be enacted in future for presumptive taxation (like section 44BBD inserted by the Finance Act, 2025 w.e.f A.Y. 2026-27). This section covers the business of providing service or technologies for setting up electronic manufacturing facility or in connection with manufacturing or producing electronic goods, article or things in India under a scheme notified by the Central Government in the Ministry of Electronics and Information Technology).

The auditor **needs to verify if the profit and loss account includes any of the income assessable on presumptive basis.** There could be few different scenarios such as:

1. **Books of Accounts not separately maintained for both the businesses**

Ascertainment of correct profit in respect of business covered under PRESUMPTIVE SCHEME should be done by tax auditor by **arriving at a fair and reasonable estimate of the expenditure based on the evidence in possession of the assessee** or by asking the assessee to **prepare such estimate** which should be checked **(basis of apportionment of common expenditure should be stated).**

However, if the tax auditor is not satisfied with the reasonableness of such apportionment, he should indicate such fact under this clause by a suitable note.

2: Books of Accounts separately maintained

In case separate set of books of accounts are maintained, **it poses no problem** for the tax auditor in ascertaining the amount of profit to be disclosed.

3: Business under presumptive scheme is additional business and no separate books are maintained for the same

Since the **books of account are not maintained** for the **business covered in presumptive scheme,** the Tax Auditor will be **unable to find out the correctness of the net income credited and he should give a suitable note expressing his inability to verify the said figure.**

Since the Tax Auditor is not able to form his opinion as to true and fair view of the accounts of the assessee, it would be necessary for him to qualify his audit report in Form no 3CB.

Clause – 13

13. (a) Method of accounting employed in the previous year

(b) Whether there had been any change in the method of accounting employed vis-a-vis the method employed in the immediately preceding previous year.

(c) If answer to (b) above is in the affirmative, give details of such change, and the effect thereof on the profit or loss.

Serial number	Particulars	Increase in profit (Rs.)	Decrease in profit (Rs.)

(d)Whether any adjustment is required to be made to the profits or loss for complying with the provisions of income computation and disclosure standards notified under section 145(2)

(e) if answer to (d) above is in the affirmative, give details of such adjustments:

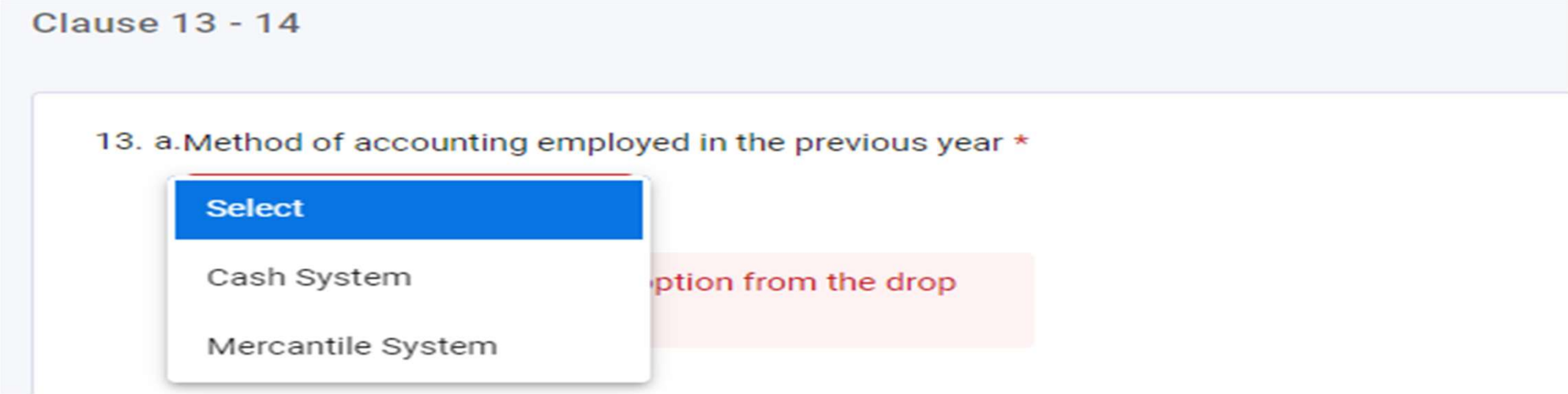
		Increase in profit (Rs.)	Decrease in profit (Rs.)	Net Effect (Rs.)
ICDS I	*Accounting Policies*			
ICDS II	*Valuation of Inventories*			
ICDS III	*Construction Contracts*			
ICDS IV	*Revenue Recognition*			
ICDS V	*Tangible Fixed Assets*			
ICDS VI	*Changes in Foreign Exchange Rates*			
ICDS VII	*Governments Grants*			
ICDS VIII	*Securities*			
ICDS IX	*Borrowing Costs*			
ICDS X	*Provisions, Contingent Liabilities and Contingent Assets*			

(f) *Disclosure as per ICDS*

(i)	*ICDS I*	*Accounting Policies*
(ii)	*ICDS II*	*Valuation of Inventories*
(iii)	*ICDS III*	*Construction Contracts*
(iv)	*ICDS IV*	*Revenue Recognition*
(v)	*ICDS V*	*Tangible Fixed Assets*
(vi)	*ICDS VII*	*Governments Grants*
(vii)	*ICDS IX*	*Borrowing Costs*
(viii)	*ICDS X*	*Provisions, Contingent Liabilities and Contingent Assets*

Clause – 13

Format in e-utility



In this clause, the **auditor is required to report the method of accounting, whether it follows cash or mercantile basis of accounting.**

Moreover, as per the **provision specified in the Companies Act 2013, the company must follow a mercantile basis of accounting.**

Clause – 13

Format in e-utility

b. Whether there has been any change in the method of accounting employed vis-a-vis the method employed in the immediately preceding previous year ? *

Yes

For reporting under this clause, the auditor is required to **compare the method of accounting employed in the previous year with the preceding previous year to find out if there had been any change in the method of accounting employed.**

Accordingly, **details for the same shall be furnished by selecting yes or no.**

Clause – 13

Format in e-utility

(c) If answer to (b) above is in the affirmative, give details of such change, and the effect thereof on the profit or loss.



If the **effect of changes in the method of accounting is quantifiable then, such changes in profit or loss are required to be furnished.**

If the effect of changes in the method of accounting is not quantifiable, appropriate facts need to be disclosed.

Clause – 13

Format in e-utility

d. Whether any adjustment is required to be made to the profits or loss for complying with the provisions of income computation and disclosure standards notified under section 145(2) ? *

Yes

Auditor has to **report whether any adjustment is required on profit and loss** as per Income Computation and Disclosure Standards **(ICDS) notified u/s 145(2).**

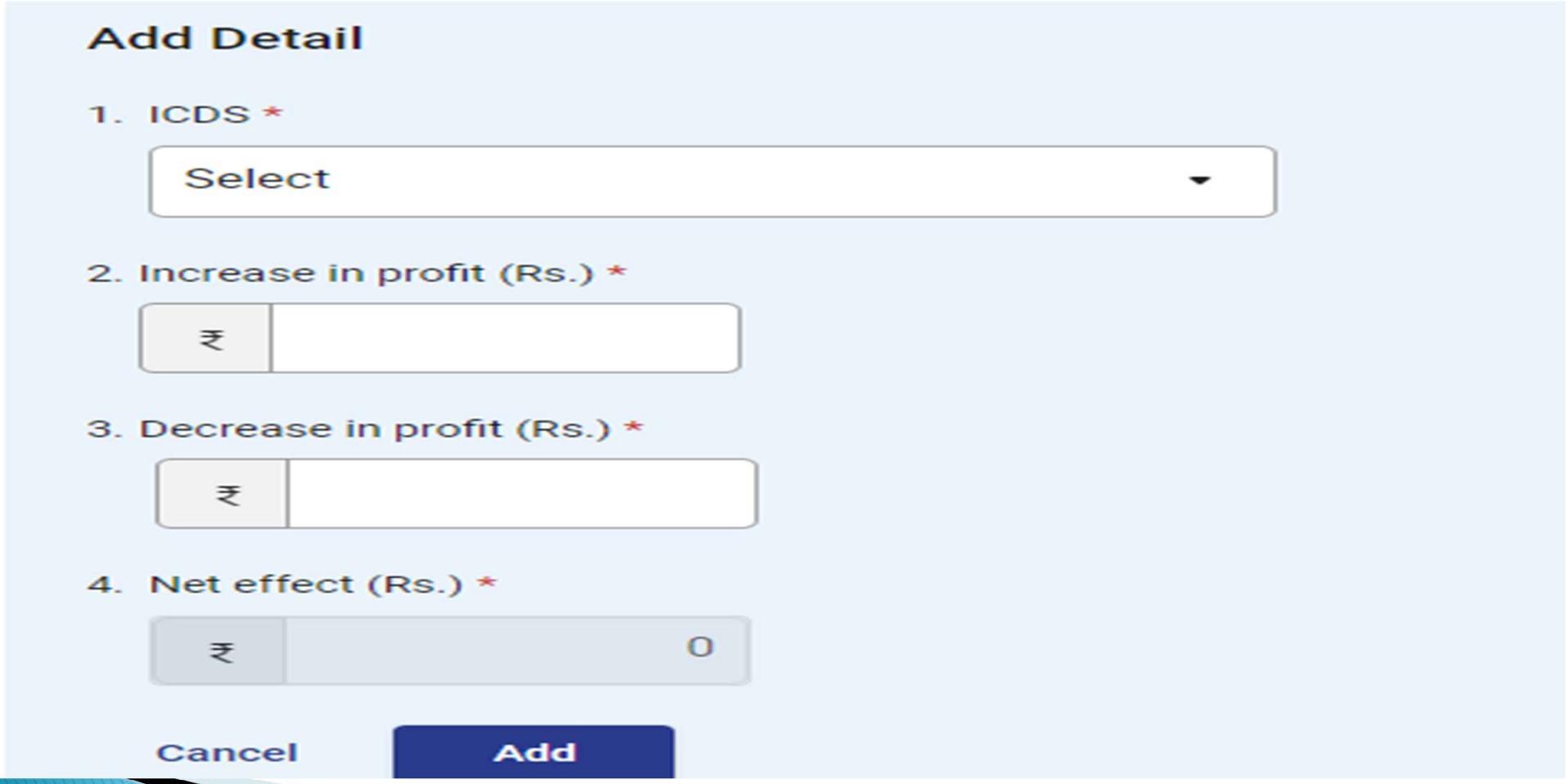
Further, **ICDS is applicable** only in case, **assessee follows the mercantile basis of accounting.**

For the assessee following the cash basis of accounting, provisions of clauses 13(d), 13(e), and 13(f) will not apply.

Clause – 13

Format in e-utility

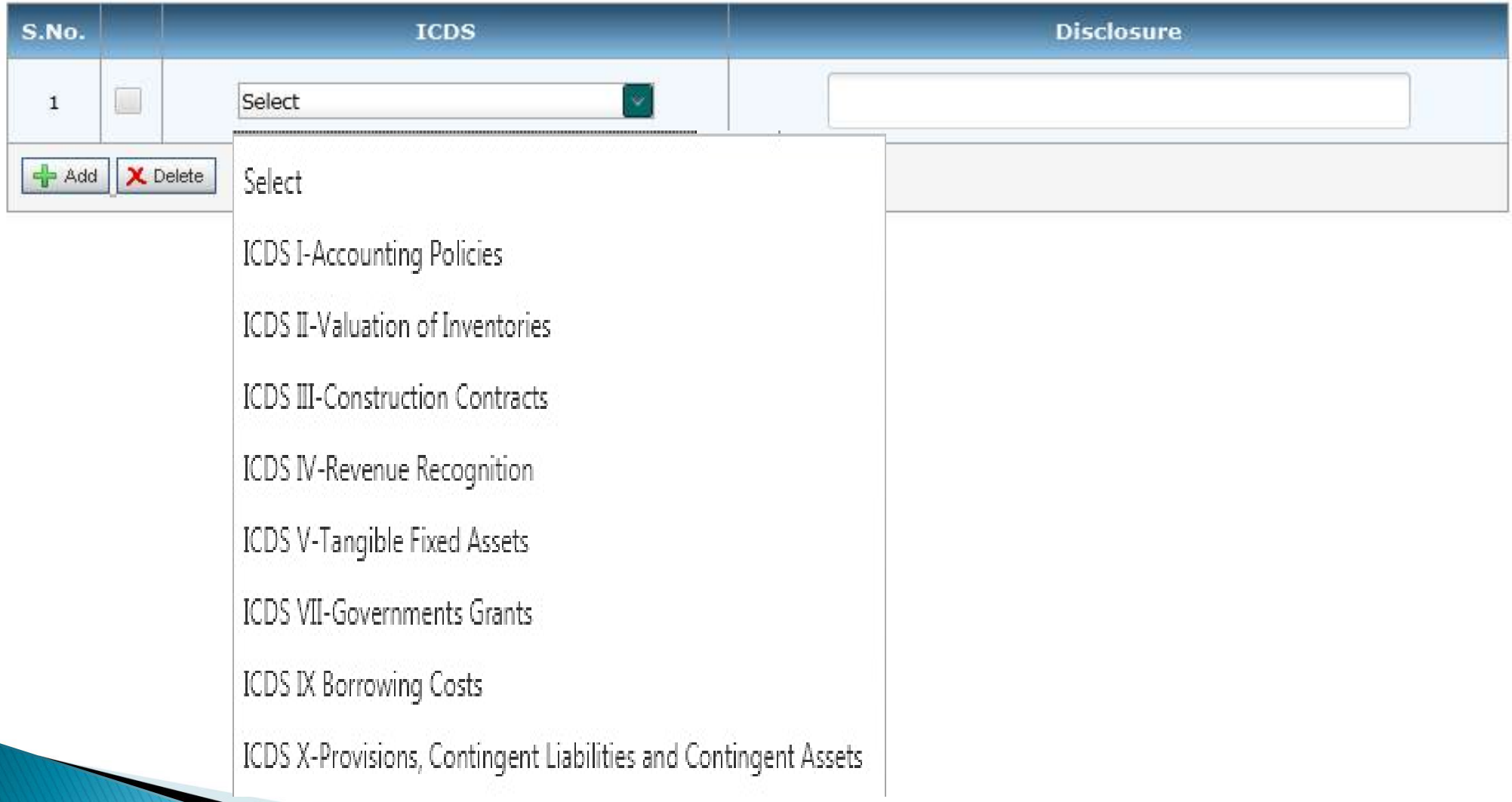
(e) If answer to (d) above is in the affirmative, give details of such adjustments:



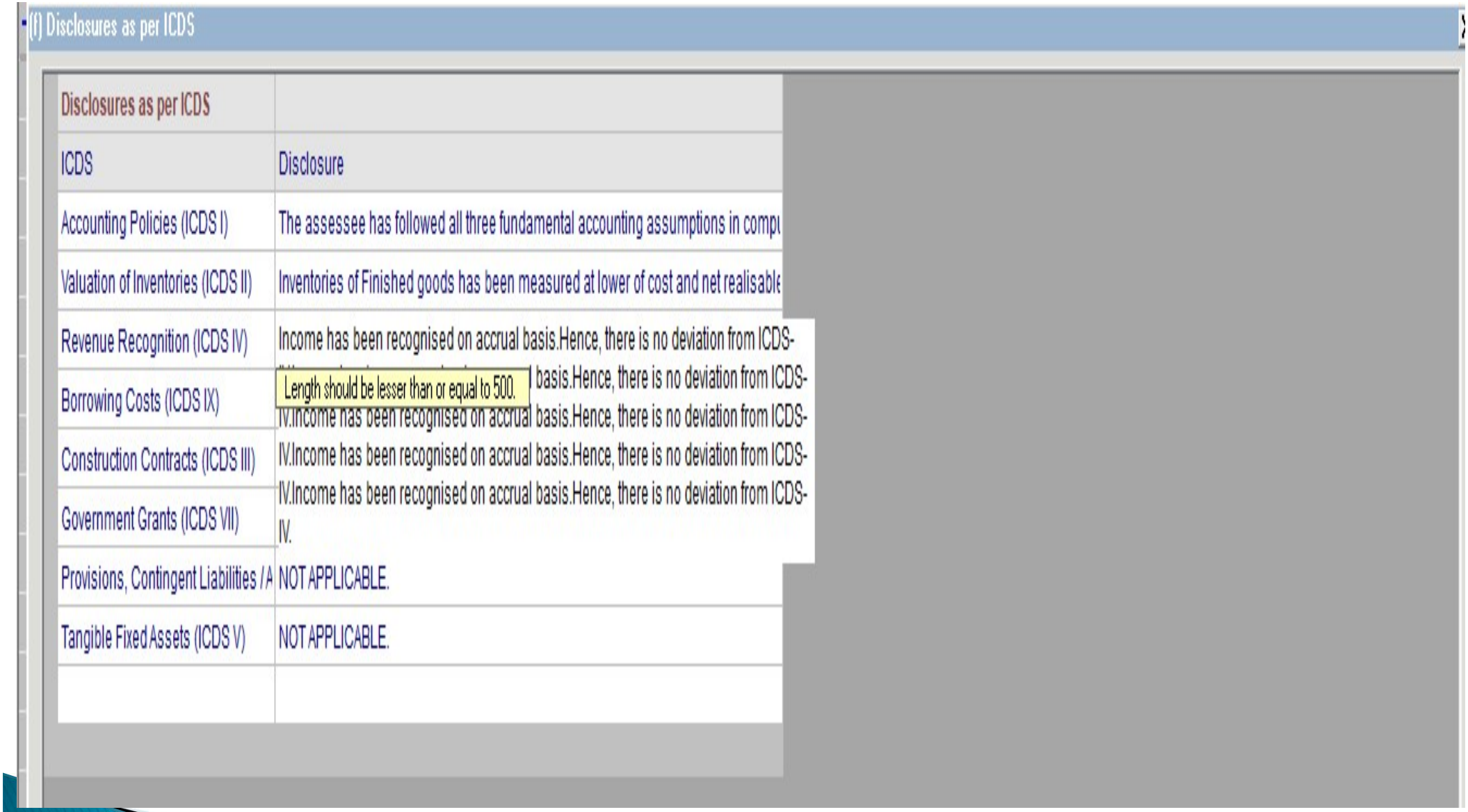
Clause 13(e) requires ICDS-wise reporting of the adjustments in profit or loss for ICDS compliance, showing a clear increase/decrease in profits as well as the overall net effect of such adjustments.

Clause – 13
Format in e-utility

(f) Disclosure as per ICDS:



In clause 13(f) of 3CD we can insert only upto 500 characters. (As per Winmann Software)



Clause 13(f): Disclosure as per ICDS:

ICDS Number	ICDS Name	Disclosure
ICDS I	Accounting Policies	The assessee is required to disclose all the significant accounting policies which are adopted by him. In case the assessee does not follow the fundamental accounting assumptio n, the fact needs to be disclosed.
ICDS II	Valuation of Inventories	Accounting Policies adopted by assessee for measurement of inventories, including the cost formulae used. Where standard costing has been used as a measurement of cost, details of such inventories and a confirmation of the fact that standard cost ap proximates the actual cost need to be approp riately disclosed along with the total carrying amount of inventories and its classification appropriate to a person.

ICDS III	Construction Contracts	This disclosure requirement is applicable to the assessee engaged in any construction contracts. Disclosure about the amount of contract revenue recognized as revenue in the period along with the methods used to determine the stage of completion of contracts in progress. In the case of contracts in progress, its stage of completion is determined. For this, an assessee is required to disclose the following on reporting date: • the amount of cost incurred and recognized profits; • the amount of advances received; and • the amount of retentions.

ICDS IV	Revenue Recognition	In the case of the sale of goods, an assessee is required to disclose the total amount of revenue not recognized in books during the previous year on the grounds of uncertainty about its collection along with the nature of uncertainty. For the assessee providing services, disclosure is to be given for the amount of revenue recognized from services provided during the previous year. Where the assessee has any service in progress, the metho d used to determine its stage of completion needs to be appropriately disclosed. Further, at the end of the previous year, an assessee should disclose the following; • the cost incurred and profit recognized (less loss) for service till the date; • amount of advances received; and • amount of retentions.

ICDS V	Tangible Fixed Assets	In this, the assessee has to provide the following disclosures: • description of assets or block of assets; • rate of depreciation; • actual cost or written down value, as the case may be; • additions or deductions during the year with date , in the case of any addition of an asset, date of p ut to use. • Actual cost or WDV of the asset on the reporting date. Changes in the rate of exchange. Subsidy or grant or reimbursement, by whatever name called etc.

ICDS VII	Governments Grants	Disclosure, in this case, is made about the nature and extent of Government Grants recognized and not recognized during the previous year by way of deduction from the actual cost of the asset or assets or from the written down value of a block of assets. Nature and extent of Government grants recognized and not recognized during the previous year as income.
ICDS IX	Borrowing Costs	Borrowing cost capitalized during the PY and accounting policy used for borrowing cost.

ICDS X	Provisions, Contingent Liabilities and Contingent Assets	In this, the assessee has to report the following for each class of provisions: • Brief description about its nature of obligation; • Carrying amount at the beginning and end of the previous year; • Addition made during the previous year, • Amounts used, that is incurred and charged against the provision, during the previous year; • Unused amounts reversed during the previous year. Following disclosures shall be given for each class of assets and related income recognized: • Brief description about the nature of the asset and related income; • Carrying amount of asset at the beginning and end of the previous year; • Addition in asset and related income recognized during the previous year; and • Amount if asset and related income reversed during the previous year.

As per Page no 111 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

25.1 **Section 145** provides that the income chargeable under the head **"Profits and gains of business or profession" or "Income from other sources"** must be computed in accordance with either **cash or mercantile system of accounting** regularly employed by the assessee.

Effective from 01.04.2015, it has been provided that the **Central Government may notify** in the Official Gazette from time to time the **income computation and disclosure standards** to be followed by any class of assessees or in respect of any class of income.

The **hybrid system of accounting viz. a mixture of cash and mercantile is not permitted.**

However, the assessee may **adopt a cash system of accounting for one business and mercantile system of accounting for other business.**

Once the choice of method of accounting is decided, the assessee must **follow consistently the method of accounting employed.**

As per Page no 111 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

If he employs **different methods for different businesses regularly and consistently, the profits would have to be computed in accordance with the respective methods, provided the result is a proper determination of profits.**

As regards the accrual system of accounting, the Institute has published a "Guidance Note on Accrual Basis of Accounting" which may be referred to.

As per Page no 111 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

25.2 It may be noted that **in view of Section 128 of the Companies Act, 2013, every company is required to keep books of account on accrual basis.**

The **provisions** of the **Companies Act, 2013 are, however, not applicable to entities other than companies.**

25.3 Under sub-clause (b), whether there has been **any change in the method of accounting employed vis-à-vis the method employed in the immediately preceding previous year is to be stated.**

As already noted, an assessee can follow either a cash or mercantile system of accounting.

As per Page no 111 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

25.4 If there is any change, the effect thereof i.e. increase or decrease in profits has to be stated under this clause.

So far as the question of **effect of such change on the profit or loss is concerned, the concept of materiality is the basic governing factor.**

If it is not possible to quantify the effect of the change in the method of accounting, appropriate disclosure should be made under this clause

As per Page no 112 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

25.9 **ICDS does not apply to assessees following the cash method of accounting.**

So far, 10 ICDS have been issued by the Government.

Each of **the ICDS, in preamble,** states that 'this Income Computation and Disclosure Standard is **applicable** for **computation of income** chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and **not for the purpose of maintenance of books of accounts'.**

As per Page no 112 & 113 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Thus, prescription of ICDSs is not applicable for maintenance of books of account even under mercantile system of accounting.

As the provisions of ICDS are applicable for computation of income under the regular provisions of the Act, **the provisions of ICDS shall not apply for computation of book profit under section 115JB of the Act.**

However, as AMT under section 115JC of the Act is computed on adjusted total income derived by making specified adjustment to total income computed under regular provisions of the Act, **the provisions of ICDS will apply for computation of AMT.**

The general provisions of ICDS shall apply to all persons (e.g., Banks, Non-banking financial institutions, Insurance companies, Power sector etc.) unless there are sector specific provisions contained in the ICDS or the Act.

The provisions of ICDS shall also be applicable for computation of income on gross basis (e.g. interest, royalty, fees for technical services under section 115A of the Act) for arriving at the amount chargeable to tax.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports, it was observed that:

a) If any adjustment is required to be made to the profits or loss for complying with the provisions of income computation and disclosure standards, then details of such adjustments are required to be reported under clause 13(e).

In such cases under clause 13(d) 'YES' is to be selected from the drop-down menu in the e-filing utility. Once the same is selected, the form enables reporting details of such adjustments under clause 13(e).

In many cases 'NO' was selected under clause 13(d), which disabled reporting under clause 13(e), however, details of such adjustments were found to be reported under clause 13(f) (i.e., reporting disclosures as per ICDS). Selection of 'NO' in clause 13(d) is inappropriate in cases where adjustment is to be reported under clause 13(e).

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

b) Clause 13(f) requires disclosures in respect of certain notified ICDS, which was not done in many cases. In few cases, disclosures were made where any deviation from the notified ICDS was encountered.

As per the disclosure requirement under ICDS, reporting is to be done in respect of all of the notified ICDS except:

- **ICDS VI (Changes in Foreign Exchange Rates) and**
- **ICDS VIII (Securities).**

Further, for ICDS V (Tangible Fixed Assets), the prescribed disclosure requirement is similar to the requirements of clause 18 of Form No. 3CD. Accordingly, reference to reporting as done under clause 18 may be given.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

c) As per disclosure requirements of ICDS – II (Valuation of Inventories), 'the accounting policies adopted in measuring inventories including the cost formulae used' are to be reported.

Further, as per Para 3 of the ICDS –II

- **inventories shall be valued at "cost OR net realisable value whichever is lower".**

As per Para 5 of the Revised AS 2

- **inventories shall be valued at "lower of cost AND net realisable value".**

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

In few cases, the accounting policies reported were as per the language prescribed in Para 5 of the Revised AS-2 (or IND AS-2 wherever applicable) and not as per Para 3 of the ICDS-II.

The reporting under clause 13(f) is required to be done as prescribed by the ICDS, which was not done.

There could be a limitation in the form uploaded on IT Portal, which provides certain wordings in the drop down list, however the auditor should ensure that correct valuation method is mentioned in the hard copy issued to the auditee.

CLAUSE – 14

14. (a) Method of valuation of closing stock employed in the previous year.

(b) Details of deviation, if any, from the method of valuation prescribed under section 145A, and the effect thereof on the profit or loss, please furnish:

Serial number	Particulars	Increase in profit (Rs.)	Decrease in profit (Rs.)

CLAUSE – 14

Format in e-utility

14 (a) Method of valuation of closing stock employed in the previous year . (b) Details of deviation, if any, from the method of valuation prescribed under section 145A, and the effect thereof on the profit or loss, please furnish:

14. a.Method of valuation of closing stock employed in the previous year

Select

At Cost
At Market Rate
Lower of Cost or Market Rate

b.In case of deviation from the method of valuation prescribed under section 145A, and the effect thereof on the profit or loss, please furnish:

Select

Yes

No

Yes

+ Add Details

Add Detail

1. Particulars *

2. Increase in profit (Rs.) *

₹

3. Decrease in profit (Rs.) *

₹

Cancel Add

Method of valuation of closing stock employed in the previous year

(a) Method of valuation should be given for each type of inventories, which shall include:

- Raw material
- Work in progress
- Finished goods
- Consumables
- Maintenance Supplies
- Stock in trade
- Loose tools

(b) Actual Cost of inventory shall include:

- Purchase cost, expenses directly related to purchases and duties and taxes (credit not available)
- Service costs such as labour cost and other costs directly related to service
- Cost of conversion shall include cost directly related to the production of inventories and includes cost incurred in bringing the inventory to present location.

Net realizable value (NRV) is the value of an asset that can be realized upon the sale of an asset, less a reasonable estimate of the costs associated with the sale of an asset.

Method of valuation of closing stock can be based on FIFO method/Weighted average cost method/Specific identification method.

Closing Stock should be valued at actual cost or NRV, whichever is lower. It should be ensured that the method of valuation of stock is appropriate and complies with principles of AS 2(or IND AS2). If the method of valuation is not appropriate, then a suitable qualification in the **Tax audit report** is required in Form 3CB.

The auditor should ensure that any deviation from the method of valuation as prescribed under section 145A is appropriately disclosed, and the effect thereof on the profit/loss is also indicated.

Section 145A follows the inclusive method, i.e., any tax, duty, cess or fee actually paid or incurred on inputs should be added to the cost of inputs (raw materials, stores etc.), and if paid or incurred on the sale of goods, it should be added to the sales if not already added in the books of account.

Any tax, duty, cess or fee actually paid or incurred on the inventory (finished goods, work-in-progress, raw materials, etc.) should be added to the inventories, if not already added while valuing the inventory in the accounts.

This section has been amended with retrospective effect from AY 2017-18 to give effect to ICDS.

The amended section covers not only goods but services and securities too.

As the assessee follows accounting as per AS 2/IND AS 2 (i.e. exclusive method), adjustments are required as per section 145A (i.e. inclusive method).

Following the exclusive method or inclusive method would not impact the profits of the entity.

Section 145A allows change in method of valuation in the following cases:

1. Adoption of different policies is required by statute
2. The change would result in better presentation of financial statements of the enterprise.

As the enterprise follows exclusive method of accounting as per AS 2 (which is different from section 145A, which requires inclusive system to be followed), hence the following adjustments are required:

Any tax, duty or fee paid on purchase or inventory should be added to the cost of purchase or cost of inventory respectively.

Any tax, duty or fee paid on sale of goods or services should be added to sales.

It is pertinent to note that as per ICAI Tax Audit Guidance Note (Revised 2026) Para 28, the impact of following exclusive method or inclusive method would not impact profits of the entity.

Disclosure in S. No. 14(b) may be made as under (as suggested by ICAI Guidance Note of the example taken therein)

S. No.	Particulars	Particulars Increase in profit (Rs)	Decrease in profit (Rs)
1	Increase in Opening Stock on inclusion of GST		30000
2	Increase in Purchases on inclusion of GST		90000
3	Increase in Sales on inclusion of GST	90000	
4	Increase in Closing Stock on inclusion of GST	60000	
5	GST paid on sales		90000
6	GST credit availed on cost of goods sold	60000	
		210000	**210000**

Depending on the case, a note may be given by the assessee that 'Inventories are not inclusive of taxes and duties; however there is nil impact on profits due to the same as per the computation made'.

Clause 13(d) &14(b)

Exclusive method of stock valuation is followed.

It has been held in the following decisions that the exclusive method of stock valuation is revenue neutral.

Berger Paints India Ltd Vs. CIT 187 CTR 193 (SC),

Lakhanpal National Ltd. Vs. CIT 162 ITR 240 (Guj),

CIT vs. Indo Nippon Chemicals Ltd. 261 ITR 275 (SC).

In view of the above, the non-following of the inclusive method of valuation has no impact on the total income of the assessee.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports, it was observed that:

a) Method of valuation has not been reported under clause 14(a) for each item of inventories separately (be it raw materials, work-in-progress, materials, maintenance supplies, consumables and loose tools) as suggested by the Para 26.3 of the Guidance Note.

b) In many cases, valuation was done as per AS 2 or IND AS 2 i.e., exclusive method was followed. In all such cases details of deviations encountered between exclusive method of valuation and inclusive method of valuation as prescribed under section 145A of the Income-tax act and effects of inclusion of duties & taxes as suggested by the Para 26.11 of the Guidance Note are remained to be reported.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

c) As per the reporting requirement of clause 14(a), method of valuation of closing stock employed in the previous year is to be reported.

In few cases, the reporting as prescribed for valuation of inventories as per Revised AS-2 (or IND AS-2 wherever applicable) was not done.

Instead, reporting as per ICDS was done.

CLAUSE – 15

15. Give the following particulars of the capital asset converted into stock-in-trade:—

(a) Description of capital asset;

(b) Date of acquisition;

(c) Cost of acquisition;

(d) Amount at which the asset is converted into stock-in-trade.

CLAUSE – 15

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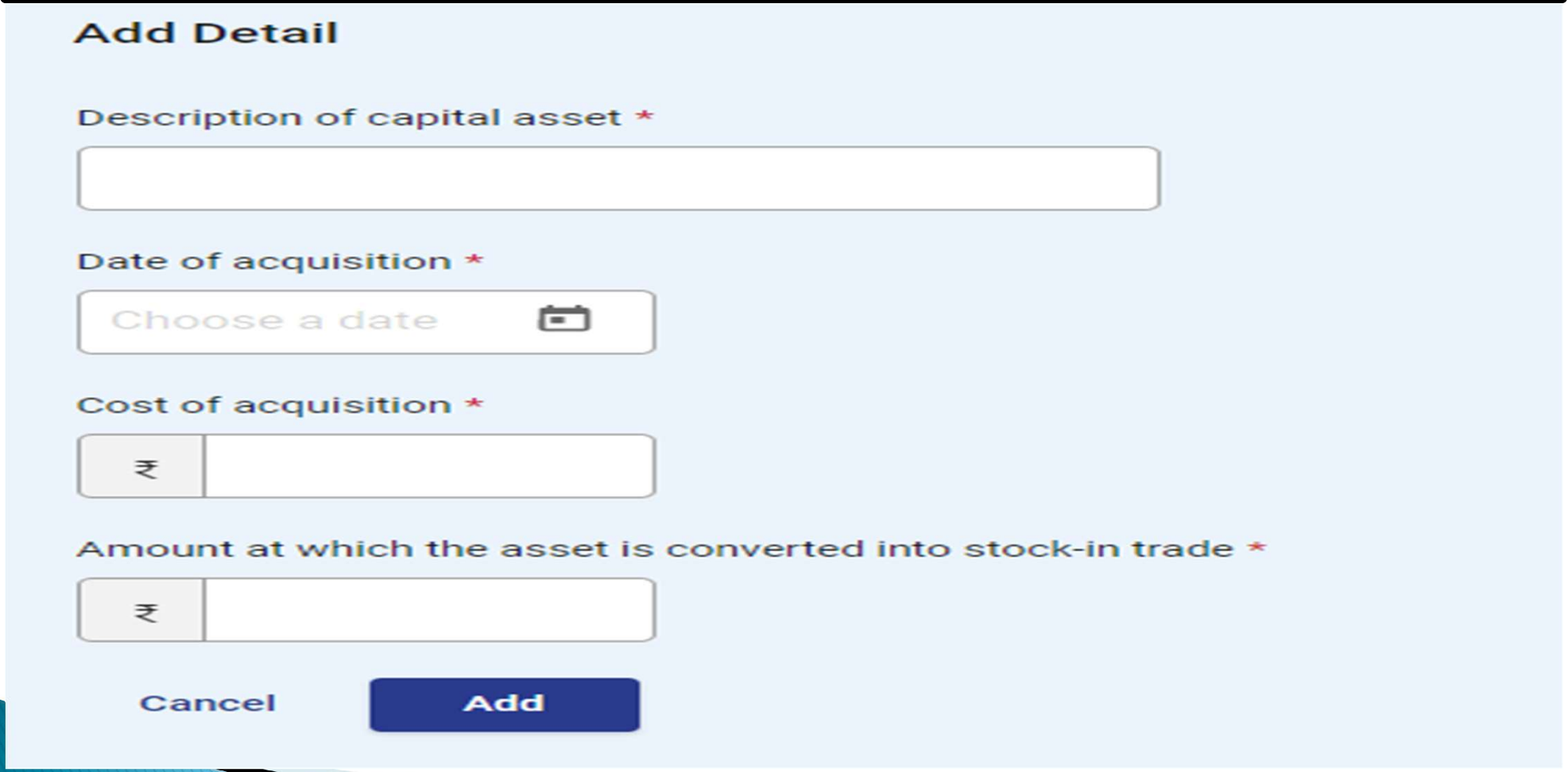
15. Give the following particulars of the capital asset converted into stock-in-trade



Conversion of capital asset to stock-in-trade:

From an accounting viewpoint, the investment or fixed asset is transferred to inventory at its book value, with no immediate profit or income recognized in the accounts, since there is no sale or realization of cash at this stage.

However, under the Act, **such conversion is deemed a "transfer" as per section 2(47)(iv).**

The special provision under **section 45(2)** clarifies that the capital gains arising from this deemed transfer are not taxed at the moment of conversion, but are instead chargeable to tax in the year when the converted stock-in-trade is actually sold or otherwise transferred.

For the purpose of capital gains computation, the fair market value (FMV) on the date of conversion is treated as the full value of consideration, and indexed cost benefits are allowed until that date.

There is a **distinct timing mismatch between accounting and taxation.**

While **accounting does not recognize income on conversion, tax law treats the conversion as a taxable transfer, but defers taxation of gains until the subsequent sale.**

On **actual sale of the stock-in-trade, two forms of income are recognized -**

the capital gain (between original cost and FMV at conversion) and business income (between FMV at conversion and sale price).

This split calculation can complicate compliance / reporting.

Conversion of stock-in-trade to capital asset:

From an accounting viewpoint, the **conversion of stock-in-trade into a capital asset is treated as an internal reclassification.**

The **asset is transferred from inventory to fixed or investment assets at book value or cost.**

No immediate income recognition occurs because this process does not involve any sale or realization of value.

The converted asset is reflected on the balance sheet under the appropriate category and is subsequently depreciated or held as an investment, depending on its nature.

However, under the Act, the Fair Market Value (FMV) of the stock-in-trade as on the date of conversion is treated as business income and taxed accordingly in that year [section 28(viia) read with clause (xiia) to section 2(24)].

This ensures that taxpayers cannot postpone tax liability by merely reclassifying inventory as a capital asset.

Therefore, there is a timing difference between accounting profit, which defers income recognition and taxable income, which recognizes income immediately at conversion.

Details of capital asset converted into stock in trade in prescribed format:

Reporting requirement:

Arises in the previous year in which such conversion takes place

and the same should not be postponed till the year of sale.

a) Description of Capital Asset:

Provide the detail of Capital asset such as shares, securities, land, building, plant, machinery, etc. along with section 32 (if depreciable asset) that deals with depreciation and classifies the different assets based on their nature.

b) Date of Acquisition:

Verify the period of holding of asset to ensure whether it is long term or Short term asset and for this purpose verify the date of purchase of assets from assesse.

c) Cost of Acquisition:

The cost of acquisition as per books of account is to be mentioned. While verifying the cost of acquisition, principles are given in AS 10/IND AS 16 should be kept in mind.

In the case of companies where CARO, 2020, Companies (Auditor's Report) Order, is applicable, the cost would be readily available in the Fixed Assets Register.

Whereas in other cases, it may not be practically possible to fulfill the reporting requirements of sub clause (c) then, in such a case, the tax auditor should state that it is not practicable, along with the reasons.

d) Amount at which the asset is converted into stock in trade:

a. Verify the **amount at which it is converted in to Stock-in Trade(as per AS 2).**

b. In case the **conversion is not done at cost but at FMV, appropriate disclosure is to be made at clause 14 (a) of Form 3CD that inventories on conversion of capital asset into stock is valued at FMV. Accordingly, the audit report in Form 3CB should be qualified for not complying with AS 2.**

c. It is desirable that at **the time of conversion, necessary accounting entries are passed** in the books of account in accordance with the **generally accepted accounting principles.**

d. An auditor shall therefore verify the amount recorded on conversion and report against clause 15(d), **if the amount is not determined in accordance with the generally accepted accounting principles, then the main audit report should be suitably qualified.**

Note: Conversion of capital asset in the form of Land & Building into stock in trade attracts provisions of Sec 50C of the Act by virtue of sec.45(2) read with s. 2(47)(iv). Hence, reporting requirement is also required under clause 17 of Form 3CD.

CLAUSE – 16

16. Amounts not credited to the profit and loss account, being, -

(a) the items falling within the scope of section 28;

(b) the proforma credits, drawbacks, refund of duty of customs or excise or service tax, or refund of sales tax or value added tax where such credits, drawbacks or refunds are admitted as due by the authorities concerned;

(c) escalation claims accepted during the previous year;

(d) any other item of income;

(e) capital receipt, if any.

As per Page no 124 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

28.1 Under this clause, **various amounts falling within the scope of section 28 which are not credited to the profit and loss account are to be stated.**

The **information** under sub-clauses (a), (d) and (e) of clause (16) **is to be given with reference to the entries in the books of account and records made available** to the tax auditor for the purpose of tax audit under section 44AB.

Sub-clauses 16 (b), (c) & (d) require information in respect of items which may also be covered under section 28 and as such will also fall in clause 16 (a).

However, those items which are reported in clauses 16(b), (c) and (d) need not be reported in clause 16(a).

The tax auditor may **obtain a management representation in writing from the assessee in respect of all items falling under this clause.**

Implication of reporting

Sec. 143(1)

Items not credited to P&L

Reporting of following items normally

- Interest like FD Interest, SB Interest, RD Interest and PPF Accrued Interest.
- Capital gains
- Other income like dividend
- Gifts
- Rent
- Such items have already been offered in return of income under respective heads of income.

<u>However such reporting has resulted in automatic additions in S.143(1) intimations</u>

CLAUSE – 16

Format in e-utility

16 Amounts not credited to the profit and loss account, being, -

(a) The items falling within in the scope of section 28;

S.No.		Description	Amount
1	☐		

Add Delete

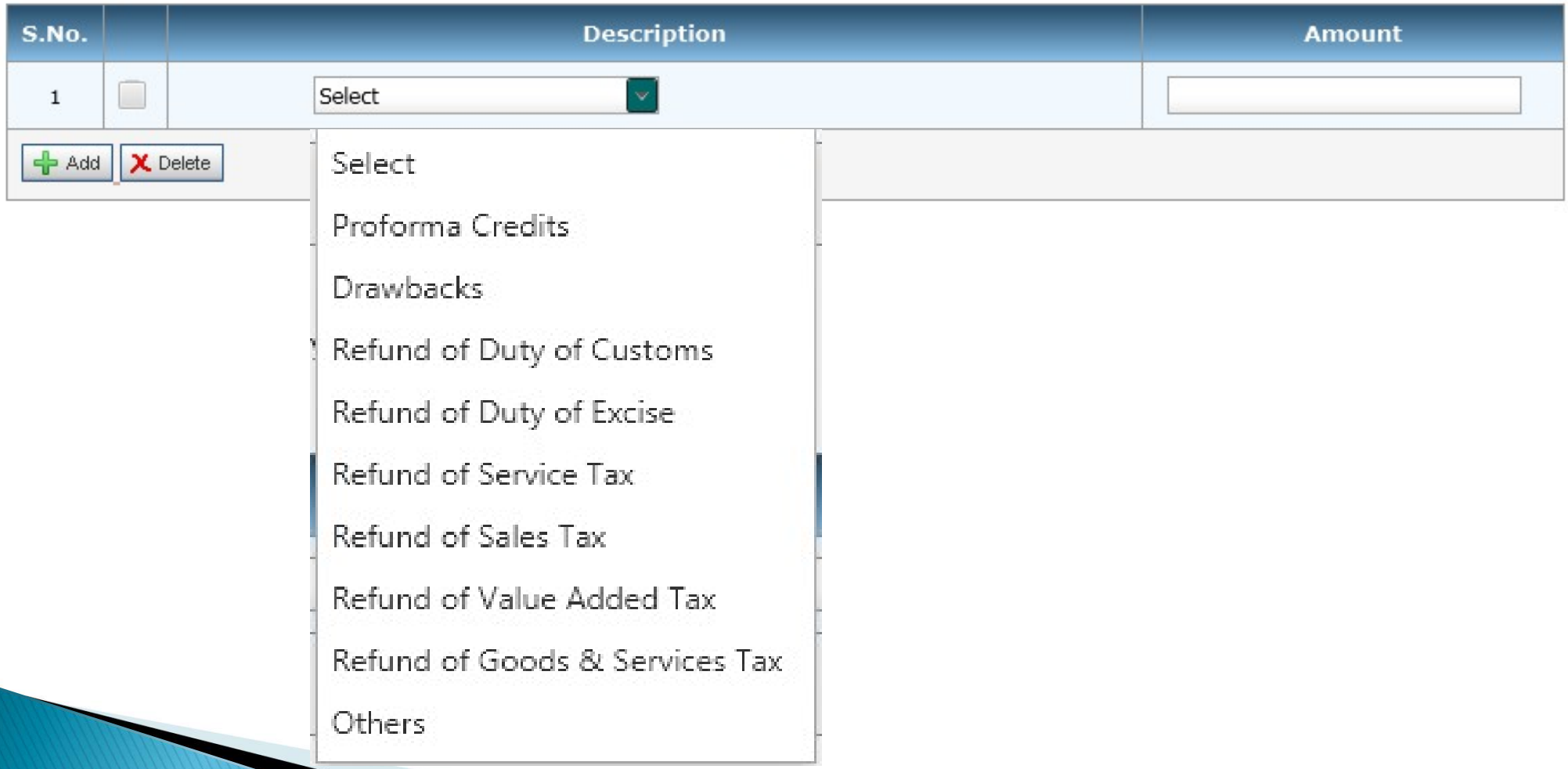
S. No. 16 (a) - The items falling within the scope of section 28:

The auditor's responsibility is to ensure all items falling under section 28 of Income Tax Act, 1961 which are not credited to the profit and loss account is reported here and for this purpose, **the auditor should make scrutiny of items on the credit side to ensure that these items are either accounted properly in books or reported here.**

Here, an **auditor should verify whether income reflected in Form 26AS is fully accounted for in the books.** In case of **any difference, proper reconciliation is made.**

Also, **heads like capital reserves, other reserves, capital account, expense heads are to be verified to ascertain whether any income instead of being credited in profit and loss account, has been capitalized under these heads.**

(b) The proforma credits, drawbacks, refund of duty of customs or excise or service tax, or refund of sales tax or value added tax or Goods & Services Tax, where such credits, drawbacks or refund are admitted as due by the authorities concerned;



S. No. 16 (b)

Refunds/Drawback of taxes/duties admitted by the authorities but not credited to P&L account.

The proforma credits, drawbacks, refunds of duty of customs or excise or service tax or refunds of sales tax or value-added tax or Goods and Service Tax, where such credits, drawbacks, or refunds are admitted as due by the authorities concerned.

The words **'admitted by the concerned authorities would mean 'admitted within the relevant previous year'.**

Therefore, for the above-mentioned items if admitted as due by concerned authorities but not credited to profit and loss accounts are to be stated.

However, **if the assessee follows the cash basis of accounting the admittance of claim without an actual receipt will have no significance.**

Also, the **information provided in this clause needs to be correlated with the information obtained for clause 41 of Form 3CD.**

For this purpose, auditor should make scrutiny of relevant files and records related to such refunds and also obtain an appropriate management representation.

(c) Escalation claims accepted during the previous year;

S.No.		Description	Amount
1			

Add Delete

S.No.16(c)-Escalation claims accepted during the previous year

As per Page no 127 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

28.10 Under sub-clause (c) of clause 16, **the escalation claims accepted** during the previous year **but not credited to the profit and loss account are to be stated.**

The escalation claims accepted during the year would normally mean "accepted during the relevant previous year".

If such amount has not been credited to the profit and loss account, the fact should be brought out.

The system of accounting followed in respect of this particular item may also be brought out in appropriate cases.

If the assessee is following **cash basis of accounting** with reference to this item, it **should be clearly brought out since acceptance of claims** during the relevant previous year **without actual receipt has no significance in cases where cash method of accounting is followed.**

(d) any other item of income;

S.No.		Description	Amount
1	☐		

Add Delete

S. No. 16 (d) - Any other item of income

As per Page no 127 & 128 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

28.12 Sub-clause (d) covers any other items which is considered as income of the assessee based on his verification of records and other documents and information gathered, but which has not been credited to the profit and loss account.

In giving the details under sub-clauses (c) and (d), due regard should be given to AS-9 - Revenue Recognition/ Ind AS 115 Revenue from Contracts with Customers, as applicable.

What should be reported in item (d) of clause 16 "any other item of income" not credited to the profit and loss account?

Clause 16 of the tax audit report requires reporting of the amount not credited to the profit and loss account.

The disclosure in item (d) of clause 16 is titled "any other item of income". Whether certain incomes taxable under any other head need not be reported in this column?

One view is that income from house property or other sources (like bank interest, dividends, etc.) should not be reported in clause 16(d). Thus, no addition or adjustment shall be made by the CPC while processing the return under Section 143(1)

The other view is that such other income should be reported. The arguments in favour of such a conclusion are that Section 44AB starts with the expression "every person" carrying on business or profession shall get his accounts of such previous year audited.

The audit under Section 44AB is not only for the books of account relating to business or profession but for the taxpayer. Thus, income chargeable to tax under the head house property, capital gains, and other sources are also disclosed in clause 16(d).

If the second view is followed, one may receive the tax demand as a result of adding the amount disclosed in 16(d) to business / professional income without taking note of the fact that those incomes are taxable under other heads

Disclosure in clause 16 by the tax auditor by taking the view that the tax audit report is meant for the taxpayer and not explicitly limited to business or profession needs to be appreciated in the overall context of tax compliance.

Such disclosure provides wholesome information to the department about the taxpayer. However, when such information is captured in the 'Other Information Schedule' of ITR, the CPC may compare it with incomes offered under other heads.

If they are equivalent to or more than the amount disclosed in clause 16 of Form 3CD, no adjustment may be made under Section 143(1). However, clarity is needed from Dept. in this regard.

(e) Capital receipt, if any.

S.No.		Description	Amount
1	☐		

Add Delete

S. No. 16 (e) - Capital receipt, if any.

As per Page no 128 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

28.14 Under sub-clause (e), capital receipt, if any which are of income nature, which has not been credited to the profit and loss account has to be stated.

The tax auditor should use his professional expertise and judgement in determining whether the receipt is capital or revenue.

The tax auditor may record various judicial pronouncements on which he has relied in his working papers.

As per Page no 128 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

28.15 The following is an illustrative list of **capital receipts which, if not credited to the profit and loss account,** are to be stated under this sub-clause:

(a) **Capital subsidy** received in the form of Government grants which are in the nature of promoters' contribution i.e., they are given with reference to the total investment of the undertaking or by way of contribution to its total capital outlay. e.g. Capital Investment Subsidy Scheme.

(b) **Compensation for surrendering certain rights.**

(c) **Profit on sale of fixed assets/investments** to the extent not credited to the profit and loss account.

(d) **Receipt of non-refundable deposits or forfeiture of any deposits not** credited to P&L.

(e) **Government grant** in relation to a specific fixed asset where such grant is shown as a deduction from the gross value of the asset by the concern in arriving at its book value.

As per Page no 128 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

28.16 **Equity, Loans and borrowings are not required to be stated under subclause (e).**

The tax auditor may use his professional expertise and judgement in determining whether the receipt is taxable or not for the purpose of verifying the e-porting under sub-clauses (a) to (d) of clause 16 and may report in the observation para of audit report, disclosing the basis of the same.

28.17 If during the course of audit, the auditor finds that certain incomes (e.g. income referred to in section 41(1)) are not credited to profit and loss account, the particulars of the same along with the amount are required to be reported.

CLAUSE – 17

17. Where any **land or building or both is transferred** during the previous year for a consideration less than the value adopted or assessed or assessable by any authority of a State Government referred to in **Section 43CA or 50C**, please furnish:

Details of property	Consideration received or accrued	Value adopted or assessed or assessable	Whether provisions of second proviso to 43CA(1) or fourth proviso to 56(2)(x) applicable ? (Yes/No)

Brief: Stamp Duly value is to be specified for land or building or both sold whether held in nature of Capital assets or Stock in trade.

CLAUSE – 17

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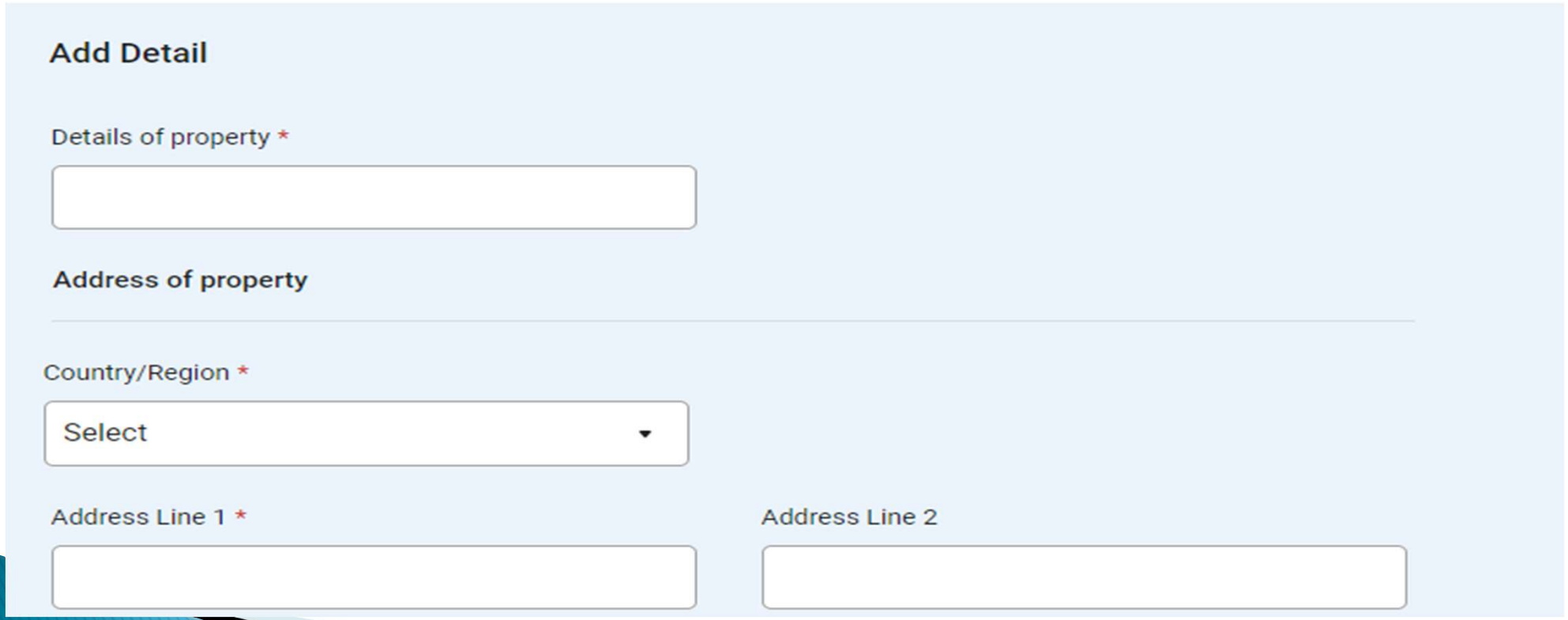
17. Where any land or building or both is transferred during the previous year for a consideration less than value adopted or assessed or assessable by any authority of a State Government referred to in section 43CA or 50C, please furnish:



CLAUSE – 17

Format in e-utility

Zip Code *

City or Town or District

State

Consideration received or accrued *

₹

Value adopted or assessed or assessable *

₹

Whether provisions of second proviso to sub-section (1) of section 43CA or fourth proviso to clause (x) of sub-section (2) of section 56 applicable? *

Yes

Cancel

Add

For reporting liability, the auditor should:

- Obtain the information about the sale of Land or Building or both during the previous year.
- Check the same with the books of account and Financial Statements.
- Check whether the profit or loss incurred due to transfer of land or building or both have transferred to profit & loss or not.
- Obtain a copy of the registered sale deed if the property is registered.
- Obtain relevant documents from relevant authorities where the property is not registered
- Check whether the provisions of section 50C or 43CA are appropriately applied.
- In case of conversion into stock in trade mode of transfer, verify that necessary details are reported in clause 15 as well, with suitable references.
- Suitable note shall be incorporated in clause 17 in case the assessee has disputed the stamp duty value adopted by stamp value authority in appeal or revision.
- Ensure that reporting is done only if the land or building or both is transferred for a consideration less than the value adopted, assessed, or assessable by any state government authority.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports, it was observed that in certain cases reporting under this clause was done when consideration received on transfer of an asset (capital or otherwise) being land, or building, or both and the value adopted u/s 43CA or 50C were same, which was not required.

43CA (1)

- Where the consideration received or accruing
- as a result of the transfer by an assessee of an asset (other than a capital asset),
- being land or building or both,
- is less than the value adopted or assessed or assessable by any authority of a State Government
- for the purpose of payment of stamp duty in respect of such transfer,
- the value so adopted or assessed or assessable shall,
- for the purposes of computing profits and gains from transfer of such asset,
- be deemed to be the full value of the consideration received or accruing as a result of such transfer:

- [Provided that where the value adopted or assessed or assessable by the authority
- for the purpose of payment of stamp duty does not exceed one hundred and *[ten] per cent of the consideration received or accruing as a result of the transfer,
- the consideration so received or accruing as a result of the transfer shall,
- for the purposes of computing profits and gains from transfer of such asset,
- be deemed to be the full value of the consideration:]

*** Substituted for "five" by the Finance Act, 2020, w.e.f. 1-4-2021.**

- [Provided further that in case of transfer of an asset,
- being a residential unit,
- the provisions of this proviso shall have the effect as if for the words "one hundred and ten per cent",
- the words "one hundred and twenty per cent" had been substituted,
- if the following conditions are satisfied, namely:-

(i) the transfer of such residential unit takes place during the period beginning from the 12th day of November, 2020 and ending on the 30th day of June, 2021;

(ii) such transfer is by way of first time allotment of the residential unit to any person; and

(iii) the consideration received or accruing as a result of such transfer does not exceed two crore rupees.]

43CA(2)

- The provisions of sub-section (2) and sub-section (3) of section 50C shall,
- so far as may be,
- apply in relation to determination of the value adopted or assessed or assessable under sub-section (1).

43CA(3)

- Where the date of agreement fixing the value of consideration for transfer of the asset and
- the date of registration of such transfer of asset are not the same,
- the value referred to in sub-section (1) may be taken as the value assessable by any authority of a State Government
- for the purpose of payment of stamp duty
- in respect of such transfer on the date of the agreement.

43CA(4)

- The provisions of sub-section (3) shall apply only in a case
- where the amount of consideration or a part thereof has been received
- *[by way of an account payee cheque or an account payee bank draft or by use of electronic clearing system through a bank account] **[or through such other electronic mode as may be prescribed]
- on or before the date of agreement for transfer of the asset.]

***Substituted for "by any mode other than cash" by the Finance Act, 2018, w.e.f. 1-4-2019.**

**** Inserted by the Finance (No. 2) Act, 2019, w.e.f. 1-4-2020.**

50C(1)

- Where the **consideration** received or accruing
- as a result of the **transfer**
- by an assessee of a **capital asset,**
- **being a land or building or both,**
- is **less than** the **value adopted or assessed [or assessable]**
- by any **authority of a State Government**
- (hereafter in this section referred to as the "stamp valuation authority")
- **for the purpose of payment of stamp duty** in respect of such transfer,
- the value so adopted or assessed [or assessable] shall,
- for the purposes of section 48,
- be **deemed to be the full value of the consideration**
- received or accruing as a result of such transfer :

1st Proviso (Inserted by FA, 2016 w.e.f. 1.4.2017)

- Provided that where the **date of the agreement fixing the amount of consideration and**
- the **date of registration** for the transfer of the capital asset
- **are not the same**,
- the **value adopted or assessed or assessable**
- **by the stamp valuation authority**
- on the **date of agreement**
- **may be taken** for the purposes of computing full value of consideration
- for such transfer:

2nd Proviso

- Provided further that
- the **first proviso shall apply** only in a case
- **where the amount of consideration or a part thereof,**
- has been **received** by way of an **account payee cheque or account payee bank draft or by use of electronic clearing system through a bank account**
- [or through **such other electronic mode as may be prescribed**] ***Inserted by Finance (No. 2) Act, 2019 w.e.f. 1.4.2020***
- **on or before the date of the agreement for transfer:**]

3rd Proviso (Inserted by the Finance Act, 2018, w.e.f. 1-4-2019)

- [Provided also that
- where the **value adopted or assessed or assessable**
- **by the stamp valuation authority**
- **does not exceed one hundred and [ten]** ***(Substituted for "five" by the Finance Act, 2020, w.e.f. 1-4-2021)*** **per cent**
- of the **consideration received or accruing as a result of the transfer,**
- the **consideration so received or accruing**
- as a result of the transfer shall,
- for the purposes of section 48,
- be **deemed to be the full value of the consideration.**]

50C(2)

Without prejudice to the provisions of sub-section (1),

where -

(a) the assessee **claims** before any Assessing Officer

- that the **value adopted or assessed [or assessable]**
- by the **stamp valuation authority** under sub-section (1)
- exceeds the **fair market value** of the property
- **as on the date of transfer;**

(b) the value so adopted or assessed [or assessable]

- by the stamp valuation authority under sub-section (1)
- has **not been disputed in any appeal or revision** or
- **no reference has been made before any other authority, court or the High Court,**

- **the Assessing Officer may refer the valuation of the capital asset** to
- **a Valuation Officer**

- and **where any such reference is made,**
- the **provisions** of sub-sections (2), (3), (4), (5) and (6) of section 16A,
- clause (i) of sub-section (1) and sub-sections (6) and (7) of section 23A,
- sub-section (5) of section 24,
- section 34AA, section 35 and section 37
- **of the Wealth-tax Act**, 1957 (27 of 1957),
- **shall, with necessary modifications**,
- **apply in relation to such reference**
- **as they apply in relation to a reference made**
- **by the Assessing Officer under sub-section (1) of section 16A of that Act.**

Explanation - 1

For the purposes of this section, "**Valuation Officer" shall have the same meaning as in clause (r) of section 2 of the Wealth-tax Act, 1957 (27 of 1957).**

Explanation - 2

- For the purposes of this section,
- the expression "assessable" means the price
- which the stamp valuation authority would have,
- notwithstanding anything to the contrary contained in any other law
- for the time being in force,
- adopted or assessed,
- if it were referred to such authority
- for the purposes of the payment of stamp duty.

50C(3)

- Subject to the provisions contained in sub-section (2),
- where the **value ascertained under sub-section (2)**
- **exceeds the value adopted or assessed [or assessable]**
- **by the stamp valuation authority** referred to in sub-section (1),
- **the value so adopted or assessed [or assessable]**
- **by such authority shall be taken**
- **as the full value of the consideration** received or accruing
- as a result of the transfer.]

Clause 18

Particulars **of depreciation allowable** as per the Income-tax Act, 1961 in respect of **each asset or block of assets**, as the case may be, in the following forms [as amended by Income-tax (22nd Amendment) Rules, 2020]:

a) Description of asset/ block of assets.
b) Rate of Depreciation (in percentage)
c) Actual cost or written down value, as the case may be.
ca) Adjustment made to the written down value under section 115BAC/115BAD (for AY 2021-22 only) *(Subs. in form 3CD vide IT Rules, 2021)*
cb) Adjustment made to written down value of Intangible Asset due to excluding value of Goodwill of a business or profession *(Subs. in form 3CD vide IT Rules, 2021)*
cc) Adjusted written down value…… *(Subs. in form 3CD vide IT Rules, 2021)*

ICAI's Comment

- It has been observed that the details of additions/deletions reported in Tax Audit Report are not in line with the figures of additions/ deletions disclosed in Audited financial statements.

Clause no. 18

d) Additions/deductions during the year with dates; in the case of any addition of an asset, date to put to use;

Date of addition/deductions, Particulars, Amount, In case of addition- date put to use. In case of deduction- NA

Adjustments on account of

i. **Central Value Added Tax** credit claimed and allowed under the central Excise Rule,1994 in respect of assets acquired on or after 1st march,1994

ii. Change in the rate of exchange of currency, and

iii. Subsidy or grant or reimbursement, by whatever name called.

e) Depreciation allowable

f) Written down value at the end of the year.

Clause no. 18

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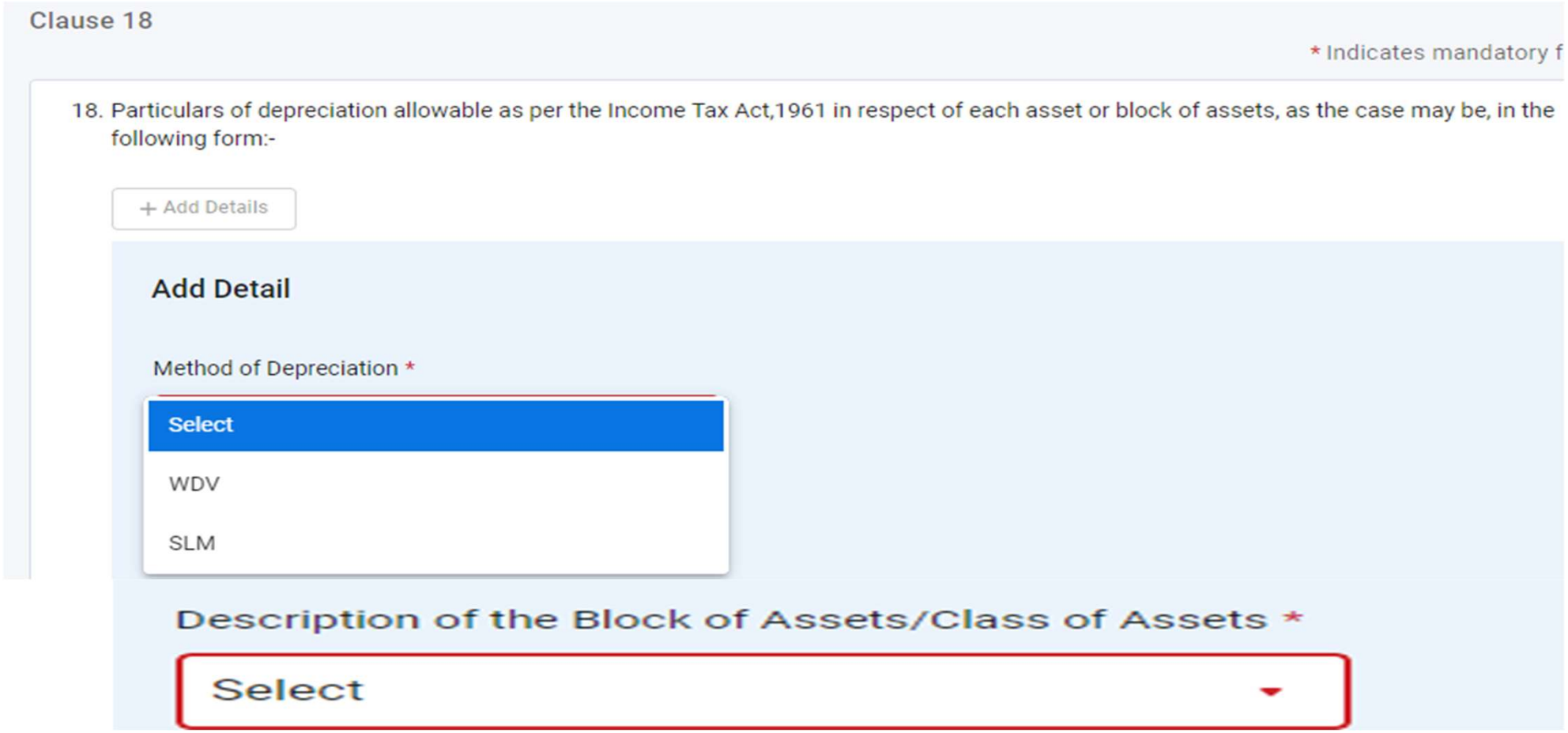

Clause no. 18

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Rate of Depreciation

10

Opening WDV / Actual *

₹

Adjustment made to the written down value under section 115BAA(3)/115BAC(3)/115BAD(3) (To be filled in only for assessment year 20 21, 2021-22 and 2024-25 only, as applicable)-please refer ⓘ message for applicable sections ⓘ

₹

Adjustment made to the written down value of Intangible asset due to excluding value of goodwill of a business or profession

₹

Adjusted written down value(A)

₹ 0

Add Purchase Detail

Download Excel template | Upload CSV | Clear Data

Clause no. 18

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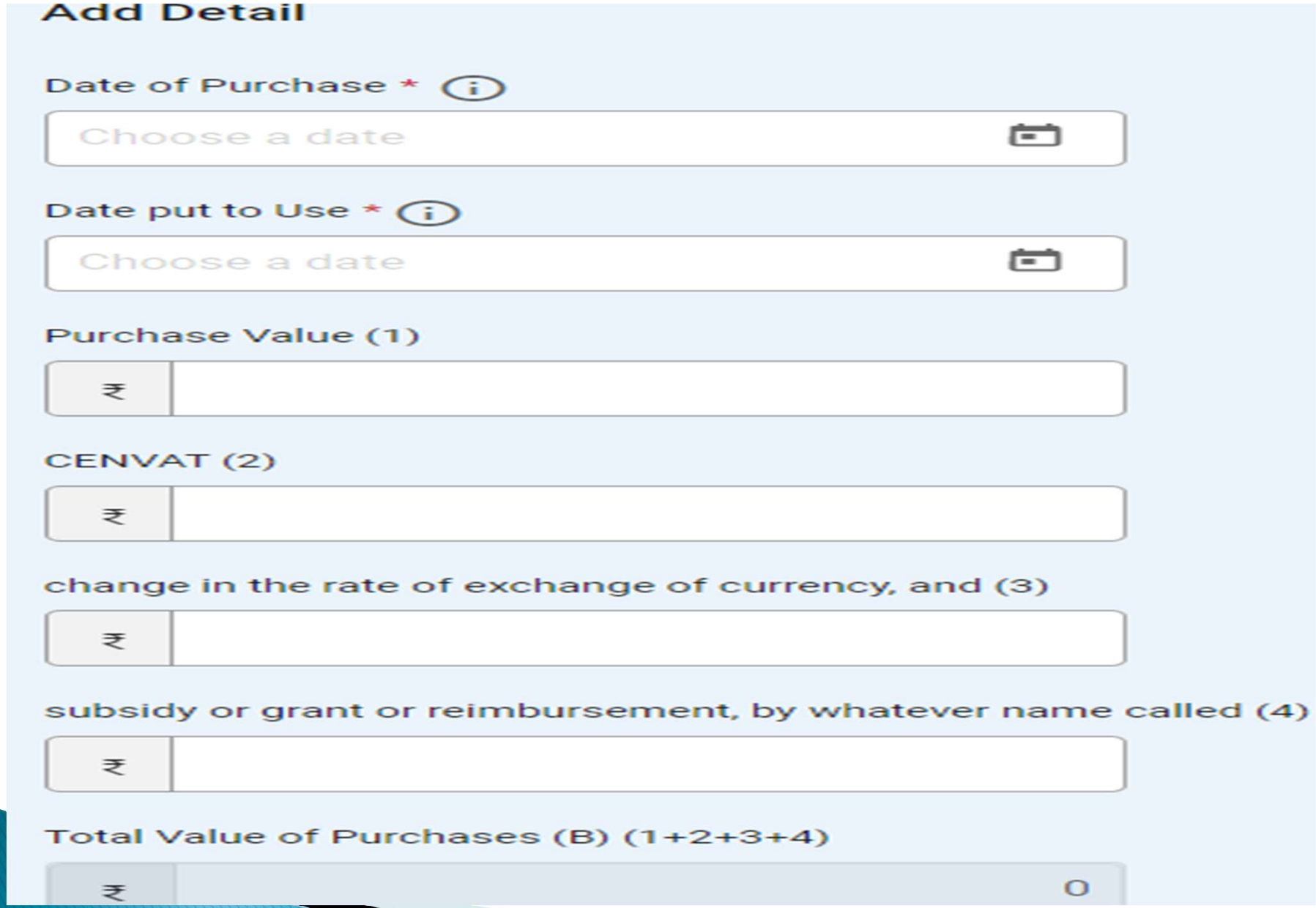

Clause no. 18

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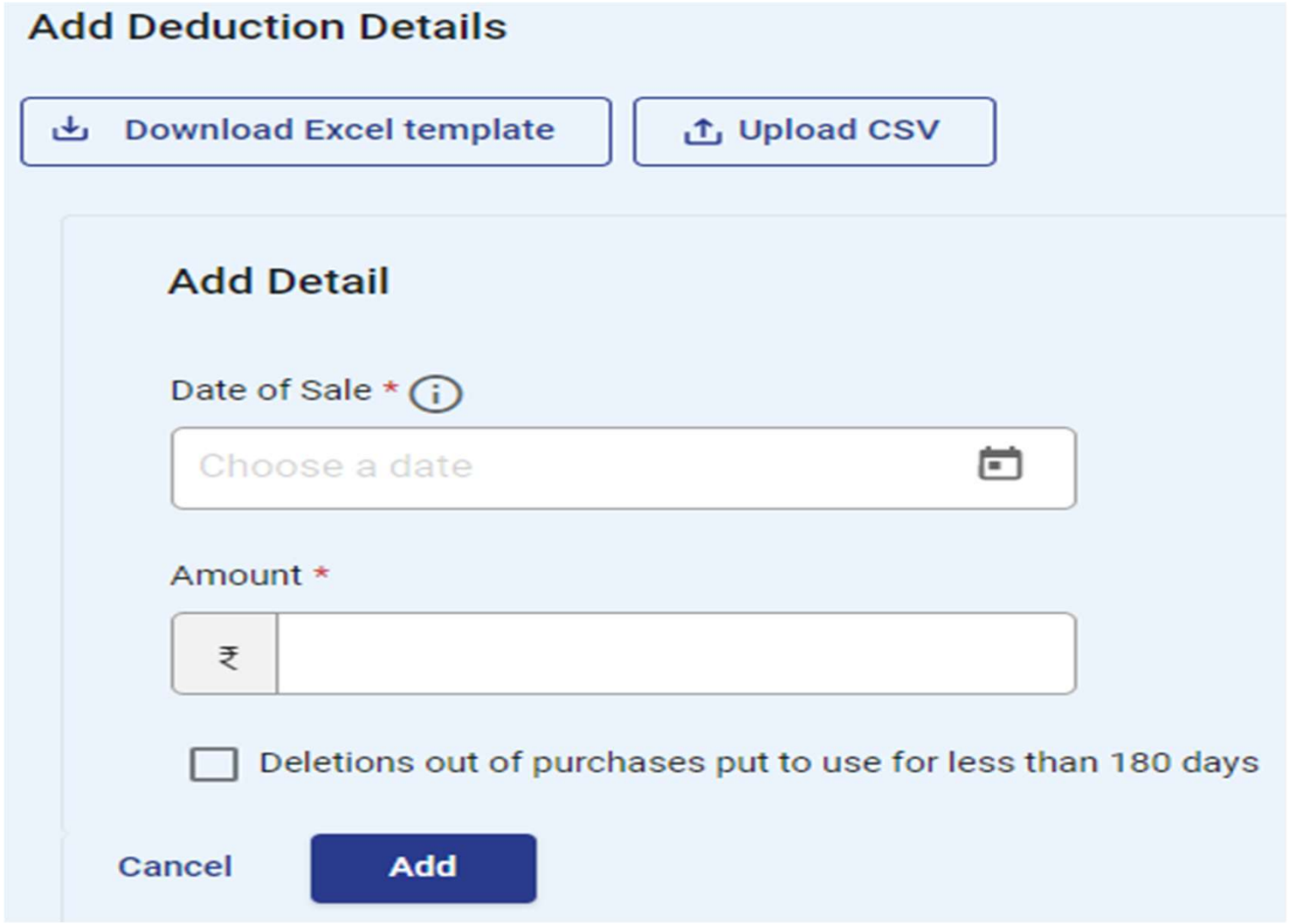

Clause no. 18

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Purchase Value (1)

₹ 0

CENVAT (2)

₹ 0

change in the rate of exchange of currency, and (3)

₹ 0

subsidy or grant or reimbursement, by whatever name called (4)

₹ 0

a) Description of asset/block of assets

In this clause, it is to be ascertained that the classification of asset for block made by the assessee for block of asset is correct and updated.

Also, an auditor should check the data reported under clause 18 with the disclosures made in Clause 13(f).

In case where auditor is not satisfied with the classification made by assessee for block, the auditor needs to disclose the same with suitable reasons.

Where, there is any dispute between the assesse and the department regarding classification, rate of depreciation etc., the auditor should give its suitable disclosures.

b) Rate of depreciation

An auditor should verify that the rate applied on each block of asset is in compliance with rate prescribed in Appendix I of Income Tax Rules, 1962.

c) Actual cost of written down value, as the case may be

The actual cost of assets should be determined as per provisions of 43(1) of the Income Tax Act, 1961. And also check compliance with provisions of the AS 10 or Ind AS 16. Further, to ensure whether the opening WDV of Block of Assets is same as closing WDV of previous year, the auditor has to obtain the ITR and/or Tax audit report of PY.

ca) Adjustment made to the written down value under section 115BAC/115BAD

One time adjustment to WDV of block of assets is made by increasing the WDV by the additional depreciation u/s 32(1)(iia) pertaining to any assessment year prior to the assessment year 2021-22, which is not allowed to be set off under section 115BAC or 115BAD.

cb) Adjustment made to written down value of Intangible asset due to excluding value of goodwill of a business or profession

Goodwill is no longer being a part of a depreciable asset w.e.f. AY 2021-22, for income tax purposes. Therefore, the assessee needs to make adjustments to WDV of Intangible assets due to excluding the value of goodwill of a business or profession is to be disclosed.

cc) Adjusted written down value

It is the result of sub-clauses (c), (ca) and (cb) of clause 18 as above.

d) Additions/deductions during the year with dates

In the case of any addition of an asset, date put to use; including adjustments on account of:

1. Central Value Added Tax credits claimed and allowed under the Central Excise Rules, 1944, in respect of assets acquired on or after 1st March, 1994,
2. change in rate of exchange of currency, and
3. subsidy or grant or reimbursement, by whatever name called.

To verify the additions or deletions made during the year, an auditor should:

- Obtain the supplier's invoice, purchase order, GRR, authorization for sale, etc. of fixed assets purchased during the previous year (PY).
- In case, an addition was made in a block of assets, check the date on which it was put to use by obtaining a certificate from a technical person.
- Check, if payment for the acquisition of any asset is in violation of the proviso to section 43(1), the expenditure should be excluded from the actual cost.

e) Depreciation allowable

In this sub-clause, the auditor has to verify that the depreciation claimed by the assessee is in compliance with relevant provisions of the Income Tax Act, 1961.

f) Written down value at the end of the year

Under this clause, an auditor should verify the numerical calculations is in accordance with the provisions of the Income Tax Act, 1961.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports, it was observed that:

a) In many cases, the details of additions/ deletions reported in Tax Audit Report were not in line with the figures of additions/ deletions disclosed in the Audited financial statements.

The tax Auditor may prepare a reconciliation statement for his own records.

b) A separate column has been provided for reporting, the 'amount of adjustment on account of Exchange Fluctuation (due to change in rate of exchange, if any)' under the column 'Additions'.

In few cases, the said amount was not shown in the Tax audit report e-filing utility while the same was reported in the annexure attached and uploaded with the Tax audit report.

The reported difference observed is not tenable.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

c) In some reports, in respect of 'additions' to the block of assets, 'date of purchase' and 'date of put to use' were reported as same in respect of each item under each block of asset purchased, which is practically not possible in all the cases.

d) Likewise, in respect of 'deductions' from the block of assets, 'date of sale' reported were same in respect of each item under each block of asset sold, which again is practically not possible in all the cases.

e) In certain cases, single consolidated amount was disclosed at the end of each half part of the financial year as date of addition, instead of actual date of addition of each asset of the block.

CLAUSE - 19

Amounts admissible under sections :

Section	Amount debited to profit and loss account	Amounts admissible as per the provisions of the Income-tax Act, 1961 and also fulfils the conditions, if any specified under the relevant provisions of Income-tax Act, 1961 or Income-tax Rules,1962 or any other guidelines, circular, etc., issued in this behalf.
33AB		
33ABA		
35(1)(*i*)		
35(1) (*ii*)		
35(1)(*iia*)		
35(1)(*iii*)		
35(1)(*iv*)		

35(2AA)		
35(2AB)		
35ABB		
35AD		
35CCA		
35CCC		
35CCD		
35D		
35DD		
35DDA		
35E		

CLAUSE - 19

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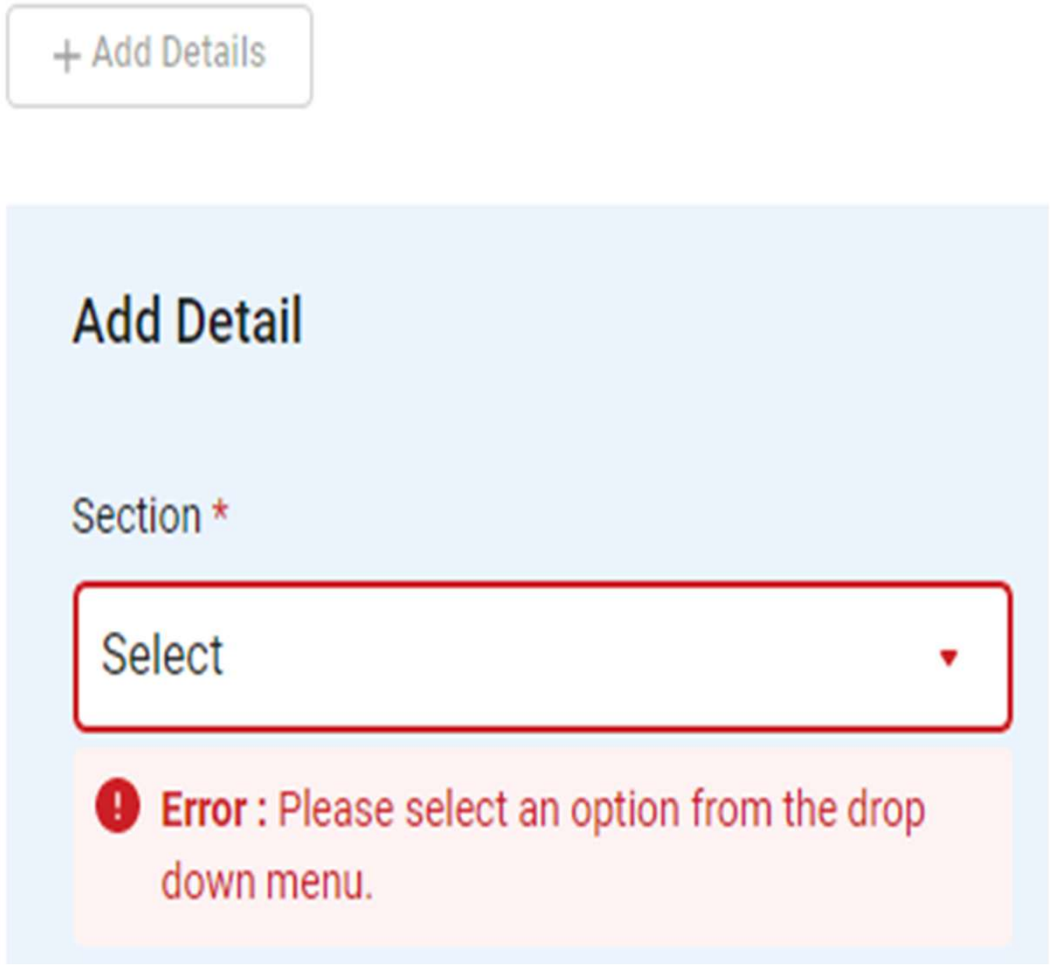
19. Amount admissible under section -



33AB
33ABA
35(1)(i)
35(1)(ii)
35(1)(iia)
35(1)(iii)
35(1)(iv)
35(2AA)
35(2AB)
35ABA
35ABB
35AD
35CCA
35CCC
35CCD
35D
35DD
35DDA
35E
any other relevant section

Amendments in clause 19

The following sections have been omitted from Clause 19 from AY 2025-26 onwards:

Section 32AC – Investment in new plant or machinery

Section 32AD – Investment in notified backward areas

Section 35AC – Expenditure on eligible projects

Section 35CCB – Expenditure on agricultural extension projects

Table showing deductions applicable from A.Y. 2022-23 onwards

Section	Amount debited to P&L Account/Payment	Amounts admissible/Quantum of deduction
33AB	Amount deposited in Tea / Coffee / Rubber Development Account.	Deduction is allowed for the least of the following: (a) Sum equal to the amount or the aggregate of the amounts so deposited. (b) Sum equal to 40% of the profits of such business.
33ABA	Where an amount is being deposited by an assesse in a scheme approved by the Government of India in the Ministry of Petroleum and Natural Gas for the purpose of prospecting or extraction etc. of petroleum or natural gas.	Deduction is allowed for the least of the following: (a) Sum equal to the amount or the aggregate of the amounts so deposited. (b) Sum equal to 20% of the profits of such business.

Table showing deductions applicable from A.Y. 2022-23 onwards

Section	Amount debited to P&L Account/Payment	Amounts admissible/Quantum of deduction
35(1)(i)	Any Expenditure other than Capital Expenditure incurred by the assessee for scientific research related to its own business.	100% of the expenditure
35(1)(ii)	Amount paid to Research association which has as its object the undertaking of scientific research Or amount paid to a University, college or other institutions to be used for scientific research. Provided that, such association, university, college or other institution is approved and is specified as such, by notification in the official gazette, by Central Govt.	100% of amount paid/ contributed from A.Y. 2021-22 and onwards 100% of amount paid/ contributed till A.Y 2021-22.
35(1)(iia)	Amount paid to a Company which is registered in India, having its main object of carrying out of scientific research and development and is approved by the jurisdictional Chief Commissioner of Income Tax in the prescribed manner.	100% of amount paid from A.Y. 2018-19

Table showing deductions applicable from A.Y. 2022-23 onwards

Section	Amount debited to P&L Account/Payment	Amounts admissible/Quantum of deduction
35(1)(iii)	Amount paid to a research association which has as its main object the undertaking of research in social science or statistical research Or Amount paid to a university, college or other institutions to be used for research in social science or statistical research. Provided that, such association, university, college or other institution is approved and is specified as such, by notification in the official gazette, by Central Govt.	100% of amount paid from AY 2018-19.
35(1)(iv)	Expenditure of capital nature on scientific research, other than expenditure on acquisition of any land, incurred related to the business carried on by the assessee.	100% of the capital expenditure Incurred

Table showing deductions applicable from A.Y. 2022-23 onwards

Section	Amount debited to P&L Account/Payment	Amounts admissible/Quantum of deduction
35(2AA)	Any amount paid to National Laboratory; or a University; or Indian Institute of Technology or specified person as defined in the explanation 2 to the section with a specific direction that the said sum shall be used for scientific research undertaken under a programme approved by the prescribed authority.	100% of amount paid from A.Y. 21-22 and onwards.
35(2AB)	Deduction is available only to company engaged in business of biotechnology or or in any business of manufacture or production of any article or thing, not being an article or thing specified in the list of the Eleventh Schedule incurs any expenditure on scientific research (not being expenditure in the nature of cost of any land or building) on in-house research and development facility as approved by the prescribed authority	100% of Expenditure incurred from A.Y. 2021-22 and onwards.

Table showing deductions applicable from A.Y. 2022-23 onwards

Section	Amount debited to P&L Account/Payment	Amounts admissible/Quantum of deduction
35ABB	Any expenditure, being in the nature of capital expenditure incurred for acquiring any right to operate telecommunication services [either before the commencement of the business to operate telecommunication services or thereafter at any time during any previous year]	Deduction equal to the appropriate fraction of the amount of such expenditure. Where "appropriate fraction" means the fraction the numerator of which is one and the denominator of which is the total number of the relevant previous years

Table showing deductions applicable from A.Y. 2022-23 onwards

Section	Amount debited to P&L Account/Payment	Amounts admissible/Quantum of deduction
35CCA	Expenditure by way of payment to association and institutions for carrying out rural development Programmes	100% of expenditure
35CCC	Expenditure on agricultural extension project notified by the Board	100% of expenditure from AY 2021-22
35CCD	Expenditure incurred by a company on any skill development project notified by the Board	100% of expenditure from AY 2021-22
35D	Expenditure incurred by an Indian Company or a person who is resident in India on amortization of certain preliminary expenses.	One fifth of such expenditure for each of the five successive previous years beginning with the previous year in which business commences or as the case may be.

Table showing deductions applicable from A.Y. 2022-23 onwards

Section	Amount debited to P&L Account/Payment	Amounts admissible/Quantum of deduction
35DD	Amortisation of Expenditure incurred by an Indian Company for the purpose of amalgamation or demerger	One fifth of such expenditure for each of the five successive previous years beginning with the previous year in which amalgamation or demerger takes place.
35DDA	Expenditure incurred by way of payment of any sum to an employee in connection with his voluntary retirement, in accordance with any scheme or scheme of voluntary retirement.	One-fifth of the amount so paid shall be deducted in computing the profits and gains of the business for that previous year, and the balance shall be deducted in equal instalments for each of the four immediately succeeding previous years.
35E	Deduction for expenditure on prospecting or extraction or production of certain minerals.	One tenth of amount of such expenditure for each of ten successive previous years.
Any other relevant sections		

An Auditor should indicate the amount debited to the Profit & Loss Account and the amount actually admissible in accordance with the said sections. Also, amounts not debited to Profit & Loss Account but admissible under any sections mentioned in the clause have to be stated.

While reporting auditor should verify the documents and records in support of the various payments/contributions made and deductions claimed and also conditions of allowability of various deductions. In addition, approval from various authorities should be taken wherever required. However, if condition under relevant sections is not fulfilled then they are treated as deemed profits & gains of business and are taxable in certain cases and the same should be reported under clause 24 of Form 3CD.

Generally, the amount covered by these sections is debited to P&L, but in certain sections, a deduction is based on capital expenditure, these are treated as an asset and thus not debited to profit and loss accounts. In such a case auditor should ensure it is stated either Nil/NA under the second column of the table in which amount admissible is to be mentioned.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports it was observed that in some cases where the assessee has obtained a separate Audit report, reference of that separate Audit report for claiming deductions was not made in Form No. 3CA as per the requirement of para 31.2 of the Guidance Note.

CLAUSE - 20

20.(a) Any sum paid to an employee as bonus or commission for services rendered, where such sum was otherwise payable to him as profits or dividend. [Section 36(1)(ii)]

(b) Details of contributions received from employees for various funds as referred to in section 36(1)(va):

Serial number	Nature of fund	Sum received from employees	Due date for payment	The actual amount paid	The actual date of payment to the concerned authorities

CLAUSE - 20

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20 (a) Any sum paid to an employee as bonus or commission for services rendered, where such sum was otherwise payable to him as profits or dividend. [Section 36(1)(ii)]

S.No.		Description	Amount
1	☐		

Add Delete

The assessee would be allowed a deduction in respect of a payment made to an employee in the nature of a bonus of commission only if such bonus or commission was available exclusively to such employee in relation to the services rendered by him.

However, deduction shall not be allowed in the case of distribution of dividends indirectly in the name of bonus/commission.

The tax auditor is not required to express his opinion on the disallowability or otherwise of these payments.

The auditor should obtain a schedule giving details of the sum paid/ payable to an employee as bonus/commission for services rendered and examine the same with the terms of the contract of those employees.

In case, bonus/commission paid/payable is not in terms of employment agreement but is paid /payable as profits or dividend, report accordingly.

Also, an auditor needs to verify whether the payment has been made within the time limit prescribed under section 43B. The details of such payment need to be provided in clause 26 of Form 3CD.

S. No.	Description	Amount

As per Page no 162 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

32.1 Section 36(1)(ii) provides for deduction of any sum paid to an employee as bonus or commission for services rendered where such sum would not have been payable to him as profit or dividend, if it had not been paid as bonus or commission.

In other words, if bonus or commission is in the nature of profit or dividend, it may not be normally allowable as a deduction unless such payment is wholly and exclusively made to the employee **[Shahzada Nand & Sons v. CIT [1977)] 108 ITR 358 (SC).**

CLAUSE - 20
Format in e-utility

(b) Details of contributions received from employees for various funds as referred to in section 36(1)(va):

S.No.	Nature of fund	Sum received from employees	Due date for payment	The actual amount paid	The actual date of payment to the concerned authorities
1					

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This clause **permits deduction of the following if it is credited by the assessee to the account of the employees in the relevant statutory fund on or before the due date.**

Here**, due date is not the due date for filing income tax return but the date by which an assessee is required as employer to credit the employee's contributions to the employee's account in the relevant fund under any Act such as:**

- Any fund setup under the provisions of ESI Act, 1948
- Gratuity Fund
- Provident Fund
- Superannuation Fund
- Any Other Welfare Fund

Further, any grace period allowed under the relevant statute may be taken into consideration while determining the due date.

Auditor responsibility is to scrutinize the liability account where contribution received from employees is recorded and compare this with actual contribution deposited.

Details under this clause shall be provided in the manner below:

Serial number	Nature of fund	Sum received from employees	Due date for payment	The actual amount paid	The actual date of payment to the concerned authorities

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports, it was observed that:

a) In certain cases, the details pertaining to provident fund have been reported under clause 20(b) but nothing was reported for ESI Fund, while regular contribution to the same was clearly reflecting in the Annual report of the company.

b) Also, "due date" reported for the relevant fund was not correct in some cases

Clause – 21(a)

21. (a) Please furnish the details of amounts debited to the profit and loss account, being in the nature of capital, personal, advertisement expenditure etc.

Nature	Particulars	Amount in Rs.
1. Capital expenditure		
2. Personal Expenditure		
3. Advertisement expenditure in any souvenir, brochure, tract, pamphlet or the like, published by a political party		
4. Expenditure incurred at clubs being entrance fees and subscriptions		
5. Expenditure incurred at clubs being cost for club services and facilities used.		

Nature	Particulars	Amount in Rs.
6. Expenditure incurred for any purpose which is an offence or is prohibited by law or expenditure by way of penalty or fine for violation of any law (enacted in India or outside India)		
7. Expenditure by way of any other penalty or fine **not covered above**		
8. Expenditure incurred to compound an offence under any law for the time being in force, in India or outside India		
9. Expenditure incurred to provide any benefit or perquisite, in whatever form, to a person, whether or not carrying on a business or exercising a profession, and acceptance of such benefit or perquisite by such person is in violation of any law or rule or regulation or guideline, as the case may be, for the time being in force, governing the conduct of such person		
10. *Expenditure incurred to settle proceedings initiated in relation to contravention under such law as notified by the central government in the official gazette in this behalf.* **		

**** Inserted by the IT (Eighth Amdt.) Rules, 2025, w.e.f. 1-4-2025.**

As per Page no 184 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

33.24 (ix) Expenditure incurred to settle proceedings initiated in relation to contravention under such law as notified by the Central Government in the Official Gazette in this behalf.

(a) The Finance (No. 2) Act, 2024 has inserted **clause (iv) in Explanation 3 to section 37(1) from the assessment year 2025-26**. This clause provides that for the removal of doubts, it is hereby clarified that the expression "expenditure incurred by an assessee for any purpose which is an offence or which is prohibited by law" under Explanation 1, shall include and shall be deemed to have always included the expenditure incurred by an assessee to settle proceedings initiated in relation to contravention under such law as may be notified by the Central Government in the Official Gazette in this behalf.

(b) In exercise of the powers conferred by clause (iv) of Explanation 3 of sub-section (1) to section 37 of the Income-tax Act, 1961, the Central Government has vide Notification no. 38/2025 dated 23.04.2025 provided that **any expenditure incurred to settle proceedings initiated in relation to contravention or defaults under the following laws shall not be deemed to have been incurred for the purpose of business or profession and no deduction or allowance shall be made in respect of such expenditure, namely**:-

(i) the Securities and Exchange Board of India Act, 1992;

(ii) the Securities Contracts (Regulation) Act, 1956;

(iii) the Depositories Act, 1996;

(iv) the Competition Act, 2002.

The notification shall come into force on the date of its publication in the Official Gazette.

(c) The tax auditor has to verify if any expenditure has been incurred to settle proceedings initiated in relation to contravention or defaults under the above Acts and if so, whether the appropriate reporting under this clause has been done.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports, it was observed that:

a) **'Expenditure incurred at clubs being entrance fees and subscriptions' was clubbed with 'expenditure incurred at clubs being cost for club services and facilities used' and reported together under this sub-clause.**

The two expenses are to be separately reported as per the requirement of the prescribed format of tax audit report as well as the Guidance Note on tax audit under section 44AB of the Income tax Act.

b) **'Penalty or fine for violation of any law for the time being force', and 'any other penalty or fine' were reported under one (1) subheading.**

However, the same were to be separately reported under different sub-headings as per the requirement of the prescribed format of tax audit report as well as the Guidance Note on tax audit under section 44AB of the Income tax Act.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

c) Late filing fee of TDS return, paid during the year, was reported under this sub-clause, under the sub-heading 'as any other penalty or fine not covered above'. As per MCQ's on Late filing fees and penalty hosted at the link

https://www.incometaxindia.gov.in/Tutorials/25-%20MCQ%20Late%20filing%20fees%20and%20penalty.pdf

in respect of 'Late filing fees under section 234E' it has been stated: 'It should be noted that Rs. 200 per day is not penalty but it is a late filing fee'.

Thus, the same is not required to be reported under this sub-clause.

CLAUSE 21(b)

Amounts inadmissible under Section 40(a):-

(i) as payment to **non-resident** referred to in sub-Clause (i)

(A) Details of payment on which tax is not deducted:

Date of payment	Amount of payment	Nature of payment	Name and address of the payee

e-utility also requires PAN, if available

CLAUSE 21(b)

(B) Details of payment on which tax has been deducted but has not been paid during the previous year or in the subsequent year before the expiry of time prescribed under Section 200(1)

Date of payment	Amount of payment	Nature of payment	Name and address of the payee	Amount of tax deducted



e-utility also requires PAN, if available

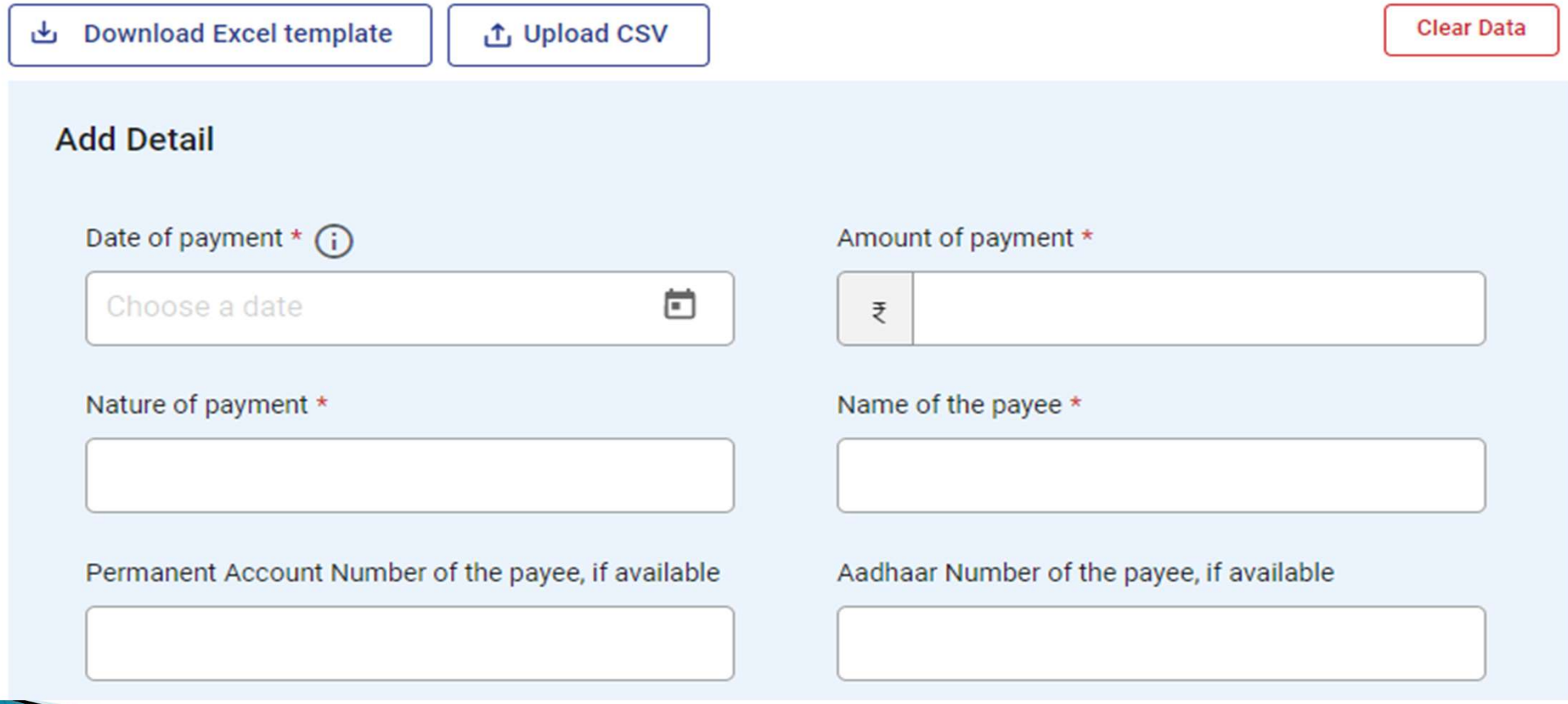
CLAUSE 21(b)

Format in E-utilitv

b. Amounts inadmissible under section 40(a):-

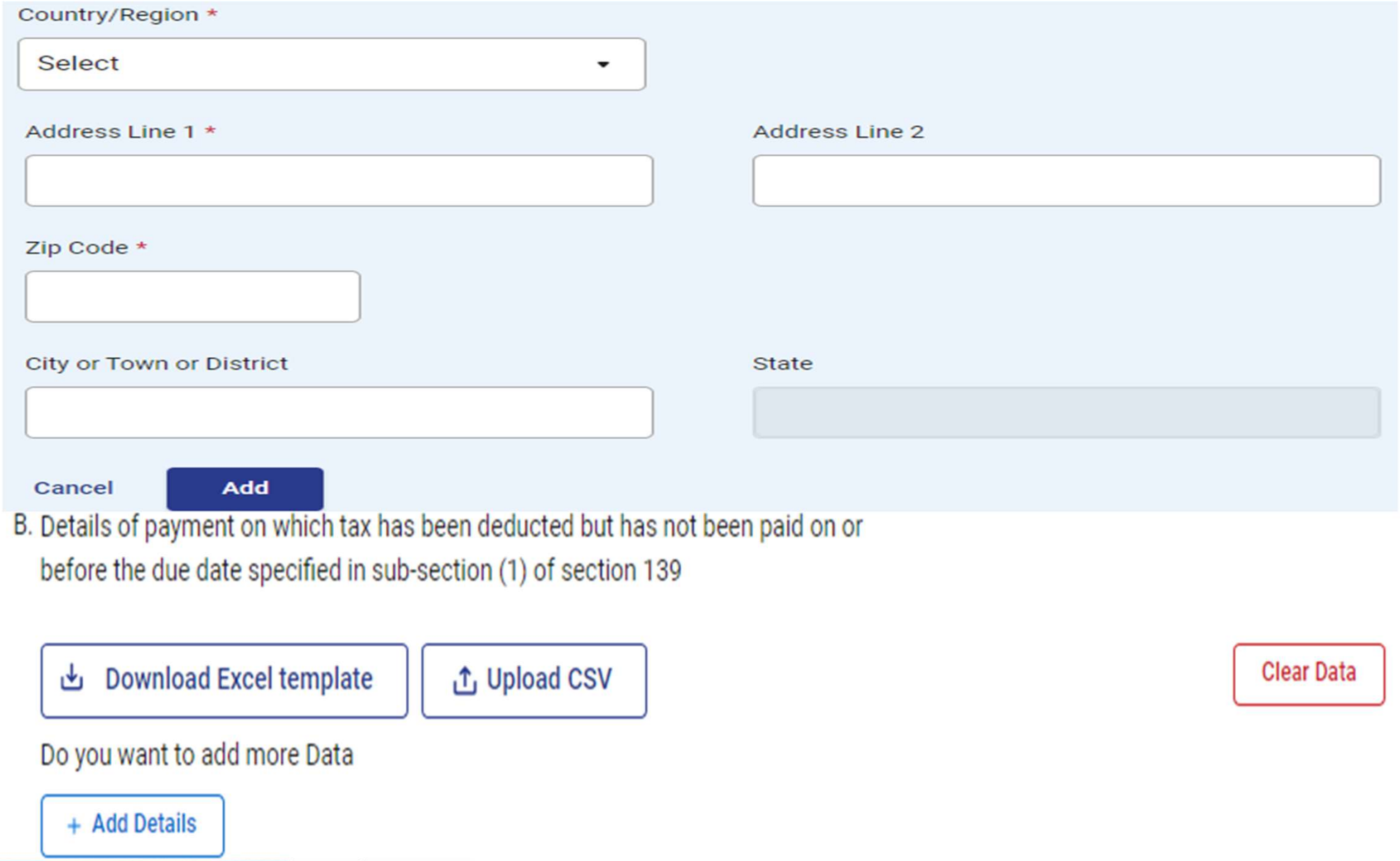
i. as payment to non-resident referred to in sub-clause (i)

A. Details of payment on which tax is not deducted:



CLAUSE 21(b)

Format in E-utility



Amounts inadmissible under section 40(a):-

Payment made to non-resident referred to in sub-clause (i)

(a) Details of payment made to non-resident on which tax is not deducted.

In clause 21(b)(i)(A) auditor is required to check and report all the payments which are made to non-resident but TDS is not deducted on them. Under this clause, the auditor is required to give the following details for each such type of payment:

- date of payment
- amount of payment
- nature of payment
- name and address of the payee

(b) Details of payment made to non-resident on which tax has been deducted but has not been paid during the PY or in the subsequent year before the expiry of the time prescribed under section 200(1).

In clause 21(b)(i)(B) auditor is required to check and report all the payments which are made to non-resident on which TDS is deducted but the same is not deposited with the government. Under this clause, the auditor is required to give the following details for each such type of payment:

- date of payment
- amount of payment
- nature of payment
- name and address of the payee
- amount of tax deducted

Note: Under both the sub-clauses the entire payment made to a non-resident shall be disallowed.

CLAUSE 21(b)

21(b) **(ii)** as payment referred to in sub-Clause (ia)

(A) Details of payment on which tax is not deducted:

date of payment	amount of payment	nature of payment	name and address of the payee

(B) Details of payment on which tax has been deducted but has not been paid on or before the due date specified in Sec. 139(1).

date of payment	amount of payment	nature of payment	name and address of the payer	amount of tax deducted	amount out of (V) deposited, if any

e-utility also requires PAN, if available

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ii. as payment referred to in sub-clause (ia)

A. Details of payment on which tax is not deducted:

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CSV Instructions

B. Details of payment on which tax has been deducted but has not been paid on or before the due date specified in sub-section (1) of section 139

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+ Add Details

CSV Instructions

Payment referred under section 40(a)(ia)

(a) Details of payment made to resident on which tax is not deducted:

This sub-clause is applicable when any amount of payment is made to a resident on which tax is deductible but the same was not deducted, that amount would attract 30% of disallowance. Under this situation tax auditor has to report the following particulars:

- date of payment
- amount of payment
- nature of payment
- name and address of the payee

b) Details of payment made to resident on which tax has been deducted but has not been paid on or before the due date specified under section 139(1).

This sub-clause is applicable when any amount of payment is made to a resident on which tax is was deducted but the same was not either fully or partially deposited to the government, that amount would attract 30% of disallowance. Under this situation tax auditor has to report the following particulars:

- date of payment
- amount of payment
- nature of payment
- name and address of the payer
- amount of tax deducted
- amount out of
- deposited, if any

Note: This clause is applicable to only those sums which are disclosed and are claimed as an expenditure.

CLAUSE 21 (b)

(iii) As payment referred to in sub-clause (ib)

A) Details of payment on which levy is not deducted:

date of payment	amount of payment	nature of payment	name and address of the payee

B) Details of payment on which levy has been deducted but has not been paid on or before the due date specified in sub-section (1) of section 139.

date of payment	amount of payment	nature of payment	name and address of the payer	amount of tax deducted	amount out of (V) deposited, if any

Clause 21 (b)

(iv) Under Sub-Clause (ic) [Wherever applicable]

Section 40(a)(ic)- Any sum paid on account of **fringe benefit tax** under Chapter - XIIH.

(v) Under Sub-Clause (iia)

Section 40(a)(iia)- Any sum paid on account of **wealth-tax.**

Note: These clauses are not applicable. However, reporting still continues.

Payment made under section 40(a)(ic)

Section 40(a)(ic) is talking about fringe benefits tax. This attracts to those payments which companies paid to their employees in lieu of benefits they offered in addition to the compensation paid. Now this section is not applicable. If any old dues are paid in the year under audit and debited in the books of account, the same must be reported.

Payment made under section 40(a)(iia)

This section is applicable to any sum paid on account of wealth tax. Now this section is not applicable.

(vi) Payment made under 40(a)(iib)

This section is applicable to any payment made by way of royalty, license fee, service fee, privilege fee, service charge, or any other fee or charge, which is levied exclusively on or which is appropriated, directly or indirectly, from a State Government undertaking by the State Government.

Any such royalty, license fee, service fee, privilege fee etc. should be reported.

Inserted by Finance Act, 2013, w.e.f. 1-4-2014

CLAUSE 21(b)

(vii) Under Sub-Clause (iii)

date of payment	amount of payment	name and address of the payee

e-utility also requires PAN, if available

Payment made under section 40(a)(iii)

Any payment which is chargeable under the head "Salaries", if it is payable -

(A) outside India; or

(B) to a non-resident,

and if the tax has not been paid thereon nor deducted there from under Chapter XVII-B

Under this situation tax auditor has to report the following particulars:

- date of payment
- amount of payment
- name and address of the payee
- PAN of the Payee, if available
- Aadhaar of the Payee, if available
- Country / region
- Address,
- Pin
- City
- State

CLAUSE 21(b)

(viii) Under Sub-Clause (iv)

Section 40(a)(iv) - any payment to a provident or other fund established for the benefit of employees of the assessee, unless the assessee has made effective arrangements to secure that tax shall be deducted at source from any payments made from the fund which are chargeable to tax under the head "Salaries".

The amount of payment as referred above is required to be reported under this clause.

CLAUSE 21(b)

(ix) Under Sub-Clause (v)

<u>Section 40(a)(v)</u>- This section is applicable to those payments on which tax is actually paid by an employer under clause 10CC of section 10

("where an employee, being an individual generate income in the nature of a perquisite, provided for by way of other monetary payment, the tax on such income actually paid by his employer, at his own option, on behalf of employee").

The amount of payment as referred above is required to be reported under this clause.

CLAUSE 21(b)

e-utility also provides facility to import CSV template to fill the details in Clause 21(b) along with CSV template with specified format.

As per e-utility software

(B) Details of payment on which tax has been deducted but has not been paid during the previous year or in the subsequent year before the expiry of time prescribed under section200(1)

S.No.	Date of payment	Amount of payment	Nature of payment	Name of the payee	PAN of the Payee, if available	Address Line 1	Address Line 2	City or Town or District	Pincode	Amount of tax deducted
1										

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(ii) as payment referred to in sub-clause (ia)

(A) Details of payment on which tax is not deducted:

S.No.	Date of payment	Amount of payment	Nature of payment	Name of the payee	PAN of the payee, if available	Address Line 1	Address Line 2	City or Town or District	Pincode
1									

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(B) Details of payment on which tax has been deducted but has not been paid on or before the due date specified in sub- section (1) of section 139.

S.No.	Date of payment	Amount of payment	Nature of payment	Name of the payer	PAN of the Payer, if available	Address Line 1	Address Line 2	City or Town or District	Pincode	Amount of tax deducted	Amount out of (VI) deposited, if any
1											

For all the items of TDS, .CSV templates can be downloaded and then filled up in excel and later imported into the utility

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports, it was observed that:

a) In some cases, a consolidated sum in respect of 'provision for various expenses' of 'sundry parties' were reported. Instead of the date of crediting the amount of provision in the books of account, a random/ dummy date was reported in many cases.

b) Reporting under this clause is required separately for each of the individual payee. Consolidated reporting for the heads under which tax has not been deducted has been done in certain cases.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

c) Reporting of inadmissible amount on account of non-deduction of taxes for 'resident' (30%) as well as 'non-resident payee' (100%) are to be reported appropriately under respective subclauses. This was however not done in few cases. Instead of reporting of details of 'resident payee', details of 'non-resident payee' were reported under clause 21(b)(ii)(A). Similarly, instead of reporting of details of 'non-resident payee', details of 'resident payee' were reported under clause 21(b)(i)(A).

d) Complete address of the payee was not reported in few cases.

Clause 21(c)

<u>Amounts debited to profit and loss account</u> being, interest, salary, bonus, commission or remuneration inadmissible under Section 40(b)/40(ba) and computation thereof;

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As per Page no 192 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Amount debited to profit and loss account being, interest, salary, bonus, commission or remuneration inadmissible under section 40(b)/40(ba) and computation thereof.

35.1 Under Clause 21(c) of Form No. 3CD, the amounts debited to profit and loss account being, interest, salary, bonus, commission or remuneration **inadmissible under section 40(b)/40(ba) and computation thereof have to be reported.**

Section 40(b) deals with expenditure not allowable in case of a firm / LLP whereas section 40(ba) deals with expenses not allowable in case of an AOP or BOI.

35.3 The word "inadmissible" implies that the tax auditor will have to examine the facts, apply the conditions for allowance or disallowance and accordingly determine the prima facie inadmissibility of the deduction and verify if the same has been correctly quantified.

As per Page no 193 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

35.4 Salary, bonus, commission or remuneration or interest are not admissible, unless the following conditions are satisfied:

(a) Remuneration is paid to working partner(s).

(b) Remuneration or interest is authorised by the partnership deed and is in accordance with the partnership deed.

(c) Remuneration or interest does not pertain to a period prior to the date of partnership deed.

CLAUSE – 21(d)

(d) Disallowance/deemed income under section 40A(3):

(A) On the basis of the examination of books of account and other relevant documents/evidence, whether the expenditure covered under section 40A(3) read with rule 6DD were made by account payee cheque drawn on a bank or account payee bank draft. If not, please furnish the details:

		Serial number	Date of payment	Nature of payment	Amount	Name and Permanent Account Number of the payee, if available

(B) On the basis of the examination of books of account and other relevant documents/evidence, whether the payment referred to in section 40A(3A) read with rule 6DD were made by account payee cheque drawn on a bank or account payee bank draft If not, please furnish the details of amount deemed to be the profits and gains of business or profession under section 40A(3A);

		Serial number	Date of payment	Nature of payment	Amount	Name and Permanent Account Number of the payee, if available

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(d) Disallowance/deemed income under section 40A(3):

Yes

No

(A) On the basis of the examination of books of account and other relevant documents/evidence, whether the expenditure covered under section 40A(3) read with rule 6DD were made by account payee cheque drawn on a bank or account payee bank draft. If not, please furnish the details: Select

(B) On the basis of the examination of books of account and other relevant documents/evidence,whether the payment referred to in section 40A(3A) read with rule 6DD were made by account payee cheque drawn on a bank or account payee bank draft If not, please furnish the details of amount deemed to be the profits and gains of business or profession under section 40A(3A); Select

Add Detail

Date of Payment *

Choose a date

Nature of Payment *

Amount *

₹

Name of the payee *

Permanent Account Number of the payee, if available

Aadhaar Number of the payee, if available

Cancel Add

Disallowance / deemed income u/s 40A(3)/ 40A(3A)

It should be noted that cash expenditure limit per person per day has been decreased from AY 2018-19 from Rs. 20000/- to Rs.10000/-.

The Tax Auditor should obtain a list of all the cash payments exceeding Rs.10,000/- per person per day (Rs.35,000 in case of plying, hiring or leasing goods carriages) made by the assessee during the relevant year which should include the list of payments exempted in terms of Rule 6DD with reasons.

This list should be verified by the tax auditor with the books of account in order to ascertain whether the conditions for specific exemption granted under clauses of Rule 6DD are satisfied.

Details of payments which do not satisfy the above conditions should be stated under this clause.

In case expenditure is incurred in earlier previous years, but payment is made in the previous year under tax audit, then also the limits discussed above needs to be verified and payments made in excess of the limits would be deemed to be income of current previous year u/s 40A(3A) and is to be reported in clause 21(d)(B).

The tax auditor has to take into account the technological advancements in the field of banking and information technology.

It may be noted that with the advancement in technology, use of electronic payment system such as RTGS/NEFT, etc, are widely used.

In case the payments are made electronically, then it can be contented that such payments are not liable for disallowance as the main intention of provisions of sec. 40(3)/ (3A) is to restrict the use of cash in transactions exceeding Rs.10000/-

It is also to be verified that the payment was made by account payee cheque or account payee draft. Crossed cheques are not account payee as held in few cases.

Though the assessee did not possess necessary evidence to enable the auditor to verify that the payment made was through account cheque or account payee draft, the same should be accordingly reported, which may be as under:

Though we have not noticed any payment in excess of Rs.10000/- or Rs. 35000/- (in case of plying, hiring or leasing goods carriages) have been made in contravention of section 40A(3) / 40(3A) read with rule 6DD, however the assesse did not possess necessary evidence to verify the same.

Rule 6DD…..

Notification No 208/2007, dt 27.06.2007

Rule 6DD - No disallowance of sum exceeding Rs 20,000 made to a person in a day otherwise than by a/c payee cheque or draft for payment for following:

- Payment made to - RBI, SBI, Cooperative/land mortgage Bank, Primary Agricultural Credit Society, LIC
- Payment to Govt. for legal tender
- Payment made by - LC, Mail or Telegraphic t/f, Book adjustment in bank or inter bank, BE, ECS, Credit card, Debit card
- Payment made by way of adjustment against the amount of any liability incurred by the payee for any goods supplied or services rendered by the assessee to such payee.

Rule 6DD…..

- **Payment for purchase of**
  - Agriculture or forest produce
  - Production of animal husbandry.
  - Fish or fish products
  - Products of horticulture or apiculture
- Payment for purchase of product produced without aid of power in cottage industry.
- Payment made in village or town & date of payment is not served by bank.
- Payment not exceeding Rs 50,000 by an assessee to his employee or his heirs as gratuity, retrenchment compensation etc.
- Payment of Salary to employee (Sec 192).
- Payment made on date when banks were closed.
- Payment made by person to his agent who requires to make cash payment for goods.
- Payment by authorized dealer for purchase of foreign currency

As per Page no 199 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

36.2.(d) Other electronic modes of payment referred to in section 40A(3) and section 40A(3A) have been prescribed in Rule 6ABBA. For the purpose of sub-sections (3) and (3A), the electronic modes are prescribed by Rule 6ABBA and such modes include:

(a) Credit Card;

(b) Debit Card;

(c) Net Banking;

(d) IMPS (Immediate Payment Service);

(e) UPI (Unified Payment Interface);

(f) RTGS (Real Time Gross Settlement);

(g) NEFT (National Electronic Funds Transfer); and

(h) BHIM (Bharat Interface for Money) Aadhaar Pay;

3CD Notes - Cash payments

With regard to Clause 21(d) it is informed to us that the Company follows a policy for making all payments for expenses in excess of Rs. 10,000/- through only account payee cheque or account payee bank drafts or by direct credit to accounts.

On a scrutiny made on a test check basis no payment in excess of Rs.20,000/- made otherwise than by a account payee cheque or account payee bank draft has been noticed except the payment of Rs.2,50,000 made towards Electricity bill paid to Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited (a government company) which has not been considered disallowable under section 40A(3) by the Company based on following judicial pronouncements:

- **Padigela Rajeshwar Ginning Industries (ITA 1137/Hyd/2011)**
- **Trivedi Corporation (ITA 2844/Ahd/2006)**
- **M.R. Soap (P.) Ltd. 32 TTJ 505 (Del)**

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports, it has been observed that:

a) Where the reporting has been done on the basis of certificate from the assessee, the fact was not reported as an observation in clause (3) of Form No. 3CA and clause (5) of Form No.3CB, as the case may be as required by the Guidance Note.

b) The observation/ qualification under this clause were provided in the notes attached to Form No. 3CA. However, the same should be reported under clause (3) of Form No. 3CA and/or clause (5) of Form No.3CB, as the case may be as required by the Guidance Note.

CLAUSE - 21(e)

As per Page no 200 & 201 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Provision for gratuity not allowable u/s 40A(7)

37.1 As per section 40A(7)(a), no deduction shall be allowed in respect of any provision (whether called as such or by any other name) made by the assessee for the payment of gratuity to his employees on their retirement or on termination of their employment for any reason.

37.2 As per section 40A(7)(b), the deduction shall be allowed in relation to any provision made by the assessee for the purpose of payment of a sum by way of any contribution towards an approved gratuity fund, or for the purpose of payment of any gratuity, that has become payable during the previous year.

The gratuity fund should be approved for the relevant previous year by the Commissioner of Income-tax. If the gratuity fund is not approved for the time being, the assessee would not be able to avail of deduction for any provision made for the payment of a sum by way of any contribution towards that gratuity fund.

CLAUSE - 21(e)

As per Page no 201 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

37.3 The tax auditor should call for the order of the Principal Commissioner of Income-tax/Commissioner of Income-tax granting approval to the gratuity fund, verify the date from which it is effective and also verify whether the provision has been made as provided in the trust deed, rules and regulations governing such trust deed and PCIT/CIT Approval Order stipulations.

37.4 In case the provision made for payment of gratuity is not allowable under section 40A(7), the same is to be stated under this sub-clause.

CLAUSE - 21(f)

As per Page no 201 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Any sum paid by the assessee as an employer not allowable under section 40A(9);

38.1 Under section 40A(9), any payment made by an employer towards the setting up or formation of or as contribution to any fund, trust, company, association of persons, body of individuals, society registered under the Societies Registration Act, 1860, or other institutions (other than contributions to recognised provident fund or approved superannuation fund or notified pension scheme or approved gratuity fund) is not allowable.

The tax auditor should examine the details of payments which are not allowable under this section.

CLAUSE – 21(f)

As per Page no 202 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

38.4 It may be noted that section 40A(9) allows deduction of any contributions made as an employer towards recognized provident fund or approved superannuation fund or notified pension scheme or approved gratuity fund or as required by or under any other law for the time being in force.

Thus, any contribution made to Employees' Welfare Co -op Society will not be allowed as a deduction in the case of the employer company under section 40A(9), unless such contribution is required by or under any other law for the time being in force.

Instruction: No. 1799, dated 3-10-1988.

CLAUSE - 21(g)

As per Page no 202 & 203 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Particulars of any liability of a Contingent nature

39.3 Reference may be made to AS-29, 'Provisions, Contingent Liabilities and Contingent Assets' / Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets, to determine what should normally be treated as a contingent liability.

Contingent Liability is defined in Income Computation and Disclosure Standards (ICDS) to mean a possible obligation (as opposed to 'present obligation') existence of which will be confirmed only on occurrence or non-occurrence of an event beyond the control of the assessee.

CLAUSE – 21(g)

As per Page no 203 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

39.5 It is recommended that the tax auditor maintains the following information in his working papers for the purpose of verifying the reporting in this clause in the format provided in the e-filing utility:

Nature of liability	Amount	Remarks
1	2	3

ICDS X, Para 10 provides that Contingent liability shall not be deductible.

Auditors should note that the Contingent liability shown in Notes to Accounts is not required to be reported, as the amounts debited to Profit and Loss account are required to be reported in this sub-clause.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports it was found that reporting under this clause was done for the 'provision' created in the Books of accounts while in line with the requirement of the Guidance Note any liability of a 'contingent nature debited to the profit and loss account' is to be reported. Contingent liabilities which are mentioned in notes to accounts are not to be reported here as they are not debited to profit and loss account.

CLAUSE - 21(h)

Amount of deduction inadmissible in terms of section 14A in respect of the expenditure incurred in relation to income which does not form part of the total income.

Section 14A of the Income Tax Act, states that no deduction is allowed in respect all those expenditures incurred by the assessee towards the income that does not form part of total income of the assessee as per provisions of the Act.

This clause puts liability on the auditor to check and report the amount of expenditure incurred by an assessee in relation to an income that does not form part of the total income under the Income Tax Act.

The tax auditor should scrutinize the details of the amount of inadmissible expenditure as furnished by the assessee. While doing the same auditor has to rely on the management representation. Moreover, the auditor should also verify the amount of inadmissible expenditure estimated by the assessee with reference to established principles of allocation of expenditure based on some logical parameters.

In case where the Assessing Officer is not satisfied with the correctness of the claim, the computation shall be done in accordance with the method prescribed.

CLAUSE - 21(i)

Amount inadmissible under the proviso to section 36(1)(iii).

As per Page no 207 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

41.1 The provisions of **section 36(1)(iii) provide** that the amount of the **interest paid in respect of capital borrowed for the purposes of the business or profession would be allowed as a deduction in computing the income referred to in section 28 of the Act.**

41.2 **The proviso** thereunder **provides that any amount of the interest paid, in respect of capital borrowed for acquisition of an asset (whether capitalized in the books of account or not) for any period beginning from the date on which the capital was borrowed for acquisition of the asset till the date on which such asset was put to use, shall not be allowed as a deduction.**

Interest as defined under section 2(28A) means interest payable in any manner in respect of any moneys borrowed or debt incurred (including a deposit, claim or other similar right or obligation) and includes any service fee or other charge in respect of the moneys borrowed or debt incurred or in respect of any credit facility which has not been utilized.

As per Page no 207 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

41.3 The requirements of sub-clause 21(i) are applicable in respect of capital borrowed for acquisition of an asset.
The assessee has to furnish the details of amount inadmissible under the proviso to section 36(1)(iii).
The tax auditor has to verify the correctness of the particulars furnished by the assessee with the documentary evidence in accordance with the relevant auditing standards and other issuances of the ICAI from time to time.

41.4 The tax auditor while determining the admissible/inadmissible amount under section 36(1)(iii) should also keep in mind the requirements of ICDS IX relating to Borrowing Cost.

CLAUSE – 22

22.[(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 a micro or small enterprise, as referred to in section 15 of the MSMED Act, during the previous year;
(iii) Of amount referred to in (ii) above, amount -
(a) paid up to time given under section 15 of the MSMED Act;
(b) not paid up to time given under section 15 of the MSMED Act and inadmissible for the previous year.]

Clause 22

* Indicates mandatory fields

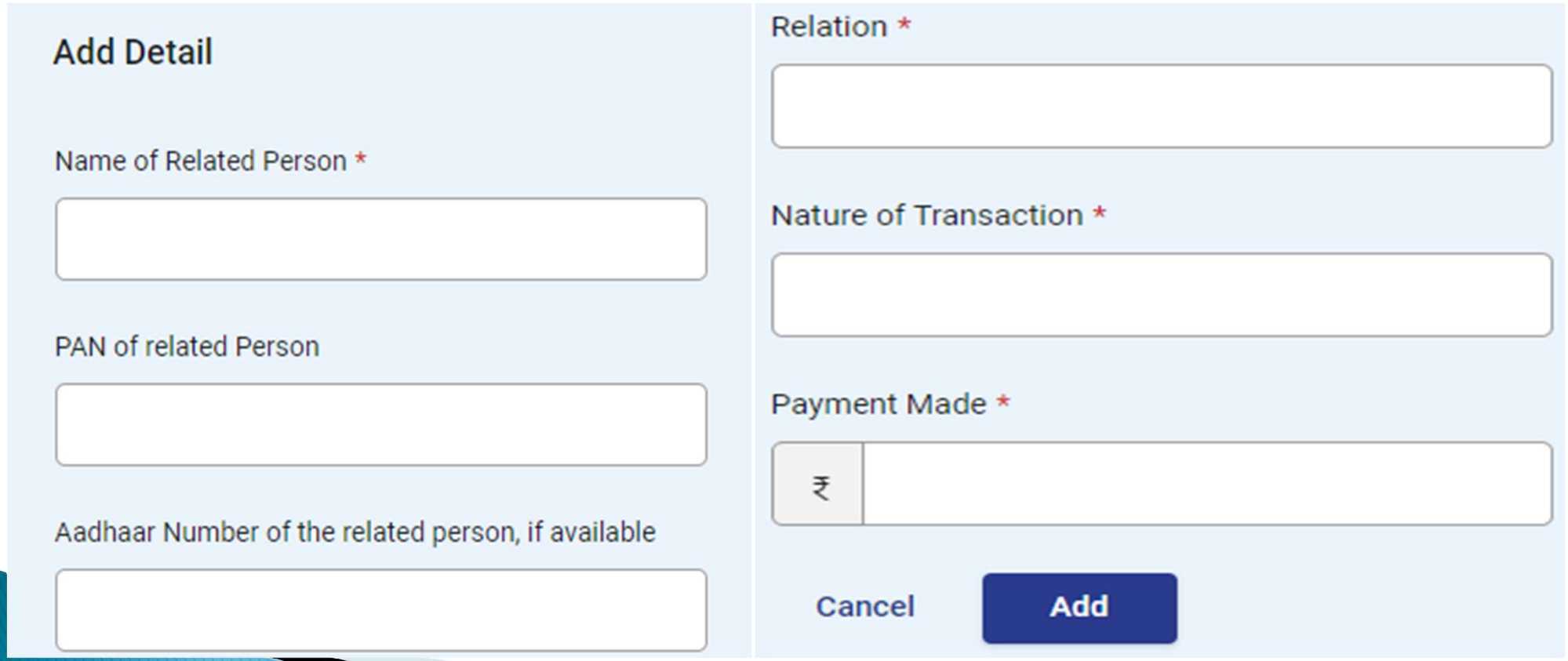
22.	(i) Amount of interest inadmissible under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act)	₹
	(ii) Total amount required to be paid to a micro or small enterprise, as referred to in section 15 of the MSMED Act, during the previous year	₹
	(iii) Of amount referred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

CLAUSE – 23

23. Particulars of payments made to persons specified under section 40A(2)(b).

Format in e-utility

23	Particulars of any payment made to persons specified under section 40A(2)(b).



S. No. 23: Payments made to persons specified u/s 40A(2)(b)

This clause is applicable to all the assessees and requires the Tax Auditor to report payments made by the assessee during the previous year to the persons specified u/s 40A(2)(b). These persons are generally termed as 'Related Parties'. It may be noted that relationships/parties covered under AS-18 are not identical.

Section 40(A)(2) provides that expenditure for which payment has been or is to be made to certain specified persons may be disallowed if, in the opinion of the Assessing Officer, such expenditure is excessive or unreasonable having regard to:

- the fair market value of the goods, services or facilities for which the payment is made;
- for the legitimate needs of business or profession of the assessee;
- the benefit derived by or accruing to the assessee from such expenditure.

Auditor Role

- Obtain full list of specified persons as contemplated in this section.
- Obtain details of expenditure/payments made to the specified persons.
- Scrutinise all items of expenditure/payments to the above persons.
- Review the list of transactions with the Related Party disclosures made in the financial statements under AS-18 (AS-18 disclosures are required for all assesses including partnership firms and sole proprietorships). Also follow the guidance for audit procedures as given under SA-550 on Related Parties.
- Ensure reporting above mentioned payments under this clause.
- Salaries and perquisites etc. paid to directors or persons having substantial interest in the company should be included in the list referred to above.
- The Tax Auditor is not required to comment on the reasonableness or otherwise of such payments.
- In case of voluminous transactions, the Tax Auditor may consider grouping the similar transaction based on their nature and disclose such consolidated information as per their nature individual party wise.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports, it has been observed that:

a) In certain cases, 'Name' and 'PAN' of persons specified under section 40A(2)(b) were not reported.

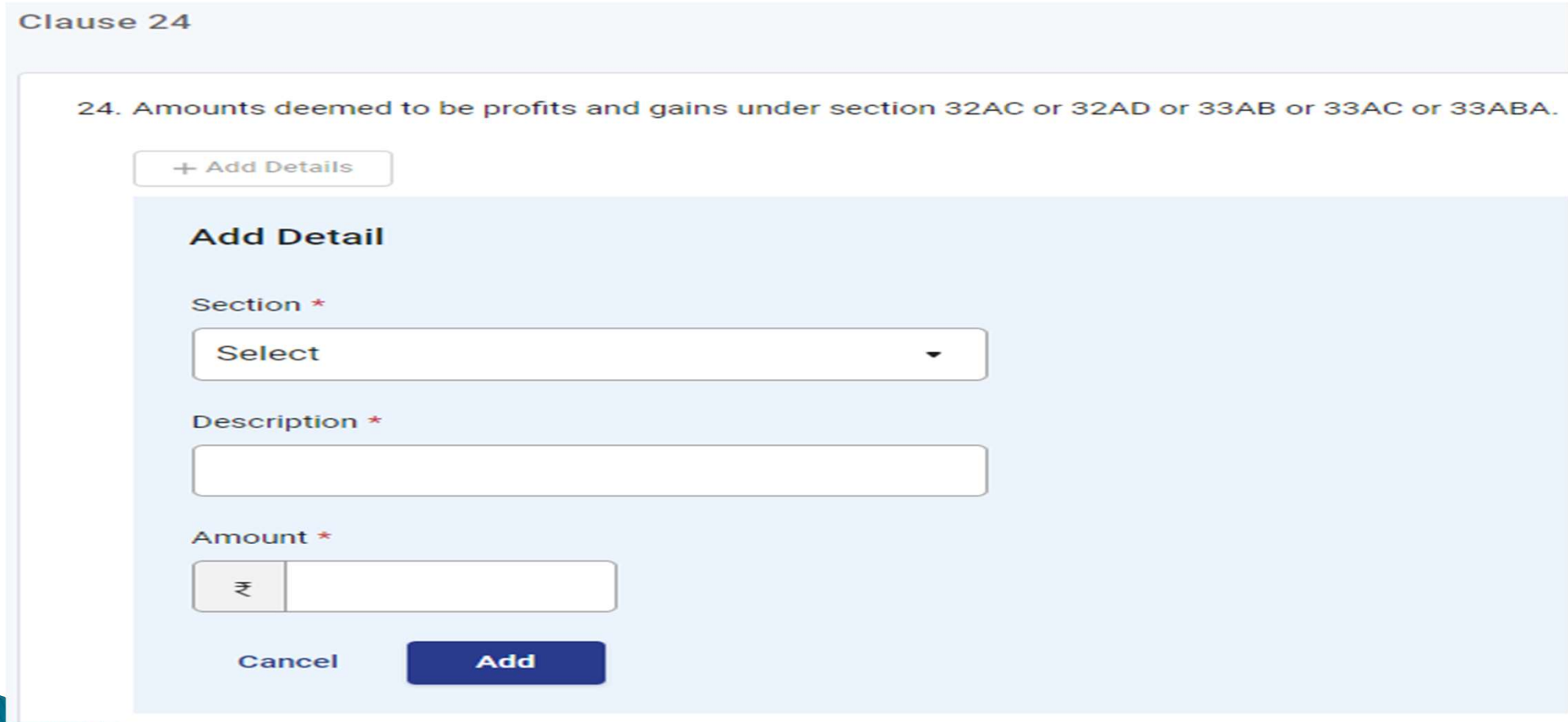
b) In certain cases, the amount reported under this clause did not match with the amount as mentioned in the Annual Report.

c) In certain cases, consolidated figures were reported instead of respective transaction with respective persons as specified under section 40A(2)(b).

CLAUSE - 24

24	Amounts deemed to be profits and gains under section 32AC or 32AD or 33AB or 33ABA or 33AC.

Format in e-utility



Section 32AC

Section 32AC allowed deduction @ 15% in respect of Investment in new Plant & Machinery to a company who is engaged in the business of manufacture or production of any article or thing, etc. and who acquires and installs new asset after the 31st day of March, 2013 but before the 1st day of April,2015 and the aggregate actual cost of such new assets exceeds one hundred crore rupees.

The tax auditor is required to verify the deemed income chargeable as profits and gains of business under the circumstances specified in sub sections (2) of section 32AC.

Only because section 32AC(2) provides for chargeability of deemed income under the head "Profit and gains from business or profession" in addition to taxability of capital gains, any capital gains/losses arising on transfer on the said asset is not required to be reported.

The tax auditor will be required to verify the compliance to the conditions of the provisions of section 32AC.

No deduction under section 32AC(1A) shall be allowed for any AY commencing on or after 01.04.2018.

Section 32AD

Section 32AD allowed deduction for investment in new plant or machinery in notified backward areas in States of Andhra Pradesh or Bihar or Telangana or West Bengal in case an assessee, sets up an undertaking or enterprise for manufacture or production of any article or thing, on or after 01.04.2015 and acquires and installs any new asset for the purposes of the said undertaking or enterprise during the period beginning on 01.04.2015 and ending before 01.04.2020 in the notified backward area.

Deduction allowed was of a sum equal to 15% of the actual cost of such new asset for the assessment year relevant to the previous year in which such new asset is installed.

The deemed income chargeable as profits and gains of business under the circumstances specified in sub-section (2) of section 32AD has to be reported in this clause.

Section 33AB

Section 33AB allowed deduction in respect of Tea Development Account, Coffee Development Account and Rubber Development Account.

The auditor is required to verify the amount reported as deemed income chargeable as profits and gains of business under the circumstances specified in sub sections (4), (5), (7) and (8) of section 33AB.

Section 33ABA

Section 33ABA allowed deduction in respect of Site Restoration Fund.

The auditor is required to verify the amount reported as the deemed income chargeable as profits and gains of business under the circumstances specified in sub sections (5), (7) and (8) of section 33ABA.

Where deduction has been claimed with respect to interest credited in Special Account or the Site Restoration Account, utilization of withdrawal thereof for purposes other than those specified shall be deemed to be income from business.

Section 33AC

Likewise, section 33AC allowed deduction in respect of reserve created out of the profit of the assessee engaged in shipping business to be utilized in accordance with the provision of sub section (2) of section 33AC.

The deemed income chargeable as profits and gains of business under the circumstances specified in sub-sections (3) and (4) of section 33AC for the amount of reserves created on or before 31st March, 2004 has to be reported.

Clause 24 requires disclosure of amounts deemed to be profits and gains under section 32AC, or 32AD, or 33AB, or 33ABA or 33AC.

CLAUSE – 25

25. Any amount of profit chargeable to tax under section 41 and computation thereof.

Format in e-utility

25	Any amount of profit chargeable to tax under section 41 and computation thereof.

Add Detail

Name of Person *

Section *

Select

Sec 41(1)(a)
Sec 41(1)(b)
Sec 41(2)
Sec 41(3)
Sec 41(4)

(a) Amount of Income credited to Profit and Loss account

₹

(b) Amount of Income not credited to Profit and Loss account

₹

Description of Transaction *

(c) Total Amount of income *

₹ 0

Computation if any

Deemed Profits / Gains u/s 41

S. No. 25 applies to all assessees and requires the tax auditor to report the amount covered u/s 41 along with computation.

Section 41(1) : Reversal/writing back of trading liability

Under this section if any allowance or deduction that had been allowed to assessee in respect of any loss, expenditure or trading liability in any assessment year and in later years if assessee obtains such amount, then the same shall be chargeable to tax as business income.

If the assessee has written back some liability in the books of accounts and the expenditure represented by such liability had been allowed as deduction in any previous year, then such write back shall be taxable as business income.

Section 41(2) : Sale of assets of undertaking

Any building, machinery or plant which is owned by assessee and whose depreciation is claimed u/s 32 and it has been used for business purpose, is sold, discarded, demolished or destroyed and the money receivable along with scrap value exceeds the WDV, then the excess amount (which does not exceed the difference between actual cost and WDV) shall be chargeable to tax as business income.

It is also applicable to assessee engaged in generation and distribution of power and who have claimed depreciation on fixed assets u/s 32(1)(i) of the act.

Continuation of business during previous year is not a relevant criteria for taxability under this sub section.

Section 41(3) : Sale of assets used in scientific research

Any capital asset used in scientific research is sold without being used for other purposes and the proceeds of sale along with the total amount of deductions exceeds the amount of capital expenditure, then such excess or amount of deduction allowed, whichever is less, is chargeable as business income in year of sale.

Provisions of section 41(3) will not apply if the asset has been used for other business purposes as well.

Continuation of business during previous year is not a relevant criteria for taxability under this sub section.

Section 41(4) : Recovery of Bad Debts allowed earlier

In case of deduction allowed in respect of bad debts in previous years and subsequently any amount recovered on such debt, which is greater than difference between debt and deduction allowed, then such excess shall be deemed to be the business income and chargeable to tax in the year of recovery of bad debts.

Continuation of business during previous year is not a relevant criteria for taxability under this sub section.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports it was observed that the amount mentioned in Annual report, which was chargeable to tax under section 41 and reportable under this clause, was not reported in many cases. It is to be noted that as per the Guidance Note the same is required to be reported irrespective of the fact whether the relevant amount has been credited to the profit and loss account or not.

CLAUSE - 26

26. In respect of any sum referred to in clauses (a),(b), (c), (d), (e), (f) or (g) of section 43B, the liability for which:-

(A) pre-existed on the first day of the previous year but was not allowed in the assessment of any preceding previous year and was

(a) paid during the previous year;

(b) not paid during the previous year;

(B) was incurred in the previous year and was

(a) paid on or before the due date for furnishing the return of income of the previous year under section 139(1);

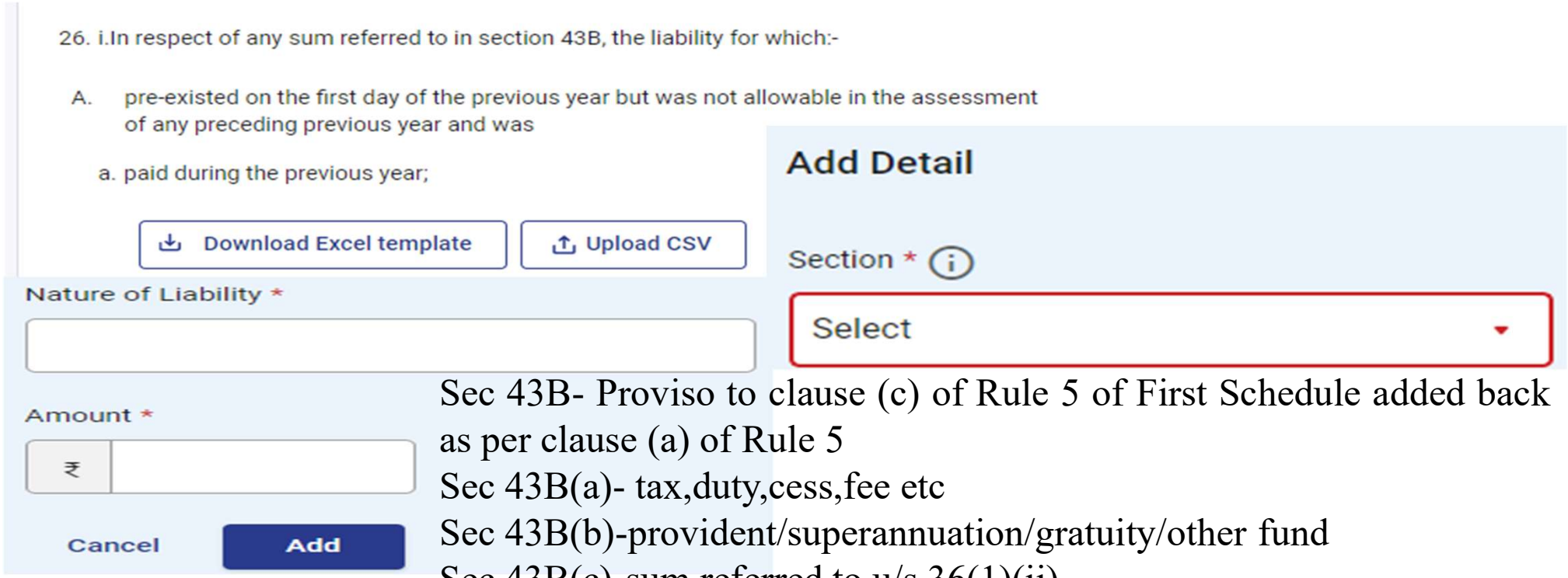
(b) not paid on or before the aforesaid date.

(State whether sales tax, customs duty, excise duty or any other indirect tax, levy, cess, impost, etc., is passed through the profit and loss account.)

* Substituted for "allowed" by the IT (Eighth Amdt.) Rules, 2025, w.e.f. **1-4-2025**.

** Substituted for "and was" by the IT (Eighth Amdt.) Rules, 2025, w.e.f. **1-4-2025**.

CLAUSE – 26
Format in e-utility



Sec 43B- Proviso to clause (c) of Rule 5 of First Schedule added back as per clause (a) of Rule 5

Sec 43B(a)- tax,duty,cess,fee etc

Sec 43B(b)-provident/superannuation/gratuity/other fund

Sec 43B(c)-sum referred to u/s 36(1)(ii)

Sec 43B(d)- interest from public financial institution etc

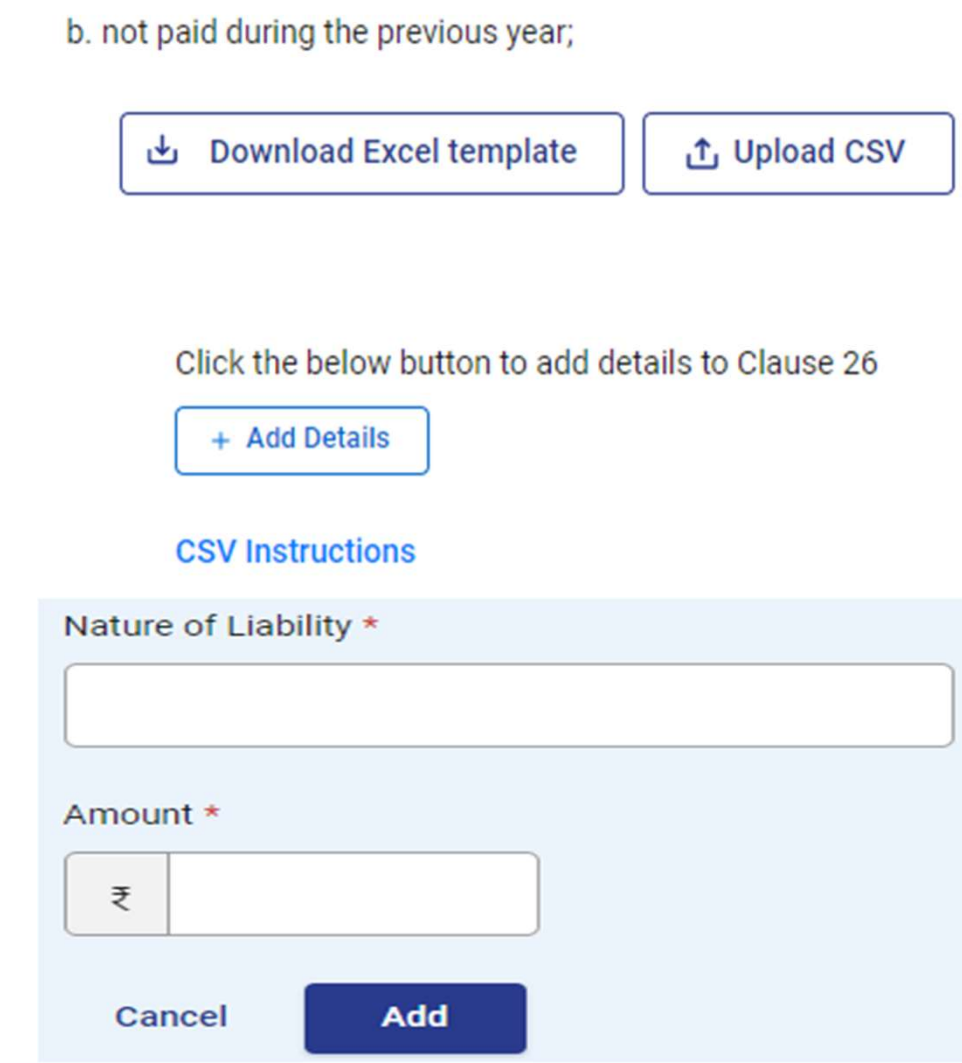
Sec 43B(da)- interest from such class of NBFC as may be notified by the Central Government in the Official Gazette

Sec 43B(e)- interest on loan from scheduled bank

Sec 43B(f)- leave encashment

Sec 43B(g)- Indian railways for use of railway assets

Sec 43B(h)- any sum payable to a micro or small enterprise beyond the time limit specified in section 15 of the MSMED Act, 2006





Sec 43B- Proviso to clause (c) of Rule 5 of First Schedule added back as per clause (a) of Rule 5

Sec 43B(a)- tax,duty,cess,fee etc

Sec 43B(b)-provident /superannuation / gratuity / other fund

Sec 43B(c)-sum referred to u/s 36(1)(ii)

Sec 43B(d)- interest from public financial institution etc

Sec 43B(da)- interest from such class of NBFC as may be notified by the Central Government in the Official Gazette

Sec 43B(e)- interest on loan from scheduled bank

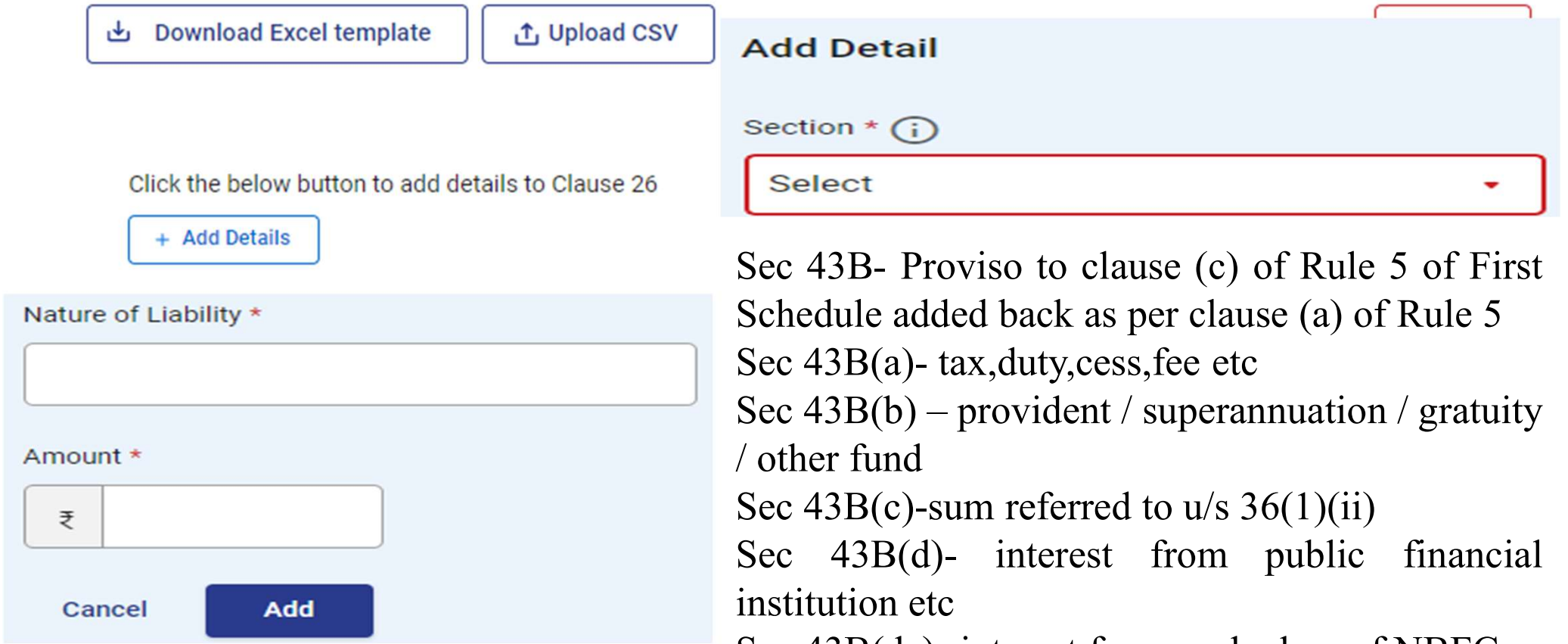
Sec 43B(f)- leave encashment

Sec 43B(g)- Indian railways for use of railway assets

Sec 43B(h)- any sum payable to a micro or small enterprise beyond the time limit specified in section 15 of the MSMED Act, 2006

B. was incurred in the previous year and for clauses other than clause (h) of section 43B was

a. paid on or before the due date for furnishing the return of income of the previous year under section 139(1);



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Sec 43B(a)- tax,duty,cess,fee etc

Sec 43B(b) – provident / superannuation / gratuity / other fund

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Sec 43B(d)- interest from public financial institution etc

Sec 43B(da)- interest from such class of NBFC as may be notified by the Central Government in the Official Gazette

Sec 43B(e)- interest on loan from scheduled bank

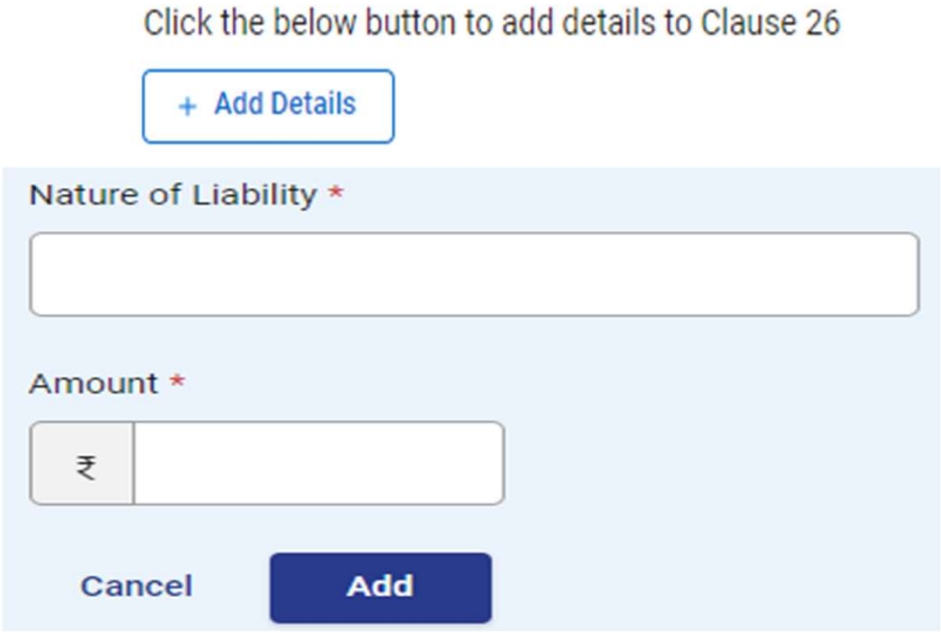
Sec 43B(f)- leave encashment

Sec 43B(g)- Indian railways for use of railway assets

b. not paid on or before the aforesaid date.







State whether sales tax,goods & services Tax, customs duty, excise duty or any other indirect tax,levy,cess,impost etc.is passed through the profit and loss account ? *

Select

Sec 43B- Proviso to clause (c) of Rule 5 of First Schedule added back as per clause (a) of Rule 5
Sec 43B(a)- tax,duty,cess,fee etc
Sec 43B(b)- provident / superannuation / gratuity / other fund
Sec 43B(c)-sum referred to u/s 36(1)(ii)
Sec 43B(d)- interest from public financial institution etc
Sec 43B(da)- interest from such class of NBFC as may be notified by the Central Government in the Official Gazette
Sec 43B(e)- interest on loan from scheduled bank
Sec 43B(f)- leave encashment
Sec 43B(g)- Indian railways for use of railway assets

CLAUSE – 27

47(*a*) Amount of Central Value Added Tax credits availed of or utilised during the previous year and its treatment in the profit and loss account and treatment of outstanding Central Value Added Tax credits in the accounts.

(*b*) Particulars of income or expenditure of prior period credited or debited to the profit and loss account.

CLAUSE – 27

Format in e-utility

27 (a) Amount of Central Value Added Tax Credits/ Input Tax Credit(ITC) availed of or utilised during the previous year and its treatment in profit and loss account and treatment of outstanding Central Value Added Tax Credits/Input Tax Credit(ITC) in accounts. Select

CENVAT/ITC	Amount	Treatment in Profit & Loss/Accounts
Opening Balance		
Credit Availed		
Credit Utilized		
Closing /outstanding Balance		

CLAUSE – 27

Format in e-utility

b. Particulars of income or expenditure of prior period credited or debited to the profit and loss account.

+ Add Details

Type *

Select

Income Credited
Expenditure Debited

Particulars *

Amount *

₹

Prior Period to which it relates(Year in yyyy-yy format) *

Select

Error : Please select an option from the drop down menu.

Cancel Add

	2009-10	1994-95
2023-24	2008-09	1993-94
2022-23	2007-08	1992-93
2021-22	2006-07	1991-92
2020-21	2005-06	1990-91
2019-20	2004-05	1989-90
2018-19	2003-04	1988-89
2017-18	2002-03	1987-88
2016-17	2001-02	1986-87
2015-16	2000-01	1985-86
2014-15	1999-00	1984-85
2013-14	1998-99	1983-84
2012-13	1997-98	1982-83
2011-12	1996-97	1981-82
2010-11	1995-96	1980-81

Clause 27(a) - CENVAT Credit/Prior Period Items

Amount of modified value added tax credits availed of or utilized during the previous year and its treatment in the profit and loss account.

The Tax Auditor should obtain the list of CENVAT Credit Availed and Utilised by the Assessee during the relevant period. If list is not available then scrutinize the CENVAT Ledger.

The Tax Auditor needs to ensure that amounts as presented in the returns matches with the underlying records and books of account.

The Tax Auditor if encounter any mismatch between accounting records and Excise/Service records, check whether Reconciliation in respect of such difference has been prepared.

In the Schema available on the ITD website it also includes ITC (GST). Hence the details may be given.

Clause 27(b) - Particulars of income or expenditure of prior period credited or debited to the profit and loss account.

- The concept of Prior Period Items is applicable only in case of Mercantile System of Accounting.
- The Tax Auditor should obtain the list of Prior Period Items identified by the Assessee.
- Disclosure of the identification should be made in the Financial Statements as per AS-5.
- The Tax Auditor Should Scrutinize Various Expenditure / Income Accounts to ensure such items are accounted in the Relevant Previous Year.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

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.

CLAUSE – 28 (omitted from AY 2025-26 onwards)

28. Whether during the previous year the assessee has received any property, being share of a company not being a company in which the public are substantially interested, without consideration or for inadequate consideration as referred to in section 56(2)(viia), if yes, please furnish the details of the same.

Clause 28 — Omitted from A.Y. 2025-26 onwards

CLAUSE – 29 (omitted from AY 2025-26 onwards)

29. Whether during the previous year the assessee received any consideration for issue of shares which exceeds the fair market value of the shares as referred to in section 56(2)(viib), if yes, please furnish the details of the same.

CLAUSE – 29A

(a) Whether any amount is to be included as income chargeable under the head 'income from other sources' as referred to in clause (ix) of sub-section (2) of section 56? (Yes/No)	
(b) If yes, please furnish the following details:	
(i)	Nature of income
(ii)	Amount thereof

CLAUSE – 29(A)

Format in e-utility

A(a)	Whether any amount is to be included as income chargeable under the head 'income from other sources' as referred to in clause (ix) of sub-section (2) of section 56?	Select
	(b) If yes, please furnish the following details:	

S.No.		Nature of income	Amount
1	☐		

Add Delete

Whether any amount is to be included as income chargeable under the head 'income from other sources' as referred to in section 56(2)(ix)?

- As per section 56(2) (ix) of the Act, if any sum of money is received as an advance or otherwise in the course of negotiations for transfer of a capital asset and if such sum is forfeited or the negotiations do not result in transfer of such capital asset, then the same would be taxable as income under the head **'Income from Other Sources'.**
- The tax auditor is required to report the nature of such income and the amount involved.
- The auditor should ensure that:
  - The assesse has received an advance against any capital asset i.e., Immovable Property, Plant, Machinery, etc
  - Peruse the agreement and forfeiture clauses contained therein through which advance is received for the capital asset.
  - Obtain balance confirmations from third parties against whose names advances are shown in the assessee's balance sheet.
  - Obtain management representation from the assessee that the advance received has been forfeited or not and report accordingly.

CLAUSE – 29B

(a) Whether any amount is to be included as income chargeable under the head 'income from other sources' as referred to in clause (x) of sub-section (2) of section 56? (Yes/No)	
(b) If yes, please furnish the following details:	
(i)	Nature of income
(ii)	Amount (in Rs.) thereof :

CLAUSE – 29B

Format in e-utility

B(a)	Whether any amount is to be included as income chargeable under the head 'income from other sources' as referred to in clause (x) of sub-section (2) of section 56? (Yes/No) (b) If yes, please furnish the following details:	Select

S.No.		Nature of income	Amount (in Rs.)
1			

Add Delete

Whether any amount is to be included as income chargeable under the head 'income from other sources' as referred to in section 56(2)(x)?

S. 56(2)(x) as amended w.e.f. AY 2018-19 provides that where any person receives, from any person or persons:

any amount exceeding Rs 50,000/- without consideration then he needs to declare such amount as **'Income from other sources' subject to certain** exemptions.

any immovable property,—

- without consideration, the stamp duty value of which exceeds Rs. 50000/-; OR
- for a consideration which is less than the stamp duty value of the property by an amount exceeding Rs. 50000/-, the stamp duty value of such property as exceeds such consideration:

any property, other than immovable property,—

- without consideration, the aggregate fair market value of which exceeds Rs. 50000/-, the whole of the aggregate fair market value of such property; OR
- for a consideration which is less than the aggregate fair market value of the property by an amount exceeding Rs. 50000/-, the aggregate fair market value of such property as exceeds such consideration :

then he needs to declare such amount as **'Income from other sources' subject** to certain exemptions.

- This clause includes various capital assets including immovable property, shares, etc.

Exceptions in the case of Individuals:

- Spouse of the individual
- Brother or sister of the individual
- Any inherent ascendant or descendant of the individual
- Brother or sister of the parents of the individual
- Any inherent ascendant or descendant of the individual
- Brother/ sister of the spouse of the individual.
- Any inherent ascendant or descendant of the spouse of the individual

Exceptions in case of HUF:

- Any member thereof.

Circumstances when 56(2)(x) not applicable:

- On the occasion of an individual's marriage
- By way of will or inheritance
- In the case of death of the payer or donor
- From any local authority
- From any fund/ foundation/ other educational institution/ university/ hospital/ other medical institution/ any trust or institution referred to in under section 10
- From any trust or institution that is registered under section 12A or section 12AA.
- By any trust or fund or any institution or university or other educational institution or hospital or any other medical institution referred to in sub-clause (iv)/ (v)/ (vi) or sub-clause (via) of clause (23C) of section 10.

With respect to **quoted shares & securities, the auditor has to consider the** following provisions which provides for manner of determining:

- Fair market value (FMV) of quoted shares and securities received by way of transaction carried out through any recognized stock exchange.
- FMV of quoted shares and securities received by way of transaction carried out OTHER THAN through any recognized stock exchange.

With respect to **unquoted shares & securities, the auditor should consider the** following:

- Ensure that acquisition should be through transfer and not through issue of fresh shares
- Verify the FMV of unquoted shares and securities as per rule 11UA / 11U
- Where FMV exceeds the cost of acquisition of the capital asset being shares and securities by Rs. 50000/- in aggregate, then the same should be reported in this clause.

With respect to **immovable property, the auditor should consider the** following:

- Immovable property under this clause covers land, or building or both. According to certain cases leasehold land / building is neither land nor building covered u/s 50C.
- Where the difference between transaction value and stamp duty value exceeds Rs. 50000/- the same needs to be reported under this clause.

The assesse has right to contest the FMV before AO.

However, where the assessee has adequate evidence that the FMV do not exceed the consideration for acquisition by Rs. 50000/- and claims the consideration to be fair market value and intends to contest the same as per the provisions of s. 56(2)(x) read with s.50C(2), obtain a management representation accordingly. Further the auditor in his report in Form 3CA/ 3B should comment the following regarding this:

- Stamp duty Value of immovable property
- Consideration (transaction value) for acquisition of property
- That the assesse is of the view that FMV does not exceed the consideration and he intends to contest the same before the assessing officer.

CLAUSE - 30

53. Details of any amount borrowed on hundi or any amount due thereon (including interest on the amount borrowed) repaid, otherwise than through an account payee cheque. [Section 69D]

CLAUSE - 30

Format in e-utility

30	Details of any amount borrowed on hundi or any amount due thereon (including interest on the amount borrowed) repaid, otherwise than through an account payee cheque. [Section 69D]	Select

Add Detail

Name of the person from whom amount borrowed or repaid on hundi *

PAN of the person, if available

Aadhaar Number of the person, if available

Country/Region *

Select

Address Line 1 *

Zip Code *

City or Town or District

Amount borrowed *

₹

Date of Borrowing *

Choose a date

Amount due including interest *

₹

Amount repaid *

₹

Date of Repayment *

Choose a date

Cancel Add

CLAUSE - 30

Details of any amount borrowed on hundi or any amount due thereon (including interest on the amount borrowed) repaid, otherwise than through an account payee cheque. [Section 69D]

This clause is applicable to all assessees who have borrowings on Hundi or repayment thereof, otherwise than an account payee cheque. Further requires the Tax auditor to report the compliance with the provisions of **section 69D of the Act dealing with** borrowing on Hundi and repayment thereof.

Provisions of Section 69D:

The term 'Hundis' has not been defined under the Act. However, the CBDT Circular NO. 208, dated 15 November 1976 explains the scope and characteristics of the said term to be Promissory Note drawn in a vernacular language.

Amount borrowed on Hundi or Repayment of the same (including interest) has to be made by account payee cheque.

If not through account payee cheque, the amount borrowed or repaid will be considered as Income in the year of borrowing or repayment.

If borrowing is taxed then repayment will not be taxed again in the year of Repayment

Account payee draft should also be treated as account payee cheque and the provisions of section 69D are not contravened if the transaction is through account payee draft.

The auditors should:

Obtain a complete list of borrowings and repayments of hundi loans otherwise than by account payee cheques and verify the same with the books of account.

There will be practical difficulties in verifying the loan taken or repaid on hundi by account payee cheque.

In such cases, the tax auditor should verify the borrowing/repayments with reference to such evidence which may be available and in the absence of conclusive or satisfactory evidence, the auditor may obtain suitable certificate/ management representation in this regard.

It also includes reporting of the name of the name of the parties involved, date, the amount, and other particulars may be given. The e-filing portal gives the format in which the details are to be given.

Check the bank book and bank statements.

CLAUSE - 30A

30A. (a) Whether primary adjustment to transfer price, as referred to in sub-section 1) of section 92CE, has been made during the previous year? (Yes/No)

(b) If yes, please furnish the following details:-

i. Under which clause of sub-section (1) of section 92CE primary adjustment is made?

ii. Amount (in Rs.) of primary adjustment:

iii. Whether the excess money available with the associated enterprise is required to be repatriated to India as per the provisions of sub-section (2) of section 92CE? (Yes/No)

iv. If yes, whether the excess money has been repatriated within the prescribed time (Yes/No)

v. If no, the amount (in Rs.) of imputed interest income on such excess money which has not been repatriated within the prescribed time.

CLAUSE – 30A

Format in e-utility

A. a. Whether primary adjustment to transfer price, as referred to in sub-section (1) of section 92CE, has been made during the previous year?

Yes

b. Please furnish the following details:

+ Add Details

(i) has been made suo motu by the assessee in his return of income
(ii) made by the Assessing Officer has been accepted by the assessee
(iii) is determined by an advance pricing agreement entered into by the assessee under section 92CC
(iv) is made as per the safe harbour rules framed under section 92CB
(v) is arising as a result of resolution of an assessment by way of the mutual agreement procedure under an agreement entered into under section 90 or section 90A for avoidance of double taxation

Amount of primary adjustment *

₹

Whether the excess money available with the associated enterprise is required to be repatriated to India as per the provisions of sub-section (2) of section 92CE? *

Whether the excess money available with the associated enterprise is required to be repatriated to India as per the provisions of sub-section (2) of section 92CE? *

Yes

Whether the excess money has been repatriated within the prescribed time? *

Select

Yes

No

Not Due

st income on such excess money which has not been repatriated within the prescribed time *

The amount of imputed interest income on such excess money which has not been repatriated within the prescribed time *

₹

Expected date of repatriation of money *

Choose a date

Cancel Add

30A – Details about "Primary Adjustments" in transfer pricing to be reported here as per Section 92CE.

[**Secondary adjustment in certain cases.**

92CE. (1) Where a primary adjustment to transfer price,—

(i) has been made suo motu by the assessee in his return of income;

(ii) made by the Assessing Officer has been accepted by the assessee;

(iii) is determined by an advance pricing agreement entered into by the assessee under section 92CC;

(iv) is made as per the safe harbour rules framed under section 92CB; or

(v) is arising as a result of resolution of an assessment by way of the mutual agreement procedure under an agreement entered into under section 90 or section 90A for avoidance of double taxation, the assessee shall make a secondary adjustment:

Provided that nothing contained in this section shall apply, if,—

(i) the amount of primary adjustment made in any previous year does not exceed one crore rupees; and

(ii) the primary adjustment is made in respect of an assessment year commencing on or before the 1st day of April, 2016.

(2) Where, as a result of primary adjustment to the transfer price,

- there is an increase in the total income or reduction in the loss,
- as the case may be,
- of the assessee,
- the excess money which is available with its associated enterprise,
- if not repatriated to India within the time as may be prescribed,
- shall be deemed to be an advance made by the assessee to such associated enterprise and the interest on such advance,
- shall be computed in such manner as may be prescribed.

(3) For the purposes of this section,—

(i) "associated enterprise" shall have the meaning assigned to it in sub-section (1) and sub-section (2) of section 92A;

(ii) "arm's length price" shall have the meaning assigned to it in clause (ii) of section 92F;

(iii) "excess money" means the difference between the arm's length price determined in primary adjustment and the price at which the international transaction has actually been undertaken;

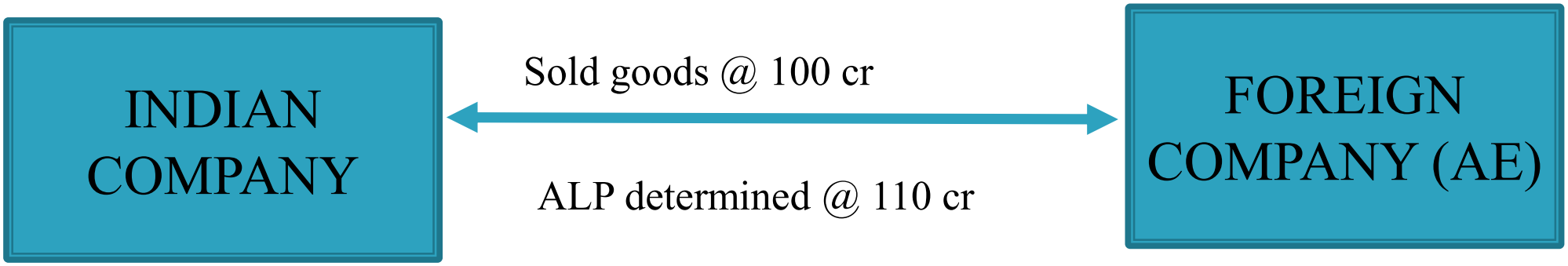
(iv) "primary adjustment" to a transfer price,

- means the determination of transfer price in accordance with the arm's length principle
- resulting in an increase in the total income or reduction in the loss,
- as the case may be, of the assessee;

(v) "secondary adjustment" means an adjustment in the books of account of the assessee and its associated enterprise

- to reflect that the actual allocation of profits between the assessee and its associated enterprise are consistent with the transfer price determined as a result of primary adjustment,
- thereby removing the imbalance between cash account and actual profit of the assessee.]

92CE : Bird's Eye View



- 10 Crores is the primary adjustment.
- 10 Crores will be added to income of Indian company under TP provisions.
- 10 Crores to be repatriated to India within prescribed time.
- If not 10 Crores shall be deemed to be Advance made by Indian Company to Foreign AE.
- Interest in respect of such deemed advance shall be taxed in the hands of the Indian Entity : Secondary Adjustment.

92CE: Situations where primary adjustment could result into Secondary adjustment.

92CE. (1) Where a primary adjustment to transfer price,-

(i) has been made **suo-moto** by the assessee in his return of income;

(ii) made by the **Assessing Officer** has been accepted by the assessee;

(iii) is determined by an **advance pricing agreement** entered into by the assessee under section 92CC;

(iv) is made as per the **safe harbour rules** framed under section 92CB; or

(v) is arising as a result of **resolution** of an assessment **by way of the mutual agreement procedure** under an agreement entered into under section 90 or section 90A for avoidance of double taxation, the assessee shall make a secondary adjustment:

92CE: No Secondary Adjustments in following cases.

Proviso to Sec 92CE(1):

- If primary adjustment does not exceed **1 Crore**
- Primary adjustment relates to AY 16-17 or earlier years

Time Limit to repatriate funds into India.

Rule 10CB: Repatriate within 90 days from :

Adjustment by / under	**Time Limit: 90 Days from**
Suo-moto by Assessee	Due date of return of income u/s 139(1)
Assessing officer	Date of order of the AO or appellate authority
Advance Pricing Arrangement	Due date for filing return u/s 139(1)
Safe Harbour Rules	Due date for filing return u/s 139(1)
Mutual Agreement Procedure under DTAA	Due date for filing return u/s 139(1)

Rate of Interest

Rule 10CB(2):

- If transaction is denominated in **INR** : marginal cost of fund lending rate of SBI as on 1st of April of the relevant previous year plus 325 basis points
- If transaction is denominated in **Foreign Currency:** at six month London Interbank Offered Rate as on 30th September of the relevant previous year plus 300 basis points

CLAUSE – 30B

30B.(a) Whether the assessee has incurred expenditure during the previous year by way of interest or of similar nature exceeding one crore rupees as referred to in sub-section (1) of section 94B? (Yes/No.)

(b) If yes, please furnish the following details:—

i. Amount (in Rs.) of expenditure by way of interest or of similar nature incurred:

ii. Earnings before interest, tax, depreciation and amortization (EBITDA) during the previous year (in Rs.):

iii. Amount (in Rs.) of expenditure by way interest or of similar nature as per (i) above which exceeds 30% of EBITDA as per (ii) above :

iv. Details of interest expenditure brought forward as per sub-section (4) of section 94B:

A.Y.	Amount (in Rs.)

v. Details of interest expenditure carried forward as per sub-section (4) of section 94B:

A.Y.	Amount (in Rs.)

CLAUSE – 30B

Format in e-utility

B. a. Whether the assessee has incurred expenditure during the previous year by way of interest or of similar nature exceeding one crore rupees as referred to in sub-section (1) of section 94B?

Select

b. Please furnish the following details:

+ Add Details

[**Limitation on interest deduction in certain cases.**

94B. (1) Notwithstanding anything contained in this Act,

- where an Indian company, or a permanent establishment of a foreign company in India,
- being the borrower,
- incurs any expenditure by way of interest or of similar nature exceeding one crore rupees
- which is deductible in computing income chargeable under the head "Profits and gains of business or profession" in respect of any debt issued by a non-resident,
- being an associated enterprise of such borrower,
- the interest shall not be deductible in computation of income under the said head to the extent that it arises from excess interest, as specified in sub-section (2) :

Provided that where the debt is issued by a lender which is not associated but an associated enterprise either provides an implicit or explicit guarantee to such lender or deposits a corresponding and matching amount of funds with the lender, such debt shall be deemed to have been issued by an associated enterprise.

(2) For the purposes of sub-section (1), the excess interest shall mean an amount of total interest paid or payable in excess of thirty per cent of earnings before interest, taxes, depreciation and amortisation of the borrower in the previous year or interest paid or payable to associated enterprises for that previous year, whichever is less.

(3) Nothing contained in sub-section (1) shall apply to an Indian company or a permanent establishment of a foreign company which is engaged in the business of banking or insurance.

(4) Where for any assessment year, the interest expenditure is not wholly deducted against income under the head "Profits and gains of business or profession",

- so much of the interest expenditure as has not been so deducted,
- shall be carried forward to the following assessment year or assessment years, and
- it shall be allowed as a deduction against the profits and gains, if any, of any business or profession carried on by it and
- assessable for that assessment year to the extent of maximum allowable interest expenditure in accordance with sub-section (2):

Provided that no interest expenditure shall be carried forward under this sub-section for more than eight assessment years immediately succeeding the assessment year for which the excess interest expenditure was first computed.

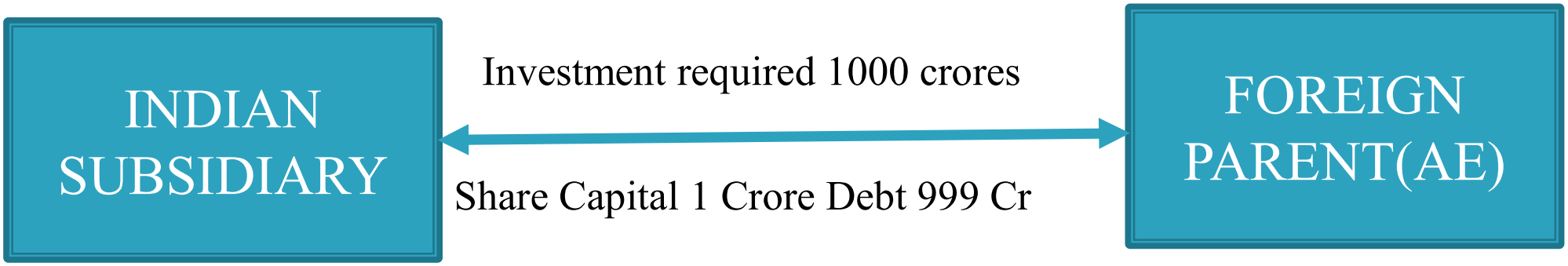
(5) For the purposes of this section, the expressions—

(i) "associated enterprise" shall have the meaning assigned to it in sub-section (1) and sub-section (2) of section 92A;

(ii) "debt" means any loan, financial instrument, finance lease, financial derivative, or any arrangement that gives rise to interest, discounts or other finance charges that are deductible in the computation of income chargeable under the head "Profits and gains of business or profession";

(iii) "permanent establishment" includes a fixed place of business through which the business of the enterprise is wholly or partly carried on.]

Sec 94B:



- Indian Company claims interest cost in respect of debt of 999 Crore
- Debt is routed through jurisdictions where interest is not taxable or taxable at low rates
- 94B now restricts deduction in respect of such interests to 30% of EBITDA
- 94B is not applicable to small cases – i.e. where interest payout is not more than 1 Crore

Sec 94B: Illustration

YEAR 1:

- EBITDA is Rs. 100 Crores
- Interest paid to AEs and deemed AEs – 35 Crores
- In computing taxable profits of such entity in respect of interest paid to AE (even if under ALP) deduction shall be restricted to 30 Crores.
- The difference 5 Crores can be carried forward for 8 AYs and can be claimed as deduction, subject to overall limit of 30%.

contd…

Sec 94B: Illustration

YEAR 2:

- EBITDA is Rs. 150 Crores
- Interest paid to AEs in current year – 43 Crores
- b/f interest of previous year – 5 Crores
- Total interest sought to be claimed as deduction – 43 +5 = 48 Crores
- 30% of 150 Crores – 45 Crores
- Interest deduction to be restricted at 45 Crores
- Difference 3 Crores to be carried forward

CLAUSE – 30C

30C. (a) Whether the assessee has entered into an impermissible avoidance arrangement, as referred to in section 96, during the previous year? (Yes/No.)

(b) If yes, please specify :-

i. Nature of impermissible avoidance arrangement:

ii. Amount (in Rs.) of tax benefit in the previous year arising, in aggregate, to all the parties to the arrangement:

CLAUSE – 30C

Format in e-utility

C. a. Whether the assessee has entered into an impermissible avoidance arrangement, as referred to in section 96, during the previous year? *

Yes

b. Please furnish the following details:

+ Add Details

Add Detail

Nature of the impermissible avoidance arrangement *

Select

Amount (in Rs.) of tax benefit in the previous year arising, in aggregate, to all the parties to the arrangement *

₹

Cancel Add

***This clause is kept in abeyance till 31st March 2020 vide circular No. 9/2019 dated 14/05/2019.**

Deferred further till 31st March, 2022 (vide Circular No. 05/2021 Dated 25th March, 2021)

This clause was inserted in Form No. 3CD by Notification no. GSR 666 (E), dated 20.07.2018 with effect from 20.08.2018. However, the reporting under this clause was kept in abeyance till 31.03.2022. But, it has now become applicable for all the reports submitted after 31.03.2022.

For reporting under this clause, the auditor should examine whether the Principal Commissioner or the Commissioner or the Approving Panel has, in any earlier previous year, declared any arrangement as Impermissible Avoidance Agreement (IAA) or whether any reference has been made for declaring an arrangement as an impermissible avoidance arrangement.

In case, any transaction pertaining to or in connection with such declared that IAA has taken place during the previous year under the audit, the tax auditor is expected to report this fact.

Also, an auditor shall report the tax benefit arising from such transaction to all the parties to the arrangement in the previous year.

But, if, due to the factors mentioned in the earlier paragraphs, he is unable to ascertain the tax benefit arising in the previous year, in aggregate to all the parties to the arrangement, the same shall be indicated in Form 3CA or Form 3CB, as the case may be.

Further, where the assessee has given a response to any show cause notice or has preferred an appeal, along with outcome thereof should be taken into consideration while reporting.

CLAUSE - 31

31 (a) Particulars of each loan or deposit in an amount exceeding the limit specified in section 269SS taken or accepted during the previous year:

(i) name, address and permanent account number or Aadhaar Number (if available with the assessee) of the lender or depositor.

(ii) *amount of loan or deposit taken or accepted and code of the nature of such amount, as given in Note 1; [Dropdown to be provided];;*

(iii) whether the loan or deposit was squared up during the previous year;

(iv) maximum amount outstanding in the account at any time during the previous year;

(v) whether the loan or deposit was taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account;

(vi) in case the loan or deposit was taken or accepted by cheque or bank draft, whether the same was taken or accepted by an account payee cheque or an account payee bank draft.

Inserted by the IT (Eighth Amdt.) Rules, 2025, w.e.f. 1-4-2025

(b) Particulars of each specified sum in an amount exceeding the limit specified in section 269SS taken or accepted during the previous year:

(i) name, address and Permanent Account Number or Aadhaar Number (if available with the assessee) of the person from whom specified sum is received;

(ii) *amount of specified sum taken or accepted and code of the nature of such amount, as given in Note 1; [Dropdown to be provided];;*

(iii) whether the specified sum was taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account;

(iv) in case the specified sum was taken or accepted by cheque or bank draft, whether the same was taken or accepted by an account payee cheque or an account payee bank draft.

(Particulars at (a) and (b) need not be given in the case of a Government company, a banking company or a corporation established by the Central, State or Provincial Act.)

Inserted by the IT (Eighth Amdt.) Rules, 2025, w.e.f. 1-4-2025

CLAUSE – 31

Format in e-utility

Clause 31

* Indicates mandatory fields

31 a. Particulars of each loan or deposit in an amount exceeding the limit specified in section 269SS taken or accepted during the previous year :-

+ Add Details

Add Detail

i) Name of the lender or depositor *

ii) Address of the lender or depositor *

iii(a) Permanent Account Number (if available with the assessee) of the lender or depositor

iii(b) Aadhaar Number (if available with the assessee) of the lender or depositor

iv) Amount of each loan or deposit taken or accepted *

₹

v) Whether the loan or deposit was squared up during the previous year *

Select

vi) Maximum amount outstanding in the account at any time during the previous year *

₹

vii) Whether the loan or deposit was taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account. *

Select

vii(a) Code of the nature of such amount (as mentioned in field (iv) above) *

Select

viii) In case the loan or deposit was taken or accepted by cheque or bank draft, whether the same was taken or accepted by an account payee cheque or an account payee bank draft. *

Select

Cancel

Add

b. Particulars of each specified sum in an amount exceeding the limit specified in section 269SS taken or accepted during the previous year:-

+ Add Details

Add Detail

i) Name of the person from whom specified sum is received *

ii) Address of the person from whom specified sum is received *

iii(a) Permanent Account Number (if available with the assessee) of the person from whom specified sum is received

iii(b) Aadhaar Number of the person from whom specified sum is received, if available

iv) Amount of each loan or deposit taken or accepted *

₹

v) Whether the specified sum was taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account ? *

Select

v(a) Code of the nature of such amount (as mentioned in field (iv) above) *

Select

vi) In case the specified sum was taken or accepted by cheque or bank draft, whether the same was taken or accepted by an account payee cheque or an account payee bank draft. *

Select

Cancel Add

Note: Particulars at (a) and (b) need not be given in the case of a Government company, a banking company or a corporation established by a Central, State or Provincial Act.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports, it has been observed that:

a) 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 personwise.

b) 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.

As per Page no 270 & 271 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Section 269SS

55.1 Section 269SS prescribes the mode of taking or accepting certain loans or deposits or specified sums. As per this section, no person shall take or accept from any other person any loan or deposit or specified sums otherwise than by an account payee cheque or account payee bank draft or use of electronic clearing system through a bank account or through such other electronic mode as may be prescribed (hereinafter referred to as approved banking channels) if,

a) the amount of such loan or deposit or specified sum or the aggregate amount of such loan and deposit and specified sum; or

b) on the date of taking or accepting such loan or deposit or specified sum, any loan or deposit or specified sum taken or accepted earlier by such person from the depositor is remaining unpaid (whether repayment has fallen due or not), the amount or the aggregate amount remaining unpaid; or

c) or the amount or the aggregate amount referred to in clause (a) together with the amount or the aggregate amount referred to in clause (b) is twenty thousand rupees or more.

As per Page no 271 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

An exception is provided for **deposit accepted by / loan taken from Primary Agricultural Credit Societies ("PACS") and Primary Co-Operative Agricultural and Rural Development Bank ("PCARD") from / by its members.**

In **such cases, a higher limit of Rs. 2 lakhs would be applicable.**

As per Page no 271 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

The **CBDT, vide notification no. 8/2020/F. No. 370142/14/2019-TPL dated 29th January 2020,** has prescribed the other electronic modes under **Rule 6ABBA with effect from 1st September 2019**

Under the said Rule, the following shall be the **other electronic modes for the purposes of Section 269SS:**

a) Credit Card;
b) Debit Card;
c) Net Banking.
d) IMPS (Immediate Payment Service);
e) UPI (Unified Payment Interface);
f) RTGS (Real Time Gross Settlement);
g) NEFT (National Electronic Funds Transfer), and
h) BHIM (Bharat Interface for Money) Aadhar Pay.

As per Page no 271 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

55.2 As per the **first proviso to section 269SS**, the provisions of section **269SS shall not apply to any loan or deposit taken or accepted from, or any loan or deposit taken or accepted by**,-

a) **Government;**

b) any **banking company, post office savings bank or co-operative bank;**

c) any **corporation established by a Central, State or Provincial Act**;

d) any **Government company as defined in section 2(45) of the Companies Act, 2013;**

e) such **other institution, association or body or class of institutions, associations or bodies which the Central Government** may, for reasons to be recorded in writing, **notify in this behalf in the Official Gazette.**

As per Page no 273 & 274 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

55.7 The tax auditor should obtain the above details from the assessee in respect of each reportable loan or deposit and verify if the amount reported is as per records and evidence available with the assessee.

55.8 **If the total of all loans/deposits/specified sum either severally or in aggregate from a person is Rs. 20,000/- or more but each individual item is less than Rs. 20,000/-, the information will still be required to be given in respect of all such entries starting from the entry when the balance reaches Rs. 20,000/- or more and until the balance goes down below Rs. 20,000/-.**

As such the tax auditor should examine all loans / deposits taken or accepted where balance has reached Rs. 20,000/- or more during the year for the purpose of verifying the reporting under this clause.

As per Page no 274 & 275 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

55.11 It is recommended that the tax auditor maintains the following information in his working papers for the purpose of verifying the reporting in this clause in the format provided in the e-filing utility.

Sr. No	Name of the lender or depositor	Address of the lender or depositor	PAN/ Aadhaar No. of the lender or depositor, if available	Amount of loan or deposit taken or accepted	Code of the nature of such amount, as given in Note 1 (please see para 57.13 of the Guidance Note)	Whether the loan/ deposit was squared up during the previous year	Whether the loan/ deposit was taken or accepted otherwise than by an account payee bank cheque or account payee bank draft

As per Page no 275 & 276 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

55.15 The additional disclosure requirements in clause 31(b)(ii) have been introduced vide **Notification No. 23/2025/F.No.370142/10/2025 -TPL dated 28.03.2025**, and are applicable with effect from 01.04.2025.

These requirements are applicable to audit reports pertaining to A.Y. 2025-26 and onwards.

It is, however, noted that Clause 31(b)(ii) inadvertently refers to the phrase: “Amount of each loan or deposit taken or accepted and code of the nature of such amount, as given in Note 1”.

This should instead read as: “Amount of each specified sum taken or accepted and code of the nature of such amount, as given in Note 1”, since Clause 31(b) pertains to 'specified sum' and not to 'loan or deposit’.

Accordingly, the reference may be construed to mean 'specified sum' in alignment with the intent and scope of Clause 31(b).

As per Page no 276 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

55.16 It is recommended that the tax auditor maintains the following information in his working papers for the purpose of verifying the reporting in this clause in the format provided in the e-filing utility:

Sr. No	Name of the lender or depositor	Address of the lender or depositor	PAN/ Aadhaar number of the person from whom specified sum is received, if available	Amount of loan or deposit taken or accepted	Code of the nature of such amount, as given in Note 1 at the end of Clause 31 (Please See para 57.13 of Guidance Note)	Whether the specified sum was taken or accepted otherwise than by an account payee bank cheque or account bank draft or use of electronic clearing system through a bank account	In case the specified sum was taken or accepted by cheque or bank draft, whether the same was taken or accepted by an account payee bank cheque or an account payee bank draft

CLAUSE – 31(ba)

(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 :-

i. Name, address and Permanent Account Number (if available with the assessee) of the payer;
ii. Nature of transaction;
iii. Amount of receipt (in Rs.);
iv. Date of receipt;

CLAUSE-31(ba)

Format in e-utility

(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

+ Add Details

Add Detail

i) Name of the payer *

ii) Address of the payer *

iii(a) Permanent Account Number (if available with the assessee) of the payer

iii(b) Aadhaar Number of the payer, if available

iv) Nature of transaction *

v) Amount of receipt *

₹

vi) Date of receipt *

Choose a date

Cancel Add

Cash receipts more than INR 2,00,000 under Section 269ST is to be reported.

[**Mode of undertaking transactions.**

269ST. No person shall receive an amount of two lakh rupees or more -

(a) in **aggregate from a person in a day**; or

(b) in **respect of a single transaction**; or

(c) in respect of **transactions relating to one event or occasion from a person**, otherwise than by an account payee cheque or an account payee bank draft or use of electronic clearing system through a bank account:

Provided that the provisions of this section shall not apply to—

(i) any **receipt by -**

(a) **Government**;

(b) **any banking company, post office savings bank or co-operative bank;**

(ii) **transactions of the nature referred to in section 269SS;**

(iii) **such other persons or class of persons or receipts, which the Central Government may, by notification in the Official Gazette, specify.**

Explanation.—For the purposes of this section,—

(a) "banking company" shall have the same meaning as assigned to it in clause (i) of the Explanation to section 269SS;

(b) "co-operative bank" shall have the same meaning as assigned to it in clause (ii) of the Explanation to section 269SS.]

This sub-clause has been inserted to Form 3CD w.e.f. 20th August 2018 and requires reporting for transactions u/s 269ST.

The reporting is required to be made if the amount received is Rs. 2 Lakhs or more for any of the following:

- 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.

The auditor needs to verify the following:

- Verify the cash book whether cash is received of Rs. 2 lakhs or more in a single day from a person.
- Verify the ledgers and other documents to determine any transaction which is of Rs. 2 Lakhs or more.
- Against those transactions, verify whether the assessee received any amount other-wise than by cheque, draft or ECS of Rs. 2 Lakhs or more. In this case both the transaction as well as receipts is to be verified (which could be not in a single day but in multiple days too)

- Verify the events or occasions done/entered/ participated/ organised by the assessee.
- For that event/occasion did the assessee receive Rs. 2 Lakhs or more from a person other-wise than by cheque, draft or ECS?
- The event/occasion could last for more than a day, the limits per person are to be analysed for the whole event and all invoices in aggregate for the event has to be seen collectively.

- Only the exceptions as notified by CBDT are not to be reported.

- Obtain a management representation from the assesse that:

He/ it did not receive any amount of Rs. 2 Lakhs or more other-wise than by cheque, draft or ECS for any of the following:

- 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.

TRANSACTIONS WHERE SECTION 269ST MAY BECOME APPLICABLE:

(a) sale proceeds of goods

(b) proceeds of Services

(c) sale proceeds of movable properties

(d) fees, remuneration, salary, dalali, brokerage, contract payments etc.

(e) Advance against sale of goods/provision of service [except advance against sale of immovable property, being covered by S.269SS]

(f) recovery of loan given and interest thereon **(not covered presently in Sec. 269SS)**

(g) donation receipts by trusts etc.

(h) Advance taken by partner of firm, employees from employer, agents from principal etc. for personal purpose or for purpose of business itself

(i) Withdrawal of capital / profit by a partner of firm in firm.

(j) Introduction of capital by partner in firm.

(k) Issue of Share Capital

(l) Gifts received from relatives/non relatives in cash.

(m) amount received by hospitals, educational institutions etc.

(n) Transactions of loan or deposit between agriculturists may be exempt u/s 269SS but other transactions between agriculturists are not exempt u/s 269ST.

(o) Receipt of money from government shall also attract S.269ST because receipt of amount by government only is exempt. Hence vendors registered with government shall have to either keep cash receipt below Rs. 2,00,000 or accept the amount through banking channels.

(p) Further only receipt by post office saving bank has been excluded from operation of section 269ST. Deposit in Post office saving bank is excluded u/s 269SS. Other receipts and deposits by post office shall be hit by S.269SS and S.269ST.

(q) Any Person receiving amount of Rs 2 Lakhs or above in cash as **reimbursement** may also be covered under section 269ST. Thus he cannot accept cash of Rs 2 Lakhs or above in cash.

(r) Sale of Depreciable Capital Assets. (Although amount received against sale of Depreciable capital assets is being reduced from block of assets and only reduced depreciation is allowable and still sale of this depreciable capital Assets cannot happen in cash if the amount of sale proceeds is Rs.2 Lakhs or more).

(s) Statement by a third party that he made payment to you in cash.

(t) Forced recoveries by lenders from borrowers.

(u) Dowry

(v) Bribe

Circular No. 22 of 2017 F.No.370142/10/2017-TPL

Dated 03rd July, 2017

2. Subsequently, representations have been received from **non-banking financial companies (NBFCs) and housing finance companies (HFCs)** as to **whether the provisions of section 269ST of the Act shall apply to one instalment of loan repayment or the whole amount of such repayment.**

3. In this context, it is clarified that **in respect of receipt in the nature of repayment of loan by NBFCs or HFCs**, **the receipt of one instalment of loan repayment in respect of a loan shall constitute a 'single transaction' as specified in clause (b) of section 269ST of the Act** and **all the instalments paid for a loan shall not be aggregated for the purposes of determining applicability of the provisions section 269ST.**

(Salil Mishra)

Director (Tax Policy & Legislation)

Circular No. 27/ 2017 F. No. 370149/213/2017 -TPL

New Delhi, Dated 3 November, 2017

Clarification on Cash sale of agricultural produce by cultivators/ agriculturist

1. Representations have been received from the stakeholders regarding applicability of income-tax provision to **cash sale of agricultural produce by cultivators/agriculturists to traders.**

2. In this context, it is stated that the provisions of **section 40A (3)** of the Income-tax Act, 1961 (`the Act') **provides for the disallowances of expenditure exceeding Rs. 10000 made otherwise than by an account payee cheque / draft** or use of electronic clearing system through a bank account.

However, **rule 6DD of the Income-tax Rules, 1962 (`IT Rules') carves out certain exceptions from application of the provisions of section 40A (3**) in some specific cases and circumstances, which inter alia include **payments made for purchase of agricultural produce to the cultivators of such produce.**

Therefore, **no disallowance under section 40A (3) of the Act can be made if the trader makes cash purchases of agricultural produce from the cultivator**.

3. Further, section 269ST, subject to certain exceptions, prohibits receipt of Rs. 2 lakh or more otherwise than by an account payee cheque/draft or by use of electronic clearing system through a bank account from a person in a day or in respect of a single transaction or in respect of transactions relating to an event or occasion from a person.

Therefore, any cash sale of an amount of Rs. 2 lakh or more by a cultivator of agricultural produce is prohibited under section 269ST of the Act.

4. Further also the provisions relating to quoting of PAN or furnishing of Form No.60 under rule 114B of the IT Rules do not apply to the sale transaction of Rs.2 Lakh or less.

5. **In view of the above, it is clarified that cash sale of the agricultural produce by its cultivator to the trader for an amount less than Rs 2 Lakh will not:–**

a) result in any disallowance of expenditure under section 40A (3) of the Act in the case of trader.

b) attract prohibition under section 269ST of the Act in the case of the cultivator; and

c) require the cultivator to quote his PAN/ or furnish Form No. 60.

Example

Suppose Mr. A is paying his Rs. 10,00,000/- loan from a Non-Banking Finance Company in cash and he has paid Rs. 25,000/- of instalments each month. Then in a year his payment will be Rs. 3.00 Lakhs and which violates provisions of Section 269ST in the hand of NBFC(s).

Now in this case single transaction should not be more than Rs. 2.00 Lakhs and not all instalments in a year should be aggregated. [Circular No.22/2017 dated 3 July, 2017].

[Notification No. 57 /2017, F.No.370142/10/2017-TPL]

Dated the 03 rd July, 2017

The **Central Government** hereby specifies that the **provision of section 269ST shall not apply to the following, namely:-**

(a) receipt by a business correspondent on behalf of a banking company or co-operative bank, in accordance with the guidelines issued by the Reserve Bank of India**;**

(b) receipt by a white label automated teller machine operator from retail outlet sources on behalf of a banking company or co-operative bank, in accordance with the authorisation issued by the Reserve Bank of India under the Payment and Settlement Systems Act, 2007 (51 of 2007);

(c) receipt from an agent by an issuer of pre-paid payment instruments, in accordance with the authorisation issued by the Reserve Bank of India under the Payment and Settlement Systems Act, 2007 (51 of 2007);

(d) receipt by a company or institution issuing credit cards against bills raised in respect of one or more credit cards;

(e) receipt which is not includible in the total income under clause (17A) of section 10 of the Income-tax Act, 1961.

2. The notification shall be deemed to have come into force with effect from the 1 st day of April, 2017.

(Salil Mishra)

Director (Tax Policy & Legislation)

CLAUSE – 31 (bb)

(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 transitions 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;—

i. Name, address and Permanent Account Number (if available with the assessee) of the payer;

ii. Amount of receipt (in Rs.);

CLAUSE – 31 (bb)

Format in e-utility

(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 occasion 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:-

+ Add Details

Add Detail

i) Name of the payer *

ii) Address of the payer *

iii(a) Permanent Account Number (if available with the assessee) of the payer

iii(b) Aadhaar Number of the payer, if available

iv) Amount of receipt *

₹

Cancel Add

This clause is an extension of S. No. 31(ba) and requires reporting only in case when the above mentioned receipt is received by cheque or bank draft and the cheque or bank draft is not an account payee cheque or accounting payee bank draft.

There could be practical difficulties in verifying that the amount in question has been accepted by account payee cheque or an account payee bank draft.

In such cases, the tax auditor should verify the transactions with reference to such evidence which may be available and report in Form 3CA/3CB that:

- It is not possible for me/us to verify whether the assesse received 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, by an account payee cheque or an account payee bank draft, during the previous year as the necessary evidence is not in the possession of the assesse.

CLAUSE – 31(bc)

(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 transitions 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:—

i. Name, address and Permanent Account Number (if available with the assessee) of the payee;

ii. Nature of transaction;

iii. Amount of payment (in Rs.);

iv. Date of payment;

CLAUSE – 31(bc)

Format in e-utility

(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 occasion 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

+ Add Details

Add Detail

i) Name of the payee *

ii) Address of the payee *

iii(a) Permanent Account Number (if available with the assessee) of the payee

iii(b) Aadhaar Number of the payee, if available

iv) Nature of transaction *

v) Amount of payment *

₹

vi) Date of payment *

Choose a date

Cancel Add

No. 31(ba) was for receipt of money in contravention of s. 269ST.
This clause is for reporting of PAYMENT of money in contravention of s. 269ST.
There is no penalty on the assessee u/s 271DA for payment, as the same is only on the receiver, yet this information is sought by the department to take appropriate action on the receiver.

The auditor needs to verify the following:

- Verify the cash book whether cash is paid of Rs. 2 lakhs or more in a single day to a person.
- Verify the ledgers and other documents to determine any transaction which is of Rs. 2 Lakhs or more.
- Against those transactions, verify whether the assesse paid any amount other-wise than by cheque, draft or ECS of Rs. 2 Lakhs or more.

In this case both the transaction as well as payments are to be verified (which could be not in a single day but in multiple days too)

Verify the events or occasions done/entered/participated/organised by the assesse.

For that event/occasion did the assesse pay Rs. 2 Lakhs or more to a person other-wise than by cheque, draft or ECS?

The event/occasion could last for more than a day, the limits per person are to be analysed for the whole event and all invoices in aggregate for the event has to be seen collectively

Only the exceptions as notified by CBDT are not to be reported.

Obtain a management representation from the assesse that:

He/ she / it did not pay any amount of Rs. 2 Lakhs or more other-wise than by cheque, draft or ECS for any of the following:

- 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 occasion to a person

CLAUSE - 31(bd)

(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:-

i. Name, address and Permanent Account Number or Aadhaar Number (if available with the assessee) of the payee;

ii. Amount of payment (in Rs.);

(Particulars at (ba), (bb), (bc) and (bd) need not be given in the case of receipt by or payment to a Government company, a banking Company, a post office savings bank, a cooperative bank or in the case of transactions referred to in section 269SS or in the case of persons referred to in Notification No. S.O. 2065(E) dated 3rd July, 2017).

CLAUSE – 31(bd)

Format in e-utility

(bd) Particulars of each payment 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 occasion 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

+ Add Details

Add Detail

i) Name of the payee *

ii) Address of the payee *

iii(a) Permanent Account Number (if available with the assessee) of the payee

iii(b) Aadhaar Number of the payee, if available

iv) Amount of payment *

₹

Cancel Add

Note: Particulars at (ba), (bb), (bc) and (bd) need not be given in the case of receipt by or payment to a Government company, a banking Company, a post office savings bank, a cooperative bank or in the case of transactions referred to in section 269SS or in the case of persons referred to in Notification No. S.O. 2065(E) dated 3rd July, 2017

This sub-clause is an extension of S. No. 31(bc) and requires to report only in case when the above mentioned payment is made by cheque or bank draft and the cheque or bank draft was not an account payee cheque or account payee bank draft.

There could be practical difficulties in verifying that the amount in question has been paid by account payee cheque or an account payee bank draft. In such cases, the tax auditor should verify the transactions with reference to such evidence which may be available and report in Form 3CA/3CB that:

"It is not possible for me/us to verify whether the assessee paid 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, by an account payee cheque or an account payee bank draft, during the previous year as the necessary evidence is not in the possession of the assesse."

CLAUSE – 31(c)

(c) Particulars of each repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T made during the previous year:-

i. name, address and Permanent Account Number (if available with the assessee) of the payee;

ii. amount of the repayment of loan or deposit or any specified advance and *code of the nature of such amount, as given in Note 1; [Dropdown to be provided]*;;

iii. maximum amount outstanding in the account at any time during the previous year;

iv. whether the repayment was made by cheque or bank draft or use of electronic clearing system through a bank account;

v. in case the repayment was made by cheque or bank draft, whether the same was repaid by an account payee cheque or an account payee bank draft.

Inserted by the IT (Eighth Amdt.) Rules, 2025, w.e.f. 1-4-2025

CLAUSE – 31(c)

Format in e-utility

c. Particulars of each repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T made during the previous year:-

+ Add Details

Add Detail

i) Name of the payee *

ii) Address of the payee *

iii(a) Permanent Account Number (if available with the assessee) of the payee

iii(b) Aadhaar Number of the payee, if available

iv) Amount of each repayment of loan or deposit or any specified advance *

₹

v) Maximum amount outstanding in the account at any time during the previous year *

₹

vi) Whether the repayment was made by cheque or bank draft or use of electronic clearing system through a bank account ? *

Select

vi(a) Code of the nature of such amount (as mentioned in field (iv) above) *

Select

vii) In case the repayment was made by cheque or bank draft, whether the same was repaid by an account payee cheque or an account payee bank draft. *

Select

Cancel Add

As per Page no 286 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Section 269T

57.1 Section 269T provides that no branch of a banking company or a cooperative bank and no other company or co-operative society and no firm or other person shall repay any loan or deposit made with it or any specified advance received by it otherwise than by an account payee cheque or account payee bank draft drawn in the name of the person who has made the loan or deposit or paid the specified advance, or by use of electronic clearing system through a bank account or through such other electronic mode as may be prescribed if –

(a) the amount of the loan or deposit or specified advance together with the interest, if any, payable thereon, or

As per Page no 287 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

(b) the aggregate amount of the loans or deposits held by such person with the branch of the banking company or co-operative bank or, as the case may be, the other company or co-operative society or the firm, or other person either in his own name or jointly with any other person on the date of such repayment together with the interest, if any, payable on

such loans or deposits, or

(c) the aggregate amount of the specified advances received by such person either in his own name or jointly with any other person on the date of such repayment together with the interest, if any, payable on such specified advances is Rs 20,000 or more.

An exception is provided for repayment by Primary Agricultural Credit Societies ("PACS") and Primary Co-Operative Agricultural and Rural Development Bank ("PCARD") by raising the amount to Rs 2,00,000 applicable w.e.f. 1st April 2023.

As per Page no 287 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

57.2 Sub clause 31(c) seeks information in respect of all the repayments made by the assessee of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T made during the previous year.

Section 269T is attracted upon repayment of the loan or deposit or specified advance made by a person, where the aggregate amount of such loans or deposits held by such person or specified advances received by such person either in his own name or jointly with any other person on the date of such repayment together with interest, if any, payable on such loan or deposit or specified advance is Rs. 20,000 or more and is made otherwise than by an account payee cheque or account payee bank draft drawn in the name of the person who has made the loan or deposit or paid the specified advance, or by use of electronic clearing system through a bank account or through such other electronic mode as may be prescribed.

As per Page no 287 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

57.3 The CBDT has vide notification no. 8/2020/F. No. 370142/14/2019-TPL dated 29th January 2020 prescribed the other electronic modes under Rule 6ABBA with effect from 1st September 2019.

As per Page no 287 & 288 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

57.4 **Clause (iii) of Explanation to Section 269T contains definition of the term "loan or deposit" for the purposes of section 269T.**

Accordingly, "**loan or deposit" means any deposit of money which is repayable after notice or repayable after a period and, in the case of a person other than a company, includes loan or deposit of any nature**.

Further, **Clause (iv) of Explanation to Section 269T defines "specified advance" mean, any sum of money in the nature of advance, by whatever name called, in relation to transfer of an immovable property, whether or not the transfer takes place**.

As such, all repayments made to any person where the loan or deposit or specified advance received along with interest payable thereon is Rs. 20,000 or more are to be reported under this sub-clause, even though the amount of repayment may be less than Rs. 20,000.

The tax auditor should, accordingly, verify such repayments reported.

As per Page no 288 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

57.5 The second proviso to section 269T excludes repayments of loans taken from Government, Government company, banking company, Corporation established by a Central, State or Provincial Act etc. from the scope of the above section, and therefore the tax auditor need not report repayments from such entities in his report.

However, section 269T does not exclude Government companies, banking companies from the scope of its applicability.

As such, details of repayment made to such entities are to be shown in the case of these entities also.

As per Page no 288 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

57.6 In the case of company assessee, loan or deposit is defined to mean deposit repayable after notice or loan or deposit repayable after a period.

Therefore, in case of a company, loan or deposit repayable on demand will not be considered for the purpose of this section as loan or deposit.

However, in the case of non-company assessee, loan or deposit is defined to mean loan or deposit of any nature.

This distinction will have to be kept in mind while giving information under this sub-clause.

As per Page no 288 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

57.7 Loan or deposits discharged by means of transfer entries or journal entries in the books of account constitute repayment of loan or deposits otherwise than by account payee cheque or account payee bank draft.

Hence, such entries have to be reported under this clause. In this regard it may be noted that the Code list inserted in Note 1 at the end of Clause 31 in Form No.3CD specifically includes the code for "Journal Entry".

Therefore, reporting is required in this clause where loan and deposits are repaid by means of journal entries (See para 57.13).

As per Page no 288 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

57.8 Codes for the nature of amount or repayment of loan or deposit or specified advance are provided in Note 1 (Refer para 57.13 of Guidance Note for guidance in this regard).

Accordingly, the tax auditor should obtain and verify the details of Code-wise details of repayment of loan or deposit or specified advance.

As per Page no 289 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

57.9 The tax auditor has to take into account the technological advancements in the field of banking and information technology where loans have been repaid other than through an account payee cheque of bank draft which are capable of being tracked such as bank transactions made electronically through the internet or through mail transfer or telegraphic transfer.

These types of payments, though not made by account payee cheques in the conventional manner, are capable of being tracked.

In order to judicially apply the provisions of section 269T, these amounts need not be reported in this clause.

As per Page no 289 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

57.10 The entries that relate to transactions with a supplier and customer on account of purchase or sale of goods /services will not be treated as loans or deposits repaid.

As per Page no 289 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

57.11 There may be practical difficulties in verifying the loan or deposit repaid by cheque or bank draft is otherwise than by way of an account payee cheque or an account payee bank draft.

In such cases, the tax auditor should obtain suitable certificate from the assessee to the effect that the repayments were made by account payee cheque or account payee bank draft.

Where the tax auditor has relied on the certificate of the assessee, the same shall be reported as an observation in clause (3) of Form No.3CA or clause (5) of Form No.3CB.

As per Page no 289 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

57.12 The monetary limit of Rs. 20,000 or more is applicable in respect of a banking company or a cooperative bank with reference to each branch and in all other cases, assessee as a whole.

It is recommended that the tax auditor maintains the following information in his working papers for the purpose of verifying the reporting in this clause in the format provided in the e-filing utility:

Sr. No	Name of the payee	Address of the payee	PAN or Aadhaar Number of the payee, if available	Amount of the repayment	Code of the nature of such amount, as given in Note 1 at the end of Clause 31 (Please See para 57.13 of Guidance Note)	Maximum amount outstanding in the account at any time during the previous year	Whether the repayment was made by cheque or bank draft or use of electronic clearing system through a bank account	In case the repayment was made by cheque or bank draft, whether the same was repaid by an account payee cheque or an account payee bank draft
1	2	3	4	5		6	7	8

As per Page no 290 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

57.13 **Note 1 : The code for the nature of amount/ receipt/ repayment is as below :**

Code	Nature of Amount, Receipt, or Repayment	Code
(1)	(2)	(3)
A	Cash payment	A
B	Cash receipt	B
C	Payment through a non-account payee cheque	C
C	Receipt through non- account payee cheque	D
E	Transfer of asset	E
F	Transfer of liability	F
G	Conversion of asset	G
H	Conversion of liability	H
I	Journal entry (Debit)	I
J	Journal entry (Credit)	J
K	Any other mode (Debit)	K
L	Any other mode (Credit)	L

As per Page no 290 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Each individual transaction of receipt of loan or deposit or specified sum and individual transaction of loan or deposit or specified advance repaid has to be reported separately by selecting the code from the drop down available, even if it is from the same person.

Tax auditor should obtain and verify the details of Code against each transaction of receipt of loan or deposit or specified sum or each transaction of repayment of loan or deposit or specified advance, as the case may be.

As per Page no 290 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

This list covers the modes of receipt of loan/deposit/specified sum. This is required in Clause 31(a) [for loan or deposit taken or accepted] and Clause 31(b) [for specified sum taken or accepted]. Accordingly, the tax auditor should obtain and verify the details of Code against each receipt of loan/deposit/specified sum.

This list also covers the modes of repayment of loan/deposit which would require reporting in Clause 31(c) [for loan or deposit or specified advance repaid].

Accordingly, the tax auditor should obtain and verify the details of Code against repayment or loan or deposit or specified advance.

As per Page no 291 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

The reporting is required for receipt/repayment of loan or deposit by way of cash or non-account payee cheque.

The Code list inserted by way of Note 1 signifies that receipt of loan or deposit or specified sum or repayment of loan or deposit or specified advance by way of journal entry, transfer of asset/liability or conversion of asset/liability or any other mode would also require reporting under clause 31(a)/31(b)/31(c), as the case may be, where it exceeds the specified threshold.

For example, the Code list indicates that if loan is repaid by transfer of asset like machinery or land, then, reporting under clause 31(c) relating to repayment of loan is required.

Likewise, reporting under clause 31(c) would also be required where loan is converted into equity shares.

As per Page no 291 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

As regards loan taken, an example can be where a non-banking finance company or an asset reconstruction company acquires loan assets of a bank, the consideration for which is wholly or partly in the form of security receipts. In this case, reporting would be required by the acquirer in clause 31(a) (in relation to loan accepted) under the relevant code given in Note 1.

The tax auditor must check the complete movement of loans and deposits, including the outstanding loan and deposits at the beginning of the year, loans taken and deposits accepted during the year and loans and deposits repaid during the year.

He should carefully examine the books of account and check if the loans taken/repaid and deposits accepted/repaid are through any of the modes as indicated in the code list above.

If the same have not been reported in clause 31, he may point out the same in his observations in Form No.3CA/Form No.3CB.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports, it has been observed that:

a) 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.

b) 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 51.5 of the Guidance Note has been used, as it is, without making the necessary changes 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.

Issue on clause 31

Issue 1

The revised drop down-based system now **captures the negative modes of payment/receipt -** that is, **transactions undertaken otherwise than through account payee cheque, draft, or electronic transfer.**

Had the **permitted modes of payment/receipt** (i.e., account payee cheque, draft, or electronic transfer) also been **included in the dropdown options,** the **reporting requirements under certain sub-clauses could have been omitted** altogether like

- 31(a)(v), 31(a)(vi)

(where receipts of loan or deposit through account payee cheque / draft / electronic transfer is required to be reported)

- 31(b)(iii), 31(b)(iv)

(where receipts of specified sum through account payee cheque / draft / electronic transfer is required to be reported)

- 31(c)(iv), 31(c)(v)

(where repayment of loan or deposit or any specified sum through account payee cheque / draft / electronic transfer is required to be reported)

However, **since the new dropdown captures only the negative modes** of payment, the **aforementioned clauses continue to remain part of the tax audit report**.

A closer look at the amendments to Clause 31(a) and (b), particularly sub-clause (ii), reveals a structural shift.

Previously, both positive and negative reporting were made under the existing sub-clauses.

With the amendment, the responsibility for reporting negative transactions has now been moved to Clause 31(a)(ii) and 31(b)(ii).

Consequently, the residual sub-clauses -namely 31(a)(v), 31(a)(vi), 31(b)(iii), 31(b)(iv), 31(c)(iv), and 31(c)(v) -now appear to cater primarily to positive reporting.

However, no corresponding change has been made to the language of these clauses to clarify that they are now limited to positive reporting.

This lack of clarity may lead to the interpretation that negative reporting is still required under these sub-clauses, as was the case before the amendment.

Ideally, the language of these clauses should have been updated to reflect this functional shift.

Alternatively, had the dropdown list also included the positive modes of payment, it could have enabled complete omission of the above sub-clauses, thereby simplifying the reporting framework.

Issue - 2

On examining the changes in Clause 31(a) and 31(b), it is noted that the substituted text reads:

"Amount of each loan or deposit taken or accepted and code of the nature of such amount, as given in Note 1."

Clause 31(a) pertains to loans or deposits taken or accepted, whereas Clause 31(b) deals with "specified sums," which primarily refer to amounts received on account of the transfer of immovable property.

However, the amendment as notified, refers only to loans or deposits and remains completely silent with respect to "specified sums."

This creates an interpretational gap.

Ideally, the amendment should have been structured in three distinct parts - separately addressing Clauses 31(a), 31(b), and 31(c).

Instead, a joint amendment has been made for Clauses 31(a) and 31(b), which has led to ambiguity and confusion.

However, it appears unlikely that the intention was to exclude reporting of specified sums.

The omission seems inadvertent rather than deliberate and may require clarification or rectification by the authorities to align with the broader compliance objective.

Issue - 3

Consider a case where a company has received a loan during the year on 15 different dates.

Out of these, 14 receipts were made through proper banking channels-account payee cheque, draft, or electronic transfer-while only one transaction was recorded through a journal entry.

Even with the new amendment introducing dropdown-based reporting, there remains ambiguity on how to handle such mixed-mode transactions.

The **revised format does not clearly indicate whether each transaction needs to be disclosed separately based on the mode of receipt, or whether a consolidated reporting approach is acceptable.**

In the absence of specific guidance, a practical approach would be to report the 14 compliant transactions as a single line item under the category of "account payee cheque/draft/banking channel" and report the single journal entry separately under the "journal entry" or "otherwise than by account payee cheque/draft" category.

This bifurcated disclosure can help ensure that only the transaction requiring attention is flagged, and unnecessary exposure or misreporting of compliant entries is avoided.

However, this is still a workaround, and a formal clarification from the authorities would have assisted to standardize the reporting methodology in such cases.

CLAUSE – 31(d)

(d) Particulars of repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year:-

(i) name, address and Permanent Account Number (if available with the assessee) of the payee

(ii) repayment of loan or deposit or any specified advance received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year.

CLAUSE – 31(d)

Format in e-utility

d. Particulars of repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year:-

+ Add Details

Add Detail

i) Name of the payer *

ii) Address of the payer *

iii(a) Permanent Account Number (if available with the assessee) of the payer

iii(b) Aadhaar Number of the payer, if available

iv) Amount of repayment of loan or deposit or any specified advance received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year *

₹

Cancel Add

As per Page no 291 & 292 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

58.1 Under this sub-clause, the details of repayment received by the assessee from a person in respect of loan or deposit or specified advance exceeding the limit specified in section 269T received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year based on the examination of books of account & other relevant documents have to be provided.

In the case of a repayment of any loan or deposit or any specified advance taken or accepted from Government, Government company, banking company or a corporation established by a Central, State or Provincial Act, the particulars under this sub clause need not be given.

As per Page no 292 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

58.2 However, section 269T does not exclude loans repaid by Government companies, banking companies, corporation established by a Central, State or Provincial Act from the scope of its applicability.

As such, details of repayment made by such entities are to be shown. It may be noted that the requirement under this sub-clause is applicable for the repayment of loans or deposits or specified advances together with interest which are in excess of Rs 20,000/-.

As per Page no 292 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

58.3 Practically, especially in case the repayments are voluminous, it may not be possible to verify the mode of each repayment received, reflected in the bank statement.

It is, thus, desirable that the tax auditor should obtain suitable certificate from the assessee as to the repayment received and the mode of such repayment.

Where the tax auditor has verified on the basis of the certificate of the assessee, the same shall be reported as an observation in clause (3) of Form No. 3CA or clause (5) of Form No. 3CB, as the case may be.

As per Page no 292 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

58.4 It is recommended that the tax auditor maintains the following information in his working papers for the purpose of verifying the reporting in this clause in the format provided in the e-filing utility:

Sr. No.	Name of the payer	Address of the payer	PAN or Aadhaar Number of the payer, if available	Amount of repayment of loan or deposit or any specified advance received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year

CLAUSE – 31(e)

(e) Particulars of repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T received by a cheque or bank draft which is not an account payee cheque or account payee bank draft during the previous year:-

(i) name, address and Permanent Account Number (if available with the assessee) of the lender, or depositor or person from whom specified advance is received;

(ii) repayment of loan or deposit or any specified advance received by a cheque or a bank draft which is not an account payee cheque or account payee bank draft during the previous year

(Particulars at (c), (d) and (e) need not be given in the case of a repayment of any loan or deposit or any specified advance taken or accepted from the Government, Government company, banking company or a corporation established by the Central, State or Provincial Act).

CLAUSE – 31(e)

Format in e-utility

e. Particulars of repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T received by a cheque or bank draft which is not an account payee cheque or account payee bank draft during the previous year:-

+ Add Details

Add Detail

i) Name of the payer *

ii) Address of the payer *

iii(a) Permanent Account Number (if available with the assessee) of the payer

iii(b) Aadhaar Number of the payer, if available

iv) Amount of repayment of loan or deposit or any specified advance received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year *

₹

Cancel Add

Note: Particulars at (c), (d) and (e) need not be given in the case of a repayment of any loan or deposit or specified advance taken or accepted from Government, Government company, banking company or a corporation established by a Central, State or Provincial Act

As per Page no 292 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

59.1 Under this sub-clause, the tax auditor has to verify details of repayment received by the assessee from a person in respect of loan or deposit or specified advance exceeding the limit specified in section 269T received by a cheque or bank draft which is not an account payee cheque or account payee bank draft during the previous year based on the examination of books of account and other relevant documents.

In the case of a repayment of any loan or deposit or any specified advance taken or accepted from Government, Government company, banking company or a corporation established by a Central, State or Provincial Act, the particulars under this sub-clause need not be given.

As per Page no 292 & 293 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

59.2 However, section 269T does not exclude loans repaid by Government companies, banking companies, corporation established by a Central, State or Provincial Act from the scope of its applicability.

As such, details of repayment made by such entities are to be shown.

It may be noted that the requirement under this sub-clause is applicable for the repayment of loans or deposits or specified advances together with interest which are in excess of Rs 20,000/-.

As per Page no 293 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

59.3 Practically, it may not be possible to verify each repayment received, reflected in the bank statement, as to whether the same has been through cheque, bank draft which is not an account payee cheque or account payee bank draft.

Therefore, certificate may be obtained from the assessee and where the reporting has been done on the basis of the certificate of the assessee, the same shall be reported as an observation in clause (3) of Form No. 3CA or clause (5) of Form No. 3CB.

As per Page no 293 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

59.4 It is recommended that the tax auditor considers the above guidance while verifying the following particulars reported in this sub-clause in the format provided in the e-filing utility:

Sr. No.	Name of the payer	Address of the payer	PAN or Aadhaar Number of the payer, if available	Amount of repayment of loan or deposit or any specified advance received by a cheque or bank draft which is not an account payee cheque or account payee bank draft during the previous year

Clause 32(a)

a) Details of brought forward loss or depreciation allowance, in the following manner, to the extent available

b) Whether a change in shareholding of the company has taken place in the previous year due to which the losses incurred prior to the previous year cannot be allowed to be carried forward in terms of section 79.

b) Whether the assessee has incurred any speculation loss referred to in section 73 during the previous year, If yes, please furnish the details of the same.

c) whether the assessee has incurred any loss referred to in section 73A in respect of any specified business during the previous year, if yes, please furnish details of the same.

d) In case of a company, please state that whether the company is deemed to be carrying on a speculation business as referred in explanation to section 73, if yes, please furnish the details of speculation loss if any incurred during the previous year.

CLAUSE – 32

Format in e-utility

Clause 32

* Indicates mandatory fields

32. a. Details of brought forward loss or depreciation allowance, in the following manner, to the extent available

+ Add Details

Add Detail

i) Assessment Year *

ii) Nature of loss/allowance *

Select

CLAUSE – 32

Format in e-utility

iii) Amount as returned (if the assessed depreciation is less and no appeal pending then take assessed) *

₹

viii) Date of order *

Choose a date

iv) All losses/allowances not allowed under section 115BAA/115BAC/115BAD/115BAE *

₹

ix) Remarks *

v) Amount as adjusted by withdrawal of additional depreciation on account of opting for taxation under section 115BAC/115BAD/115BAE(To be filled in only for assessment year 2021-22 and 2024-25 only, as applicable)

₹

Cancel Add

Amount as assessed (give reference to relevant order)

vi) Amount *

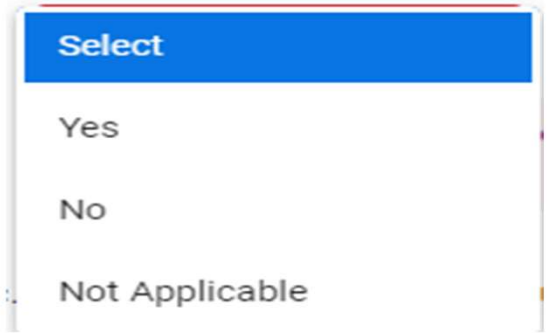
₹

vii) Order U/S *

CLAUSE – 32

Format in e-utility

b. Whether a change in shareholding of the company has taken place in the previous year due to which the losses incurred prior to the previous year cannot be allowed to be carried forward in terms of section 79 ? *



c. Whether the assessee has incurred any speculation loss referred to in section 73 during the previous year ? *

No

If yes, please furnish the details of the same.

₹

CLAUSE – 32

Format in e-utility

d. Whether the assessee has incurred any loss referred to in section 73A in respect of any specified business during the previous year ? *

No

If yes, please furnish the details of the same.

₹

e. In case of a company, please state that whether the company is deemed to be carrying on a speculation business as referred in explanation to section 73. *

No

If yes, please furnish the details of speculation loss if any incurred during the previous year.

₹

As per Page no 294 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

60.Clause 32(a)-Details of brought forward loss or depreciation allowance.

60.1 The amount of **brought forward loss or depreciation allowance is required to be quantified as per return and assessment orders read with appellate orders, if any.**

Depreciation on goodwill will not be available from AY 2021-22.

As per Page no 295 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

60.3 Brought forward losses may relate to different heads of income such as property income, profits and gains of business or profession, speculation business or capital gains.

Different provisions are contained in sections 32 and 70 to 79A of the Income-tax Act with regard to loss / depreciation under different heads.

In the remarks column information about the pending assessment or appellate proceedings or about delay in filing loss returns should be given.

For giving the above information, the auditors should study the assessment records i.e. income-tax returns filed, assessment orders, appellate orders, orders giving effect to appellate order and rectification/ revisional orders for the earlier years and ascertain if the figures given in the above clause are correct.

As per Page no 295 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Attention of the members is invited to provisions of section 80 read with section 139(3) of the Income-tax Act, 1961.

Section 80 provides that notwithstanding anything contained in Chapter VI of the Act, no loss which has not been determined in pursuance of a return filed in accordance with the provisions of sub-section (3) of section 139 shall be carried forward and set off under sub-section (1) of section 72 or sub-section (2) of section 73 or subsection (2) of section 73A or sub-sections (1) of section 74 or sub-section (3) of section 74A.

Besides these, the tax auditor should keep in mind the provisions of section 71B regarding Carry Forward and Set Off of Loss from House Property, section 73A regarding Carry Forward and Set Off of Losses by Specified Business and also section 78 regarding Carry Forward and Set Off of Losses in case of Change in Constitution of Firm or on Succession.

As per Page no 299 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

61. Clause 32(b)- Details of change in shareholding, if any

61.1

- Section 79 of the Act provides that,
- notwithstanding anything contained in Chapter VI of the Act,
- in the case of a company,
- not being a company in which the public are substantially interested,
- where a change in shareholding has taken place in a previous year,
- then no loss incurred in any year prior to the previous year shall be carried forward
- and set off against the income of the previous year,
- unless on the last day of that previous year and
- on the last day of the previous year in which the loss was incurred,
- the shares of the company
- carrying not less than 51% of the voting power
- were beneficially held by the same persons.

As per Page no 299 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

61.3 This provision shall not apply to a change in the shareholding consequent upon :

(a) the death of a shareholder, or on account of transfer of shares by way of gifts to any relative of the shareholder making such gift

(b) any change in the shareholding of an Indian company which is a subsidiary of a foreign company as a result of amalgamation or demerger of a foreign company subject to the condition that fifty-one per cent shareholders of amalgamating or demerged foreign company continue to be the shareholders of the amalgamated or the resulting foreign company

(c) A resolution plan approved under the Insolvency and Bankruptcy Code, 2016, after affording a reasonable opportunity of being heard to the jurisdictional Principal Commissioner or Commissioner.

As per Page no 300 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

(d) to a company, and its subsidiary and the subsidiary of such subsidiary, where,-

(i) The Tribunal, on an application moved by the Central Government under section 241 of the Companies Act, 2013 has suspended the Board of Directors of such company and has appointed new directors nominated by the Central Government, under section 242 of the said Act and

(ii) a change in shareholding of such company, and its subsidiary and the subsidiary of such subsidiary, has taken place in a previous year pursuant to a resolution plan approved by the Tribunal under section 242 of the Companies Act, 2013 after affording a reasonable opportunity of being heard to the jurisdictional Principal Commissioner or Commissioner.

As per Page no 300 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

(e) to a company to the extent that a change in shareholding has taken place during previous year on account of relocation referred to in Explanation to clauses (viiac) & (viiad) of section 47.

(f) to an erstwhile public sector company subject to the condition that the ultimate holding company of such company, immediately after the completion of strategic disinvestment, continues to hold 51% voting power in aggregate, directly or indirectly through its subsidiary or subsidiaries

As per Page no 300 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

61.4 Sub-section (3) reads as follows -

“Notwithstanding anything contained in sub-section (2), if the condition specified in above clause (f) of the said subsection is not complied with in any previous year after the completion of the strategic disinvestment, the provisions of sub-section (1) shall apply for such previous year and subsequent years”.

As per Page no 300 & 301 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

61.5 Therefore, the tax auditor has to additionally check the compliances under the above clauses and sub-section The tax auditor should obtain the details of changes in voting power pattern year-on-year and verify the reasons for any such changes before determining the allowability of losses eligible to be carried forward.

The tax auditor should obtain necessary representation to this effect wherever it is not feasible to verify or cross-check the shareholding pattern and changes therein.

As per Page no 301 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

61.6 However, the overriding provisions of section 79 do not affect the set-off of unabsorbed depreciation which is governed by section 32(2) **[CIT v Concord Industries Ltd. (1979) 119 ITR 458 (Mad)], CIT v. Shri Subbulaxmi Mills Ltd. 249 ITR 795 (SC).**

Also, unabsorbed capital expenditure on scientific research and unabsorbed capital expenditure on promoting family planning amongst the employees is not affected by this provision.

Although, the provisions of section 79 are overriding in case of unabsorbed depreciation, the tax auditor should check the provisions of section 79A onwards as regards to undisclosed income during the course of survey or search proceedings.

As per Page no 302 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

62. Clause 32(c) - Speculation Loss under section 73 of the Income Tax Act.

62.1 Section 73 of the Act provides for the treatment of losses in speculation business.

Section 73(1) provides that any loss, computed in respect of a speculation business carried on by the assessee shall not be set off except against profits and gains, if any, of another speculation business.

62.4 Furthermore, section 73(4) provides that no loss shall be carried forward under this section for more than four assessment years immediately succeeding the assessment year for which the loss was first computed.

As per Page no 304 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

62.10 It is recommended that the tax auditor maintains the following information in his working papers for the purpose of verifying the reporting in this clause in the format provided in the e-filing utility.

S. No.	Nature of loss	Amount of loss for the current year	Brought forward loss of the earlier year(s)	Total loss to be carried forward to the subsequent year	Break- up of the speculation loss in terms of the number of years for which it has been carried forward	Whether the speculation loss has been set off against any other income other than profit & loss, if any, of speculation business

As per Page no 305 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

63. Clause 32(d) – Details of Losses incurred in respect of a Specified business as referred to under section 73A.

63.1 Section 73A provides for provisions relating to carry forward and set off of losses by specified business.

It provides that any loss, computed in respect of any specified business referred to in section 35AD shall not be set off except against profits and gains, if any, of any other specified business.

It is not necessary that the nature of specified business in which loss is set off should be the same as that of the specified business in which loss was incurred.

As per Page no 305 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

63.3 Under clause 32(d), the tax auditor has to verify from the books of account and other relevant documents as to whether the assessee is carrying on specified business as referred to under section 35AD.

In case the auditor is of the opinion that the assessee is carrying on such specified business, he has to furnish the details of the loss incurred, if any, in respect of any specified business during the previous year.

In case the assessee carries on more than one specified businesses, and losses have been incurred in more than one such business, the details of the loss incurred with respect of each business is to be specified separately.

As per Page no 305 & 306 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

63.4 It is recommended that the tax auditor maintains the following information in his working papers for the purpose of verifying the reporting in this clause in the format provided in the e-filing utility:

S. No	Nature of specified business	Amount of loss incurred, if any, during the previous year, with regard to the Specified business mentioned in (b)	Loss from specified business brought forward from the earlier year	Amount of loss being set off against other specified business	Year of loss	Amount of loss being Carried forward to the next assessment year	Whether loss set off Against any other Income other than from specified Business as per sec. 35AD of the Act
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)

As per Page no 306 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

64. Clause 32(e)-Details of speculation loss, if any, incurred from deemed Speculation business as referred to in Explanation to section 73:

64.1 The Explanation to section 73 provides that where any part of the business of a company (other than a company whose gross total income consists mainly of income which is chargeable under the heads "Interest on securities"', "Income from house property", "Capital gains" and" Income from other sources" or a company the principal business of which is the business of trading in shares or banking or the granting of loans and advances) consists in the purchase and sale of shares of other companies, such company shall, for the purposes of this section, be deemed to be carrying on a speculation business to the extent to which the business consists of the purchase and sale of such shares.

As per Page no 306 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

64.2 Under this clause, the tax auditor has to furnish the details regarding the speculation losses incurred, if any, as referred in explanation to section 73.

The auditor may obtain information in the following format from the assessee and verify the same from the books of account,

S. No	Applicable section	Nature of loss	AY of incurring loss	Amount of Loss	Amount set off during current AY	Amount to be carried forward
1	2	3	4	5	6	7

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

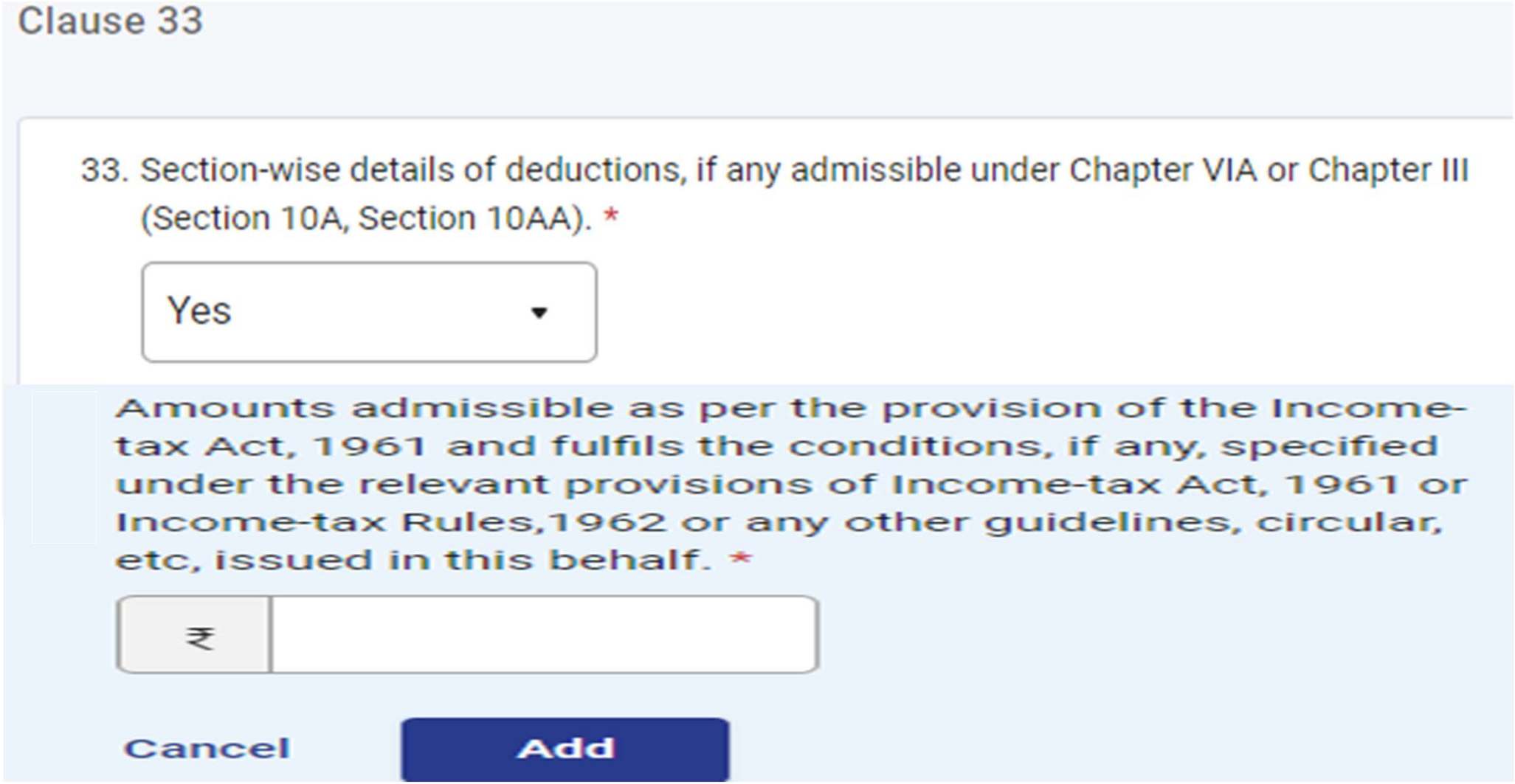
While reviewing various tax audit reports it was observed that in certain reports the 'section under which assessment order was passed' and 'date of order' was not reported.

CLAUSE - 33

Section-wise details of deductions, if any, admissible under Chapter VIA or Chapter III (Section 10A, Section 10AA).	
Section under which deduction is claimed	Amounts admissible as per the provision of the Income Tax Act, 1961 and fulfils the conditions, if any, specified under the relevant provisions of Income Tax Act, 1961 or Income Tax Rules,1962 or any other guidelines, circular, etc, issued in this behalf.

CLAUSE – 33

Format in e-utility



S No. 33: Section-wise details of deductions, if any, admissible under Chapter VIA or Chapter III (Section 10A, Section 10 AA)

- The admissibility of the aforesaid deductions/exemptions is dependent upon various conditions.
- It is, therefore, advised that while working out the amount of admissible deduction the tax auditor has to ascertain that those condition stand fulfilled or not.

- For ascertaining this, the auditor should obtain all necessary evidence which would enable him to express the opinion regarding the admissibility of deductions.

In the case of a sole proprietor being an individual or HUF the auditor would be auditing the accounts of the business / profession and he may have other activities and other sources of income in respect of which tax audit is not mandatory.

In such cases the particulars of deductions admissible under Chapter VIA has to be given with reference to the items appearing in the books of accounts of the business/profession which is subject to audit u/s 44AB

There may be cases where there is difference between the amount claimed by the assessee and the amount computed by the auditor-

a) In such cases it is quite possible that the client's claim is based on some judicial pronouncement on the subject.

In such case the tax auditor should report the amount admissible with his comments in Form 3CA/ 3CB.

b) If the claim of the assessee is well-founded and settled by judicial pronouncement the tax auditor may accept the claim but he has to record in his working papers that admissible amount has been reported on the basis of such judicial pronouncement.

He may report the amount admissible with his comments in Form 3CA/ 3CB.

CLAUSE NO. 34(a)

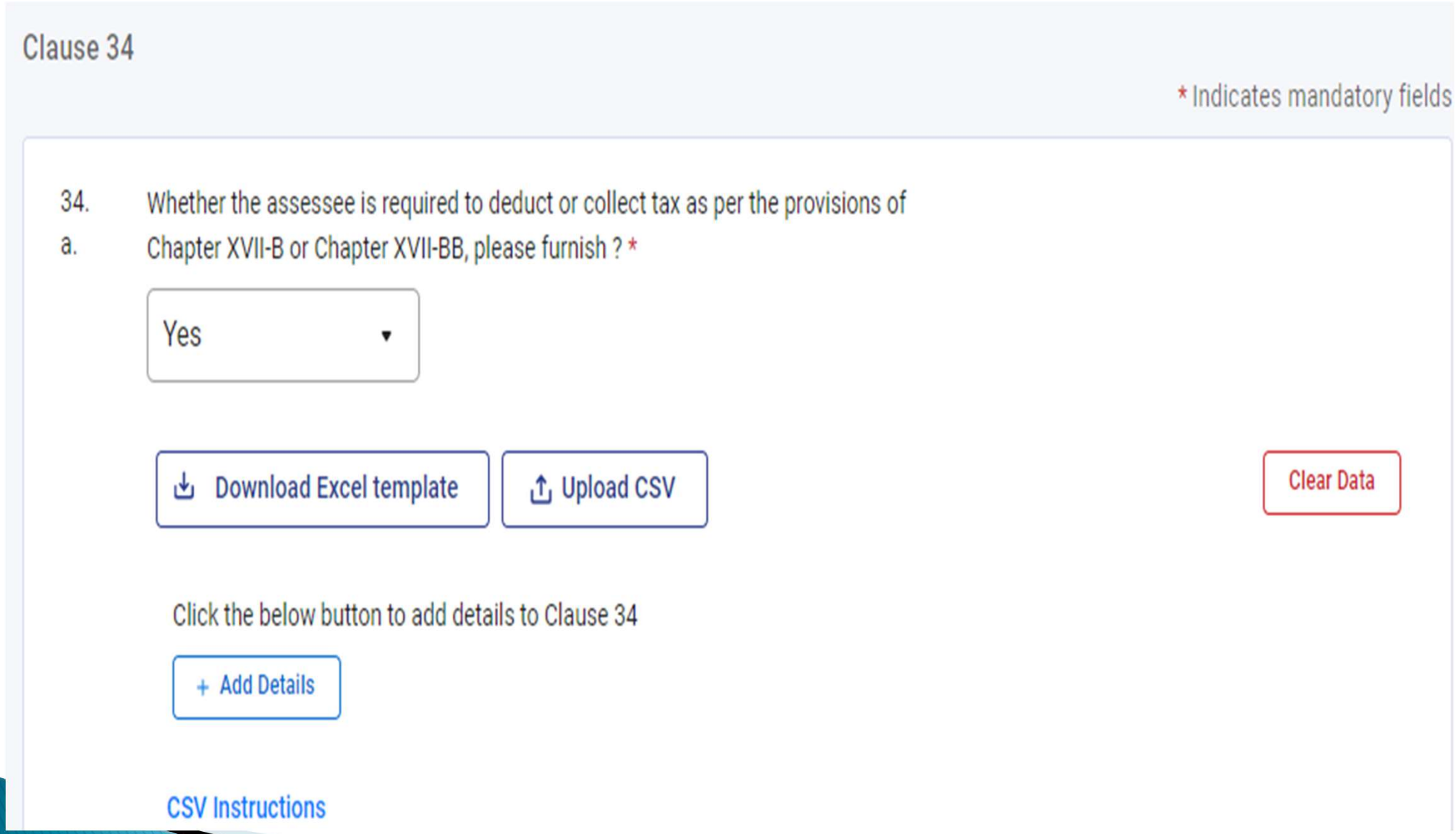
(a) Whether the assessee is required to deduct or collect tax as per the provisions of Chapter XVII-B or Chapter XVII-BB, if yes please furnish:

Tax deduction and collection Account Number (TAN)	**(1)**
Section	(2)
Nature of payment	(3)
Total amount of payment or receipt of the nature specified in column (3)	(4)
Total amount on which tax was required to be deducted or collected out of (4)	(5)
Total amount on which tax was deducted or collected at specified rate out of (5)	(6)
Amount of tax deducted or collected out of (6)	(7)
Total amount on which tax was deducted or collected at less than specified rate out of ~~(7)~~ **[logically it should be (5)]**	(8)
Amount of tax deducted or collected on (8)	(9)
Amount of tax deducted or collected not deposited to the credit of the Central Government out of ~~**(6) and (8)**~~ **[logically it should be (7) and (9)]**	(10)

Yet not updated in E-utility

CLAUSE – 34(a)

Format in e-utility



CLAUSE – 34(a)

Format in e-utility

3. Nature of payment *

4. Total amount of payment or receipt of the nature specified in column (3) *

₹

5. Total amount on which tax was required to be deducted or collected out of (4) *

₹

6. Total amount on which tax was deducted or collected at specified rate out of (5) *

₹

7. Amount of tax deducted or collected out of (6) *

₹

8. Total amount on which tax was deducted or collected at less than specified rate out of (7) *

₹

9. Amount of tax deducted or collected on (8) *

₹

10. Amount of tax deducted or collected not deposited to the credit of the Central Government out of (6) and (8) *

₹

Cancel Add

CLAUSE – 34(a)

Format in e-utility

b. Whether the assessee is required to furnish the statement of tax deducted or tax collected ? *

Yes

please furnish the details:

Download Excel template | Upload CSV | Clear Data

Add Detail

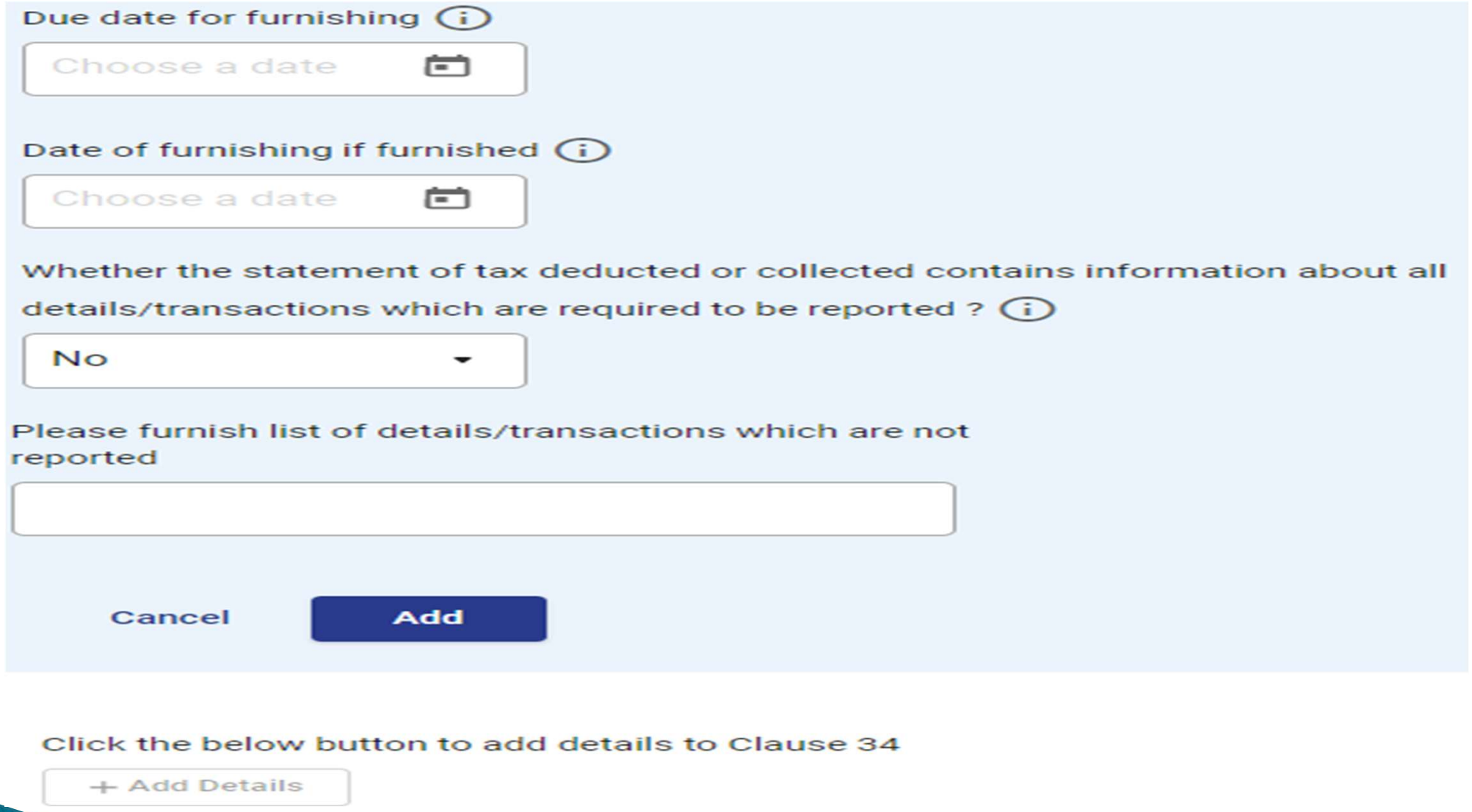
Tax deduction and collection Account Number (TAN) *

Type of Form *

Select

CLAUSE – 34(b) & (c)

Format in e-utility



CLAUSE – 34(b) & (c)

Format in e-utility

c. Whether the assessee is liable to pay interest under section 201(1A) or section 206C(7) ? *

Yes

please furnish:

Download Excel template | Upload CSV | Clear Data

Add Detail

Tax deduction and collection Account Number (TAN) *

Error : Please enter the TAN. In case of non-availability of TAN, fill 'DTAN99999T' in the TAN field

Amount of interest under section 201(1A)/206C(7) is payable *

₹

CLAUSE – 34(b) & (c)

Format in e-utility

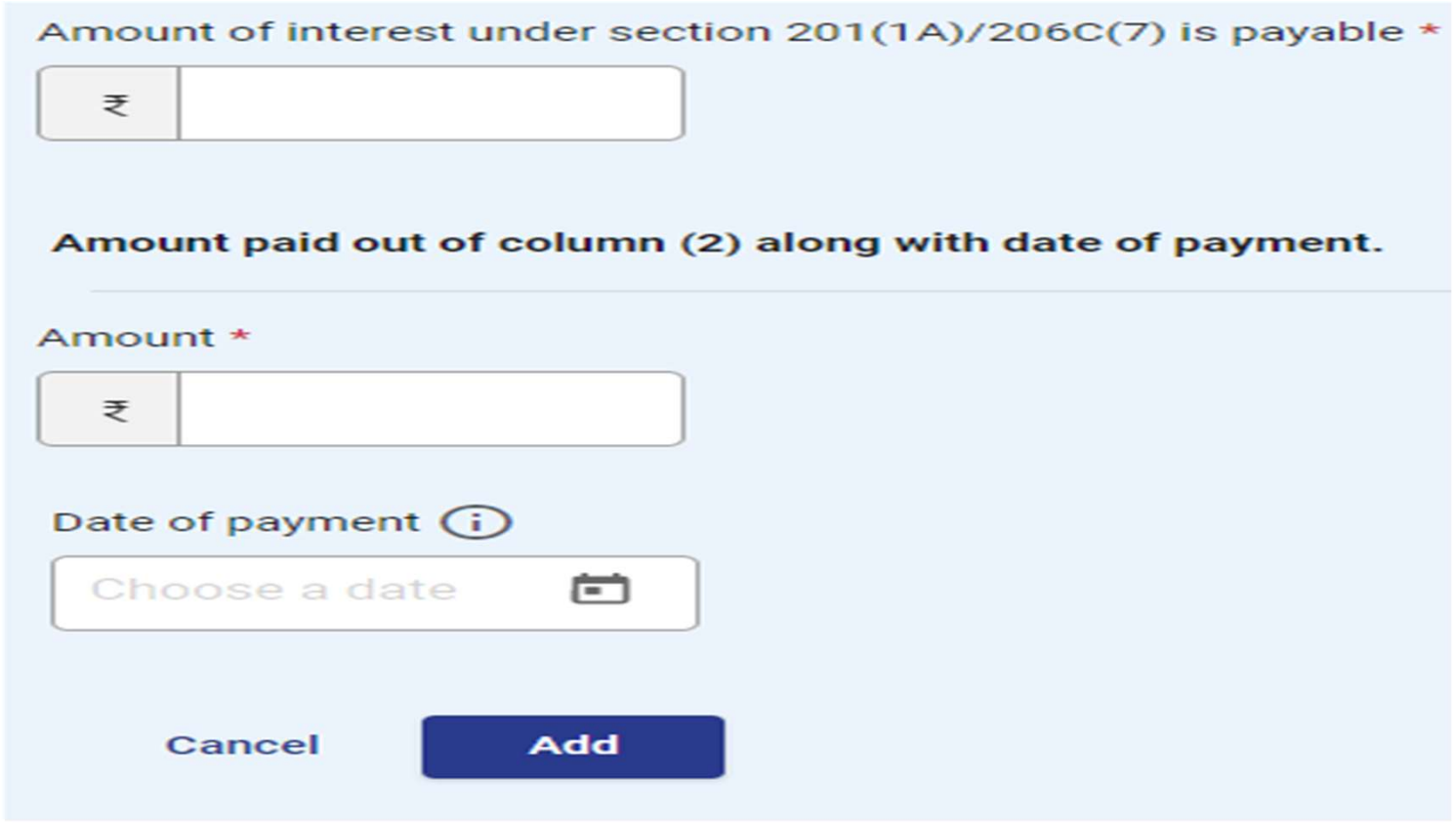


ILLUSTRATION ON TDS

	Particulars	Amount (Rs.)
A	Total Interest as per P & L a/c	10 Lakhs
B	**Payments made on which TDS provisions are not applicable** 1. Interest to Partners 1.20 Lakhs 2. Interest to Bank 70 Thousand 3. Interest Paid to Government (196) 30 Thousand 4. Interest to Others below threshold limit 50 Thousand 5. Total amount for which 15G/15H Received 1.50 Lakhs	4.20 Lakhs
C	Interest covered under Certificate of deduction at lower rate (2%)	50 Thousand
D	Interest covered under Certificate of deduction at Nil rate	25 Thousand
E	Interest to Non Residents covered u/s 195	1.25 Lakhs
F	Interest on which tax deducted at Normal rate i.e., 10%	60 Thousand
G	Interest on which tax deducted at Higher Rate - 15% (by mistake)	40 Thousand
H	Interest on which tax deducted at lower rate by mistake (5%)	30 Thousand
I	Interest on which tax deducted at lower rate, but remitted at specified rate	90 Thousand
J	Interest on which tax deducted, but not remitted	35 Thousand
K	Interest on which tax deductible, but not deducted	45 Thousand
L	Int. on which Tax Not Deducted but Payee complied all 4 conditions as in Proviso to S.201(1) - Thus deductor not deemed to be "Assessee in Default".	80 thousand
M	TDS remitted to Central Govt (As per challan)	23,500

TAN	1	BLRS78693Y
SECTION	2	194A
NATURE OF PAYMENT	3	INTEREST OTHER THAN INTEREST ON SECURITIES
TOTAL AMOUNT OF PAYMENT OR RECEIPT OF THE NATURE SPECIFIED IN COLUMN 3	4	8,75,000
TOTAL AMOUNT ON WHICH TAX WAS REQUIRED TO BE DEDUCTED OR COLLECTED OUT OF 4	5	4,55,000
TOTAL AMOUNT ON WHICH TAX WAS DEDUCTED OR COLLECTED AT SPECIFIED RATE OUT OF 5	6	3,80,000
AMOUNT OF TAX DEDUCTED OR COLLECTED OUT OF 6	7	25,500
TOTAL AMOUNT ON WHICH TAX WAS DEDUCTED OR COLLECTED AT LESS THAN SPECIFIED RATE OUT OF 7(should be actually read as col 5)	8	30,000
AMOUNT OF TAX DEDUCTED OR COLLECTED OUT OF 8	9	1500
TOTAL AMOUNT OF TAX DEDUCTED OR COLLECTED NOT DEPOSITED TO THE CREDIT OF CENTRAL GOVT. OUT OF 6 & 8(should be actually read as col 7& 9)	10	3500

WORKINGS

COLUMN 4: TOTAL AMOUNT OF PAYMENT OR RECEIPT OF THE NATURE SPECIFIED IN COLUMN 3

Interest as per P&L a/c	Rs 10.00 lakhs
(-)Interest on Non-Resident U/s 195	Rs. 1.25 Lakhs
Amount to be entered in Column 4	Rs. 8.75 Lakhs

WORKINGS

COLUMN 5: TOTAL AMOUNT ON WHICH TAX WAS REQUIRED TO BE DEDUCTED OR COLLECTED OUT OF 4

Amount as per Column 4		Rs 8.75 lakhs
(-) B payments made on which T D S provision are not applicable 1. Interest to Partners 2. Interest to Bank 3. Interest Paid to Government (Sec 196) 4. Interest to Others below threshold limit 5. Total Interest for which15G/15H Received	 Rs 1.20 Lakhs Rs 70 Thousand Rs 30 Thousand Rs 50 Thousand Rs 1.50 Lakhs	 Rs. 4.20 Lakhs
Amount to be entered in Column 5		Rs. 4.55 Lakhs

WORKINGS

COLUMN 6: TOTAL AMOUNT ON WHICH TAX WAS DEDUCTED OR COLLECTED AT SPECIFIED RATE OUT OF 5

	Particulars	COLUMN 6 - Amount
C	Interest covered under Certificate of deduction at lower rate (2%)	50,000
D	Interest covered under Certificate of deduction at Nil rate	25,000
F	Interest on which tax deducted at Normal rate i.e., 10%	60,000
G	Interest on which tax deducted at Higher Rate - 15% (by mistake)	40 ,000
I	Interest on which tax deducted at lower rate, but remitted at specified rate	90,000
J	Interest on which tax deducted, but not remitted	35,000
L	Int. on which Tax Not Deducted but Payee complied all 4 conditions as in Proviso to S.201(1) - Thus deductor not deemed to be "Assessee in Default".	80,0000
		3,80, 000

WORKINGS

COLUMN 7: AMOUNT OF TAX DEDUCTED OR COLLECTED OUT OF 6

	Particulars	COLUMN 7 – T DS
C	Interest covered under Certificate of deduction at lower rate (2%)	1,000
D	Interest covered under Certificate of deduction at Nil rate	
F	Interest on which tax deducted at Normal rate i.e., 10%	6,000
G	Interest on which tax deducted at Higher Rate - 15% (by mistake)	6,000
I	Interest on which tax deducted at lower rate, but remitted at specified rate	9,000
J	Interest on which tax deducted, but not remitted	3,500
L	Int. on which Tax Not Deducted but Payee complied all 4 conditions as in Proviso to S.201(1) - Thus deductor not deemed to be "Assessee in Default".	NIL
		25,500

WORKINGS

COLUMN 8: TOTAL AMOUNT ON WHICH TAX WAS DEDUCTED OR COLLECTED AT LESS THAN SPECIFIED RATE OUT OF 7(should be actually col 5)

COLUMN 9: AMOUNT OF TAX DEDUCTED OR COLLECTED OUT OF 8

COLUMN 8 – Amount		COLUMN 9 – TDS
H	Rs 30,000	Rs 1,500
TOTAL	Rs 30,000	Rs 1,500

WORKINGS

COLUMN 10: TOTAL AMOUNT OF TAX DEDUCTED OR COLLECTED NOT DEPOSITED TO THE CREDIT OF CENTRAL GOVT. OUT OF 6 & 8(should be actually read as col 7& 9)

Amount		COLUMN 10 - TDS
J	Rs 35,000	Rs 3,500

Reconciliation of Remittance of TDS

Reconciliation of Remittance of TDS	M
Amount of Tax deducted @ Specified rate	Rs 25,500
(+) Amount of Tax deducted @ lower than specified rate	Rs 1,500
(-) Amount of Tax deducted but not deposited with Central Govt.	Rs 3,500
Amount matching with TDS Challan	Rs 23,500

Disallowance under Sec 40(a)(ia)

Particulars	
J: Interest on which tax deducted, but not remitted	Rs 35,000
K: Interest on which tax deductible, but not deducted	Rs 45,000
Total	**Rs 80,000**

L: 4 Conditions to be complied as in proviso to S.201(1)

[**Provided** that any person, including the principal officer of a company, who fails to deduct the whole or any part of the tax in accordance with the provisions of this Chapter on the sum paid to a resident or on the sum credited to the account of a resident shall not be deemed to be an assessee in default in respect of such tax if such resident—

(*i*) has furnished his return of income under section 139;

(*ii*) has taken into account such sum for computing income in such return of income; and

(*iii*) has paid the tax due on the income declared by him in such return of income,

(iv)and the person furnishes a certificate to this effect from an accountant in such form as may be prescribed:]

FORM No. 26A

[See rule 31ACB]

Form for furnishing accountant certificate under the first proviso to sub-section (1) of section 201 of the Income-tax Act, 1961

I (name)_____ am the person responsible for paying (within the meaning of section 204) in the case of (name of the payer)_____ with PAN # (PAN of the payer)_____ and TAN (TAN of the payer)_____ located at (address of the payer)

I do hereby state that I, being the person responsible for paying had paid to/credited to the account of (name of the payee)_____ a sum of _____rupees without deduction of whole or any part of the tax

A certificate from an accountant certifying that the payee has fulfilled all the conditions mentioned in the first proviso to sub-section (1) of section 201 of the Income-tax Act, 1961 is enclosed as Annex 'A' to this Form

I further state that the interest under sub-section (1A) of section 201 amounting to _____ rupees for non-deduction/short deduction of tax * has been paid by me the details of which are as under -

*BSR Code/**24G Receipt Number (first seven digits of BIN)*	*Challan Serial Number/**DDO Serial Number (last five digits of BIN)*	*Date of deposit through challan/**date of transfer voucher*

or

*has not yet been paid by me.

Place Signature

Date Designation

In case of Government deductors "PAN NOT REQD" should be mentioned

* Delete whichever is not applicable

** For payment made without the production of challan

ANNEXURE A

Certificate of accountant under first proviso to sub-section (1) of section 201 of the Income-tax Act, 1961 for certifying the furnishing of return of income, payment of tax etc. by the payee

I/We *hereby confirm that I/we* have examined the relevant accounts, documents and records of (name and address of the payee with PAN) for the period _____ _____ and hereby certify the following:

(*i*) _____ (payer) has paid to or credited following sum to the account of _____ (payee) without deduction of whole or any part of the tax in accordance with the provisions of Chapter-XVII-B

Nature of	*Date of*	*Section under*	*Amount*	*Amount of*	*Details of amount*	
payment	*payment or credit*	*which tax was deductible*	*paid or credited*	*tax deductible*	*deducted, if any*	
					Amount deducted	*Date of deduction*

(*ii*) The payee, who is a resident, has furnished his return of income for the assessment year _____relevant to the payment referred to in (i) above. The details of return of income filed by the payee are as under -

Date of filing return	*Mode of filing* i.e. *whether e-filed or paper return*	*Acknowledgement number of return filed*	*If paper return designation and address of the Assessing Officer*	*Amount of total taxable income as per return filed*	*Tax due on the income declared in the return*	*Details of tax paid*

(*iii*) The payee has taken into account the sum referred to in (i) for computing his taxable income in return of income filed by him the details of which are as under -

Receipt on which Tax has not been deducted	*Head of Income under which the receipt is accounted for*	*Gross receipt under the head of income under which the receipt is accounted for*	*Amount of taxable income under the head of income under which the receipt is accounted for*

(*iv*) It has been ensured that the information furnished is true and correct in all respects and no relevant information has been concealed or withheld

(*v*) Neither I, nor any of my partners, is a director, partner or an employee of the above mentioned entities or its associated concerns

I/we* fully understand that any statement made in this certificate, if proved incorrect or false, will render me/us* liable for any penal or other consequences as may be prescribed in law or is otherwise warranted

(Signature and Stamp/Seal of the Signatory)

†Accountant

Place

Name of the Signatory

Date

Full Address

Membership No.

Notes:

1. *Delete whichever is not applicable
2. †This certificate is to be given by -

(*i*) a chartered accountant within the meaning of the Chartered Accountants Act, 1949 (38 of 1949); or

(*ii*) any person, who in relation to any State, is, by virtue of the provisions in sub-section (2) of section 226 of the Companies Act, 1956 (1 of 1956), entitled to be appointed to act as an auditor of companies registered in that State.

CLAUSE NO. 34(c)

Whether assessee liable to pay interest u/s 201(1A) 206C(7) ? If yes, the details thereof are to be furnished in the following format:

Tax deduction and collection Account Number (TAN)	Amount of interest u/s 201(1A)/ 206C(7) is payable	Amount paid out of column (2) along with date of payment.
		Amount | Dates of payment

CLAUSE. 34(c)

Interest u/s. 201(1A) / 206C(7)

- Invariably, there is a difference in number of months as computed by Traces & by the assessee.
- Should auditor take cognizance of default notices?
  - The Guidance Note specifically mentions verification of the amounts with Part – G of Form 26AS. However, he can recalculate if he is of the opinion that 26AS has the wrong figure.
  - This needs to be specifically mentioned in the observation/ qualification section in Form 3CA or 3CB, as the case may be, as per the Guidance Note
- To take demand as per rectification application or as per CPC? As per Guidance Note - If different view from 26AS permissible, same shall apply here

Interest U/s. 201(1A)(i) 1% for every month or part of a month on the amount of such tax from the date on which such tax was deductible to the date on which such tax is deducted; and U/s. 201(1A) (ii) 1.5% for every month or part of a month on the amount of such tax from the date on which such tax was deducted to the date on which such tax is actually paid.

Interest U/s. 206C(7) - Where a seller does not collect the tax or after collecting the tax fails to pay he shall be liable to pay simple interest at the rate of 1% p.m. or part thereof on the amount of such tax from the date on which such tax was collectible to the date on which the tax was actually paid.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

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 NO. 35

35. (*a*) In the case of a trading concern, give quantitative details of the principal items of goods traded :

i. Opening Stock;

ii. Purchases during the previous year;

iii. Sales during the previous year;

iv. Closing stock;

v. Shortage / excess, if any

(b)In the case of a manufacturing concern, give quantitative details of the principal items of raw materials, finished products and by-products :

A. Raw Materials :

i. opening stock;
ii. purchases during the previous year;
iii. consumption during the previous year;
iv. sales during the previous year;
v. closing stock;
vi. yield of finished products;
vii. percentage of yield;
viii. shortage/excess, if any.

B. Finished products/by-products :

i. opening stock;

ii. purchases during the previous year;

iii. quantity manufactured during the previous year;

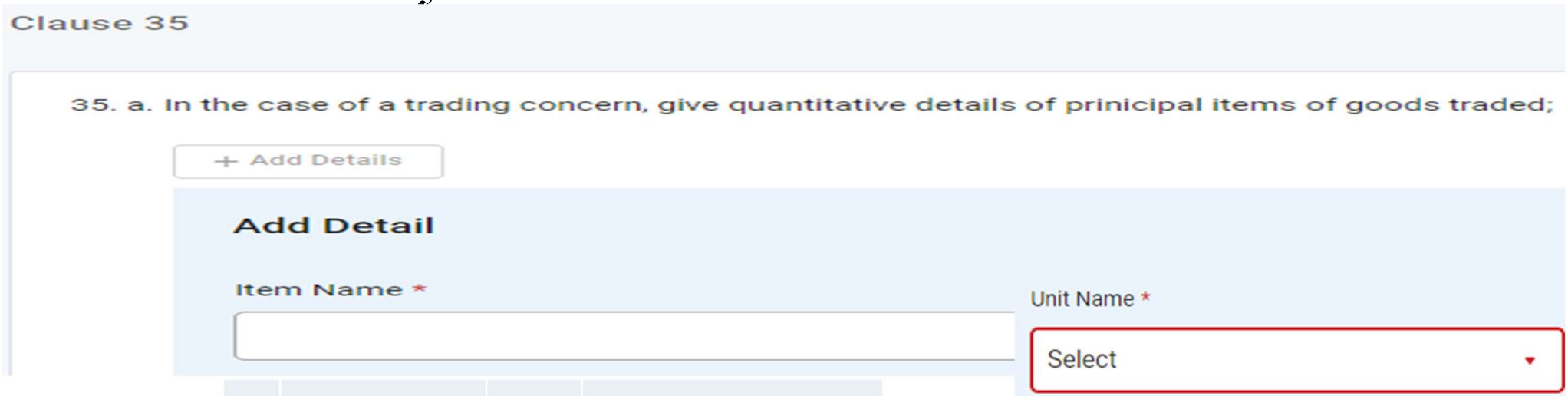
iv. sales during the previous year;

v. closing stock;

vi. shortage/excess, if any.

CLAUSE – 35(a)

Format in e-utility



1	gms	12	carat
2	kilograms	13	numbers (1000s)
3	litre	14	kwatt
4	kilolitre	15	mwatt
5	metre	16	inch
6	kilometre	17	feet
7	numbers	18	sqft
8	quintal	19	acre
9	ton	20	cubicft
10	pound	21	sqmetre
11	milligrams	22	cubicmetre
		23	residual

23 units of measurements

As per Page no 318 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

69. Clause 35(a)

69.1 The tax auditor should examine whether the enterprise is a trading concern or not and it is accordingly reported in clause 10(a).

If yes, the auditor should obtain certificates from the assessee in respect of the principal items of goods traded, the balance of the opening stock, purchases, sales and closing stock (along with its measurement unit) and the extent of shortage/ excess/damage and the reasons thereof.

The entire quantitative information should be examined by the auditor from the records.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports, it was observed that:

a) Quantitative details of principal items of goods traded were not reported under this clause whereas "Trading" was reported as one of the businesses of the assessee under clause 10a.

b) In some cases, where closing stock of goods acquired for trading was reported as "NIL", the quantitative details of opening, purchases & sales made during the year (traceable through financial statements) were not reported under this clause.

CLAUSE – 35(b)

Format in e-utility

(b) In the case of manufacturing concern,give quantitative details of the prinicipal items of raw materials, finished products and by-products.

(A) Raw materials:

S.No.		Item Name	Unit	Opening stock	Purchases during the pervious year	Consumption during the pervious year	Sales during the pervious year	Closing stock	Yield of finished products	Percentage of yield	Shortage/excess, if any
1			Select								

Add Delete

(B) Finished products :

S.No.		Item Name	Unit Name	Opening stock	Purchases during the pervious year	Quantity manufactured during the pervious year	Sales during the pervious year	Closing stock	Shortage/excess, if any
1			Select						

Add Delete

(C) By-products

S.No.		Item Name	Unit Name	Opening stock	Purchases during the pervious year	Consumption during the pervious year	Sales during the pervious year	Closing stock	Shortage/excess, if any
1			Select						

Add Delete

As per Page no 318 & 319 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

69. Clause 35(b)

69.2 The tax auditor should ascertain whether the enterprise is a manufacturing concern and it is accordingly reported in clause 10(a).

If yes, this sub-clause is applicable.

The tax auditor should obtain certificate(s) from assessee in respect of principal items of raw materials, finished goods and by - products (alongwith its measurement unit) and quantitative information required to be reported in clause 35(b).

This information should be given only in respect of those items where it is practicable to do so, having regard to the records maintained by the assessee.

As per Page no 319 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

69.3 The information about 'yield', 'percentage of yield', and 'shortages/ excess' is also required to be given.

69.4 'By-products' represent products whose manufacture results incidentally from the manufacture of the main product or where the waste arising in the manufacture of main product is further processed to create a by - product.

Where the by-product is so produced or is continuously generated, it should be treated for the purpose of sale and disposal at par with any other product produced by the company and similar records should be maintained.

The quantitative details on the above lines are to be given in respect of by - product also.

As per Page no 319 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

69.5 In a large concern, for both the sub-clauses (a) and (b), it may be difficult for tax auditor to verify each and every item of purchase, consumption, sales and production.

In such cases, he may verify the figures using sampling method and satisfy himself as to the correctness of the figures furnished.

This clause requires that quantitative details of "principal items" of raw materials and finished goods should be given.

Therefore, information about petty items need not be given.

What would constitute principal items will depend on the facts of each case.

Normally, items which constitute more than 10% of the aggregate value of purchases, consumption or turnover, as the case may be, be classified as principal items.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports, it was observed that:

a) In some cases, where the assessee is engaged in "manufacturing", the 'percentage of yield' or 'shortage/excess' were not reported. Also, qualification/ observation with regard to the same was not given in the Tax Audit report.

b) In some cases, details of 'Finished products' were erroneously reported as 'raw materials' under clause 35b(A) instead of clause 35b(B). Also, raw materials, which were clearly traceable from the financial statements, were not reported at all.

CLAUSE - 36

Omitted by the Income Tax (8th Amendment Rules), 2021 w.e.f. 01-04-2021

CLAUSE – 36A

(a) Whether the assesee has received any amount in the nature of dividend as referred to in sub-clause(e) of clause (22) of section 2? (Yes/No.)	
(b)	If yes, please furnish the following details:—
(i)	Amount received (in Rs.):
(ii)	Date of receipt:

CLAUSE – 36A

Format in e-utility

A(a) Whether the assessee has received any amount in the nature of dividend as referred to in sub-clause (e) of clause (22) of section 2. Select

(b)If yes, please furnish the following details:-

S.No.		Amount received (in Rs.)	Date of receipt
1	☐		

Add Delete

Whether the assessee has received any amount in the nature of dividend u/ (22)(e)? If yes, give details.

This clause has been added w.e.f. 20th August 2018.

Various aspects of section 2(22)(e) needs to be understood to report under this clause, and it includes:-

- Payment should be made by closely held company i.e., a company in which public are not substantially interested (including unlisted public company).
- Payment should be by way of advance or loan or the payment should be on behalf, or for the individual benefit, of the shareholder.

- Shareholder must be a person who is the registered / beneficial owner of shares holding not less than 10% of the voting power or to a concern (Company / Firm / HUF / etc.) in which such shareholder is having substantial interest i.e. 20% or more. For this purposes shareholder as an individual is to be considered and not along with his / her relatives.
- Dividend is deemed to the extent to which the company possesses accumulated profits on the date of giving loan / advance.
- The dividend taxable u/s 2(22)(e) is restricted to accumulated profits on the date of payment. Thus, the accumulated profits have to be determined as on the date of the payment. Further, if at any time earlier any amount has been taxed under any of the clauses of section 2(22) including clause (e), the accumulated profits will have to be reduced by the amount so taxed.

- Where the loan or advance is made by the closely held company to a concern, it is chargeable to tax in the hands of the shareholder and not in the hands of the concern till AY 2018-19.
- S. 2(22)(e) does not include any advance or loan made to a shareholder or the concern by a company in the ordinary course of its business, where the lending of money is a substantial part of the business of the company. Some of the decisions have held that `substantial part' would indicate 20% i.e. where 20% or more funds have been deployed in the business of lending money the test of substantial part will be satisfied.

➢Various courts have held that trade advances in the nature of commercial transactions would not fall within the ambit of the provisions of section 2(22)(e). The CBDT has issued Circular No. 19/2017 (F.No.279IMisc.l140/2015I1TJ) dated 12 June 2017 accepting this position. The circular gives various illustrations and citation of judicial decisions. Such cases need not be reported as dividend under this clause.

➢Few cases have also held that inter-corporate deposits are not loans.

➢There are various cases in favour of assesse taking loan due to commercial expediency, etc. which the auditor should be aware of.

The auditor should:

- Obtain list of all loans / advances received during the year by the assesse to test it for applicability of s. 2(22)(e). In case the assesse has not received any such amount during the year, no reporting may be required under this clause.
- Where the assesse has received any loan or advance from any company, the auditor should obtain its list of shareholders to test 10% / 20% test as discussed above..
- He should also obtain the financial statements of that company to ascertain its accumulated profits.

➢ The auditor may not be able to determine the accumulated profits of the closely held company making the payment for various reasons. He may not have access to the records of such closely held company, etc. In such a case the auditor should include appropriate remarks in clause (3) of Form No. 3CA or clause (5) of Form 3CB, as the case may be, about the methodology adopted by him, which could be as under:

- The assesse could not provide appropriate information / details to determine accumulated profits to enable us to report that the loan / advance received by the assesse is deemed dividend or not u/s. 2(22)(e).

➢ He should also obtain from the assessee a certificate containing list of closely held companies in which he is beneficial owner of shares carrying not less than 10% of the voting power and list of concerns in which he has substantial interest.

- He should also obtain a certificate from the assessee giving particulars of any loans or advances received by any concern in which he has substantial interest from any closely held company in which he is beneficial owner of shares carrying not less than 10% voting power.
- If reliance has been placed on any judicial decision, a reference of the same may be given by the auditor as observations in clause (3) of Form No. 3CA or clause (5) of Form 3CB, as the case may be.

It may be noted that any payment made after 1 April 2018 which satisfies the conditions of section 2(22)(e), would be subject to DDT u/s 115-O in the hands of the company making the payment. However for AY 2018-19 it is taxable only in the hands of the shareholder.

CLAUSE - 36B
Newly inserted from 01.04.2025

As per Page no 324 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

36B (a) Whether the assessee has received any amount for buyback of shares as referred to in sub-clause (f) of clause (22) of section 2? (Yes/No)

(b) If yes, please furnish the following details:

(i) Amount received (in Rs)

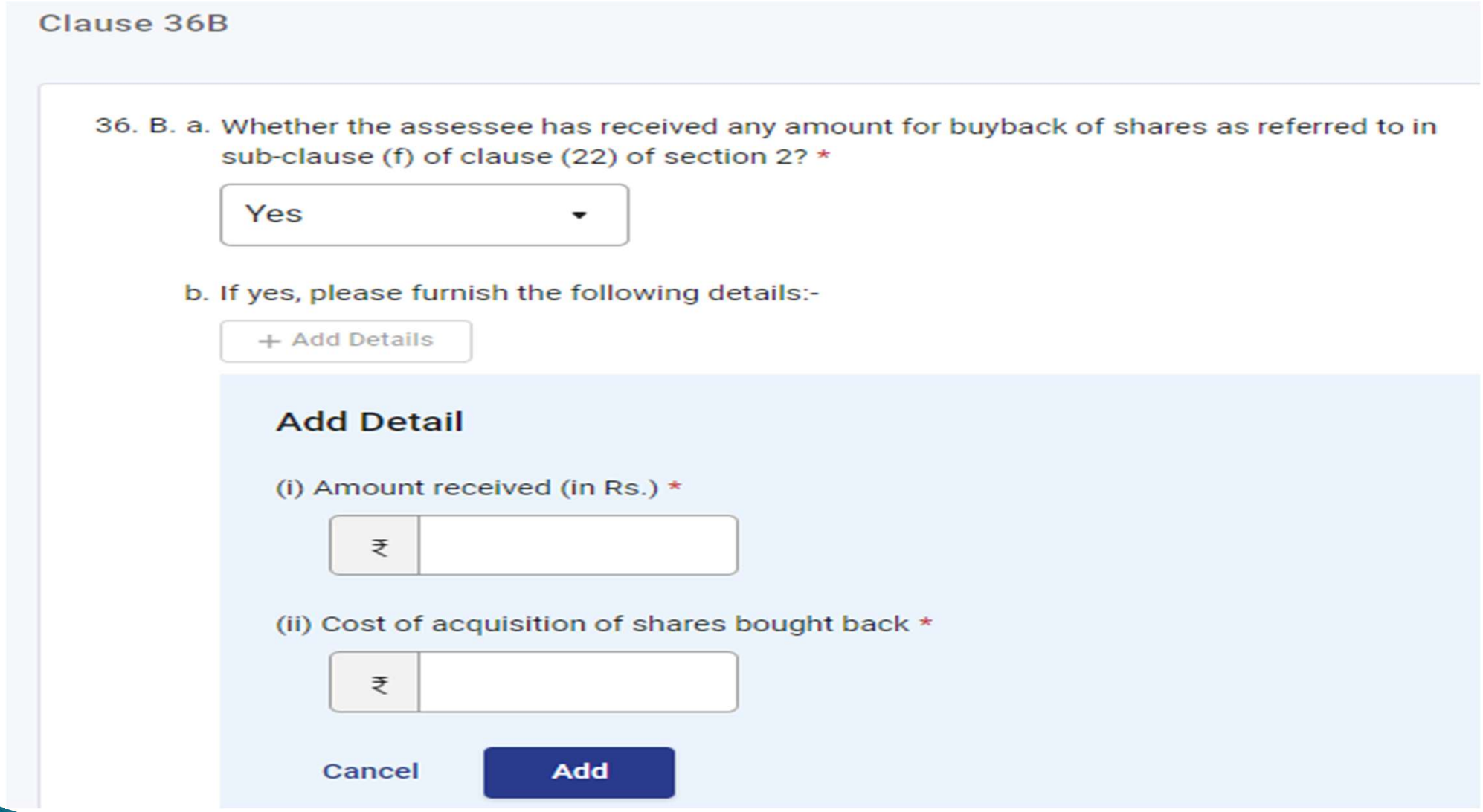
(ii) Cost of acquisition of shares bought back.

[Clause 36B]

Inserted by the IT (Eighth Amdt.) Rules, 2025, w.e.f. 1-4-2025

CLAUSE - 36B

Format in e-utility



Section 2(22)(f)

Definitions.

2. In this Act, unless the context otherwise requires,-

(22) "dividend" includes –

[(f) any payment by a company on purchase of its own shares from a shareholder in accordance with the provisions of section 68 of the Companies Act, 2013 (18 of 2013);]

As per Page no 324 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

71.1. Sub-clause (f) was inserted in section 2(22) of the Income-tax Act, 1961 with effect from 01-10-2024 in order to further broaden the meaning of the term “dividend” so that it can include any payment by a company on purchase of its own shares from a shareholder in accordance with the provisions of section 68 of the Companies Act, 2013.

As per Page no 327 & 328 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

71.3 As such, while verifying the contents of the reporting under item (i) of sub-clause (b) of clause 36B, it should be verified that only such amount of received in respect of buyback completed on or after 1st October, 2024 is reported and no amount which has been received in respect of buyback completed before such date should be mentioned here.

Further, the tax auditor should take into consideration whether the amount that has been received as a buyback is forming part of the accounts that is subject to Tax Audit or not.

In case of any individual/HUF, there could be a case where there are two separate sets of financials maintained i.e. one set of financials containing the business accounts and the other one which only has personal accounts.

As per Page no 328 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Hence, if the share and securities forms part of the personal accounts, then, ideally no reporting is required to be made in this clause as it is not subjected to tax audit.

However, if the business accounts has the shares and securities reported under it, then, a reporting shall be required to be made, even if the assessee claims that the amount has been earned out of tradable stock i.e. the assessee is in the business of trading into shares and securities.

As per Page no 328 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

71.4 The said amount of buyback can be cross verified by the Tax Auditor by referring to the TIS/AIS, wherein certain companies would have reported the transactions that are in the nature of buyback of shares.

A company listed on a recognised stock exchange purchasing its own securities under section 68 of the Companies Act, 2013, is required to furnish details of buyback of shares from any person (other than the shares bought in the open market) for an amount of value aggregating to Rs.10 lakh or more in a financial year.

Further, in the case of listed entities, the information regarding buyback of shares is available in public domain.

Also, the auditor may check and compare with Form SH-8/SH-9 filed with the Registrar of Companies (ROC).

However, as a procedural aspect, the tax auditor should always insist on disclosure of such buyback amounts from the assessee by way of a Management Representation Letter.

As per Page no 328 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

71.5 Accordingly, the actual cost incurred to purchase such shares which has been bought back by the company should be mentioned in item (ii) of subclause (b) of clause 36B.

71.6 Any reporting made in item (i) and/or (ii) of sub-clause (b) of Clause 36B shall have a direct nexus to the computation of total income.

The reporting made in item (i) of sub-clause (b) to Clause 36B shall have a direct effect on the computation of "Dividend Income" of the assessee.

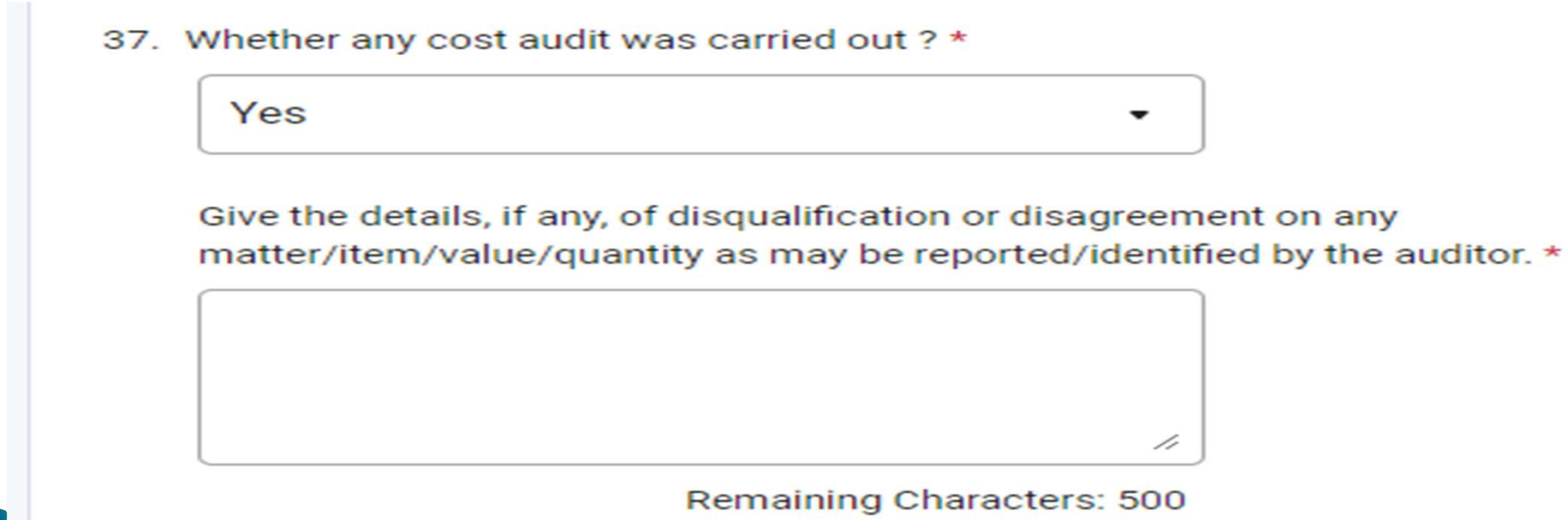
Further, the reporting made under item (ii) of sub-clause (b) to Clause 36B shall have a direct effect in computing the "Capital Losses (except where the shares are held as stock-in-trade, in which case it would have an impact on computation of income under the head "Profits and gains of business and profession).

CLAUSE - 37

37. Whether any cost audit was carried out, if yes, **give the details, if any, of disqualification or disagreement on any matter/item/quantity as may be reported/identified by the auditor.**

CLAUSE - 37

Format in e-utility



As per Page no 329 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

72.1 The tax auditor should ascertain from the management whether a cost audit was carried out and if yes, a copy of the same should be obtained from the assessee.

Even though the tax auditor is not required to make any detailed study of such a report, he has to take note of the details of disqualification or disagreement on any matter/item/ value / quantity as may be reported/identified by the cost auditor.

The tax auditor need not express any opinion in a case where such audit has been ordered but the same has not been carried out.

As per Page no 329 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

72.2 In cases where cost audit, which might have been ordered, but has not been completed by the time the tax auditor issues his report, he has to report appropriately in this report stating that since cost audit has not been completed, the cost audit report is not available with the assessee.

72.3 The tax auditor should examine the time period for which the cost audit, if any, was required to be carried out.

Information is required to be given only in respect of such cost audit report, the time period of which falls within the relevant previous year.

In effect, the information is required to be given in respect of that cost audit report which is received up to the date of tax audit report.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports, it was observed that:

a) **Representation from the management was relied upon to report as to whether or not there is a disqualification or disagreement on any matter. As per the Guidance Note, copy of the audit report should have been obtained from the management and note of the details of disqualification or disagreement on any matter/item/value/quantity, as the case may be, reported/identified under this clause should have been taken.**

b) **In certain cases, it was mentioned in Clause (3) of Form No.3CA or Clause (5) of Form No.3CB, as the case may be, that the cost audit report is attached herewith. While under this clause 'NO' was reported, both being contradictory statements.**

CLAUSE - 38

38. Whether any audit was conducted under the Central Excise Act, 1944, if yes, **give the details, if any, of disqualification or disagreement on any matter/item/quantity as may be reported/identified by the auditor**

CLAUSE - 38

Format in e-utility

Clause 38

38. Whether any audit was conducted under the Central Excise Act, 1944 ? *

Yes

Give the details, if any, of disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the auditor. *

Remaining Characters: 500

As per Page no 330 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

73.1 The tax auditor should ascertain from the management whether any audit was conducted under the Central Excise Act, 1944 and if such an audit was carried out, obtain a copy of the report.

Even though the tax auditor is not required to make any detailed study of such report, he has to take note of the details if any, of disqualification or disagreement on any matter/item/ value/ quantity as may be reported/identified by the auditor.

The tax auditor need not express any opinion in a case where such audit has been ordered but the same has not been carried out.

As per Page no 330 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

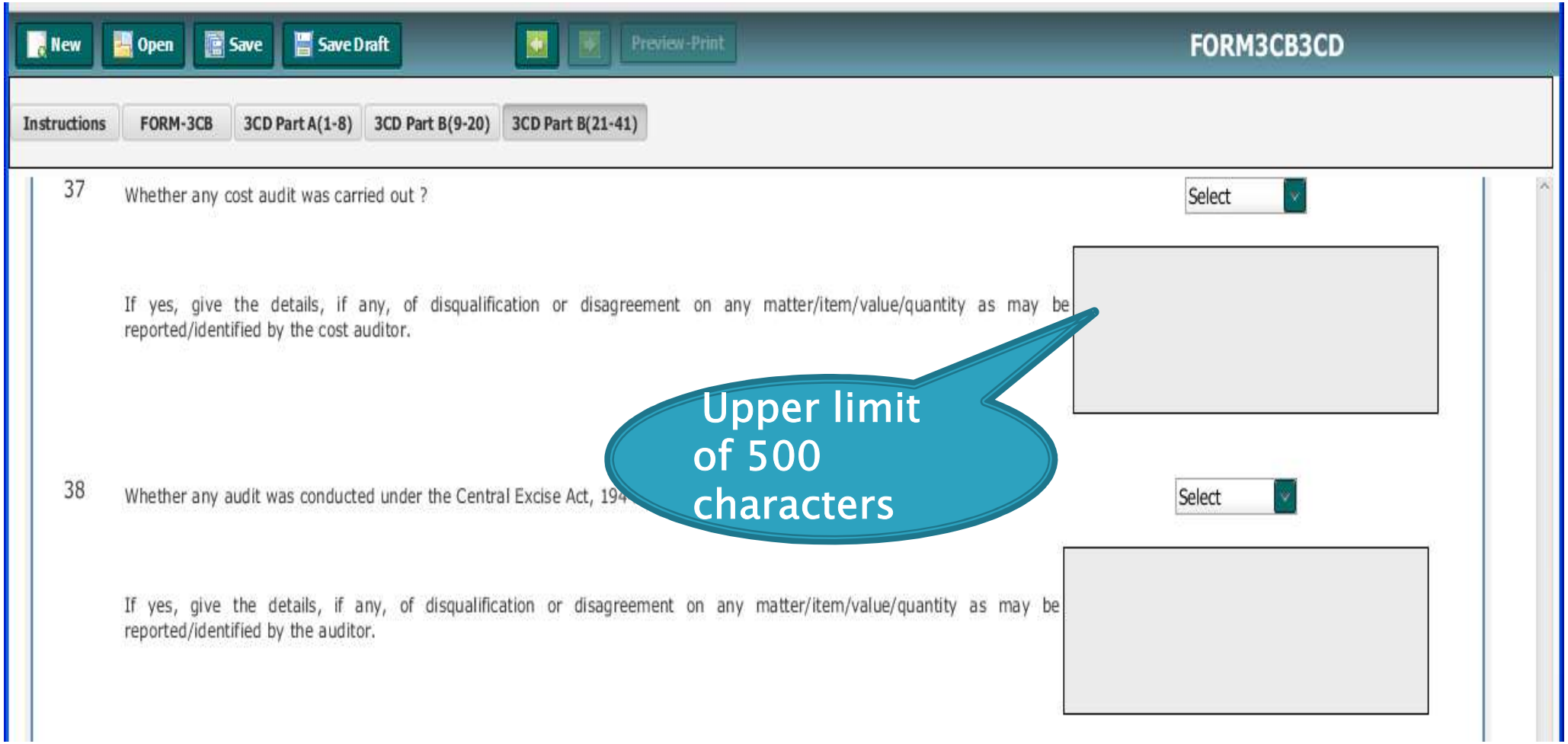
73.2 In cases where the excise audit which might have been ordered is not completed by the time the tax auditor gives his report, he has to report appropriately in this report stating that since excise audit is not completed, the excise audit report is not available with the assessee.

73.3 The tax auditor should examine the time period for which the excise audit, if any, has been required to be carried out.

Information is required to be given only in respect of such excise audit report the time period of which falls within the relevant previous year.

In effect, the information is required to be given in respect of that excise audit report which is received up to the date of tax audit report.

Clause Nos. 37 - 38



OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

While reviewing various tax audit reports, it was observed that:

a) Representation from the management was relied upon to report as to whether or not there is a disqualification or disagreement on any matter.

As per the Guidance Note, copy of the audit report should have been obtained from the management and note of the details of disqualification or disagreement on any matter / item / value / quantity, as the case may be, reported/ identified under this clause should have been taken.

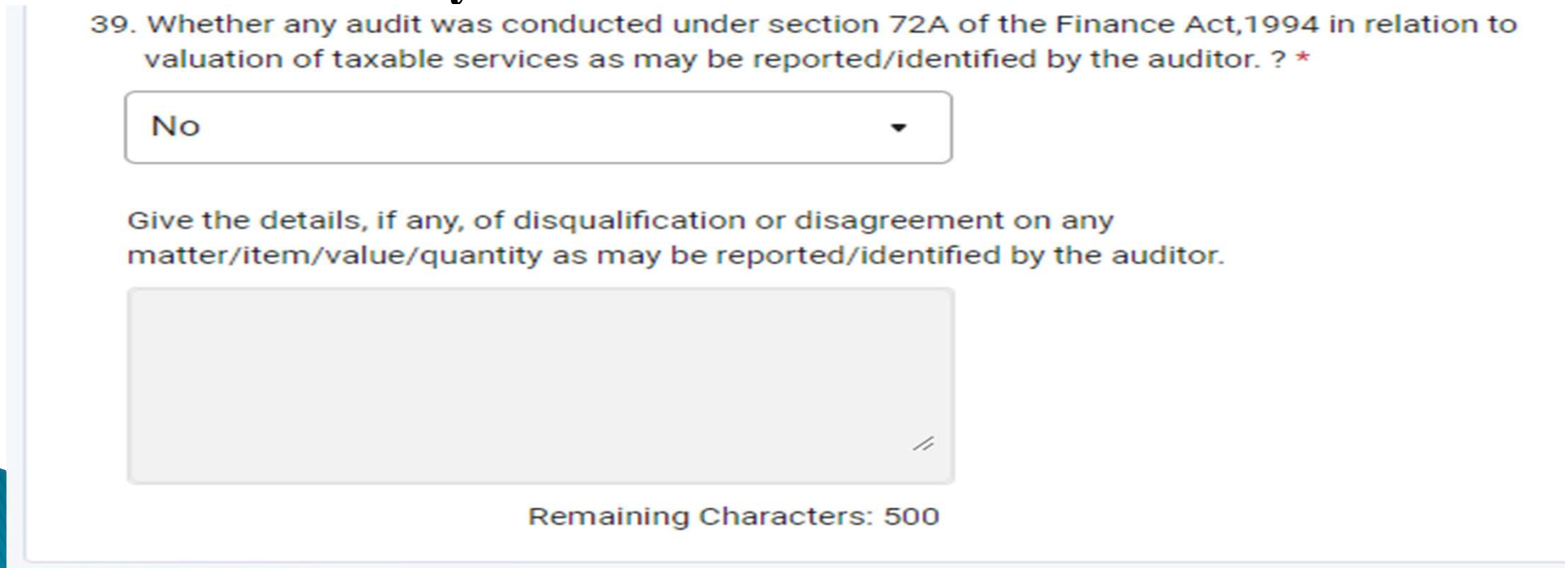
b) In certain cases, it was mentioned in Clause (3) of Form No.3CA or Clause (5) of Form No.3CB, as the case may be, that the excise audit report is attached herewith. While under this clause 'NO' was reported, both being contradictory statements.

CLAUSE - 39

39. Whether any audit was conducted under section 72A of the Finance Act, 1994 in relation to valuation of taxable services, if yes, give the details, if any, of disqualification or disagreement on any matter/item/quantity as may be reported/identified by the auditor.

CLAUSE - 39

Format in e-utility



As per Page no 331 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

74.1 With service tax subsumed in GST, and no longer in operation, the relevance of this clause has substantially diminished.

Consequently, reporting under this clause would, in most cases, not arise.

Only in exceptional cases involving legacy issues from the pre-GST regime-such as where a demand raised, adjudicated or concluded during the year-might some degree of consideration be warranted.

CLAUSE - 40

40. **Details regarding turnover, gross profit, etc., for the previous year and preceding previous year:**

Serial number	Particulars	Previous year	Preceding previous year
1	Total turnover of the assessee		
2	Gross profit/turnover		
3	Net profit/turnover		
4	Stock-in-trade/turnover		
5	Material consumed/finished goods produced		

(The details required to be furnished **for principal items of goods** traded or manufactured or services rendered)

CLAUSE - 40

Format in e-utility

40 Details regarding turnover, gross profit, etc., for the previous year and preceding previous year:

SL. No	Particulars	Previous Year			Precedin
(a)	Total turnover of the assessee				
(b)	Gross profit / Turnover			%	
(c)	Net profit / Turnover			%	
(d)	Stock-in-Trade / Turnover			%	
(e)	Material consumed / Finished goods produced			%	

As per Page no 332 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

75.1 These ratios have to be calculated for assessees who are engaged in manufacturing or trading activities, except ratio No. 5 which need not be required to be furnished for trading concern.
In respect of service provider, only information at S. No. (1) and (3) need to be furnished.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

It was observed that in respect of service sector, "not applicable" should be reported under this clause instead of leaving the same blank.

As per Page no 332 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

75.2 While calculating these ratios, meaning has to be assigned to the terms used in the above ratios having due regard to the generally accepted accounting principles.

All the ratios mentioned in this clause are to be calculated in terms of value only.

(a) Gross Profit / Gross Margin: The excess of the proceeds of goods sold and services rendered during a period over their cost, before taking into account administration, selling, distribution and financing expenses.

When the result of this computation is negative, it is referred to as gross loss.

(b) Sales Turnover: Attention is invited to (Sales, Turnover, Gross receipts) in para 5 of this Guidance Note.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

In certain cases, scrap sale was not considered while arriving at the figure of 'turnover' for Tax Audit Report.

As per Page no 332 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

(c) Net Profit: The excess of revenue over expenses during a particular accounting period.

When the result of this computation is negative, it is referred to as net loss.

It may be noted that the net profit to be shown here in this clause is net profit before tax.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

<u>However, in certain cases net profit after tax was reported under this clause.</u>

As per Page no 332 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

75.3 For the purpose of calculating the ratio mentioned in S. No. (4), only closing stock is to be considered.

The term `stock-in-trade' used therein does not include stores and spare parts or loose tools.

The term “stock -in-trade” would include only finished goods and would not include the stock of raw material and work-in-progress since the objective here is to compute the stock turnover ratio.

As per Page no 332 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

75.4 Material consumed would, apart from raw material consumed, include stores, spare parts and loose tools.

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

In certain cases, the amount of material consumed reported under this clause did not include stores, spare parts and loose tools. The reporting of said ratio was missing in many reports.

As per Page no 333 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

75.5 The value of finished goods produced may be arrived at by using the following formula:

(a) Raw material consumption	-	
(b) Stores and spare parts consumption	-	
(c) Wages	-	
(d) Other manufacturing expenses excluding depreciation.	-	
Sub total		-
Add : Opening stock in process	-	
Deduct : Closing stocks in process	-	
Value of finished goods produced	-	

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

In certain cases, for calculating stock in trade/ Turnover ratio, average stock was taken instead of calculating stock as per the above-mentioned guidance given in the Guidance Note.

As per Page no 333 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

75.7 There should be consistency between the numerator and the denominator while calculating the above ratios.
Any significant deviation thereof should be pointed out in para 3 of Form 3CA or para 5 of Form 3CB.

75.8 The relevant previous year figures are to be taken from last previous year audit report or the reinstated figures to make the ratios comparable with current year.
In case, the preceding previous year is not subject to audit, nothing should be mentioned in the relevant column and the same should be disclosed in the observation para of Form No.3CA/Form No.3CB

OBSERVATION ON STUDY ON COMPLIANCES IN REPORTING IN TAX AUDIT REPORT DATED 20.06.2022

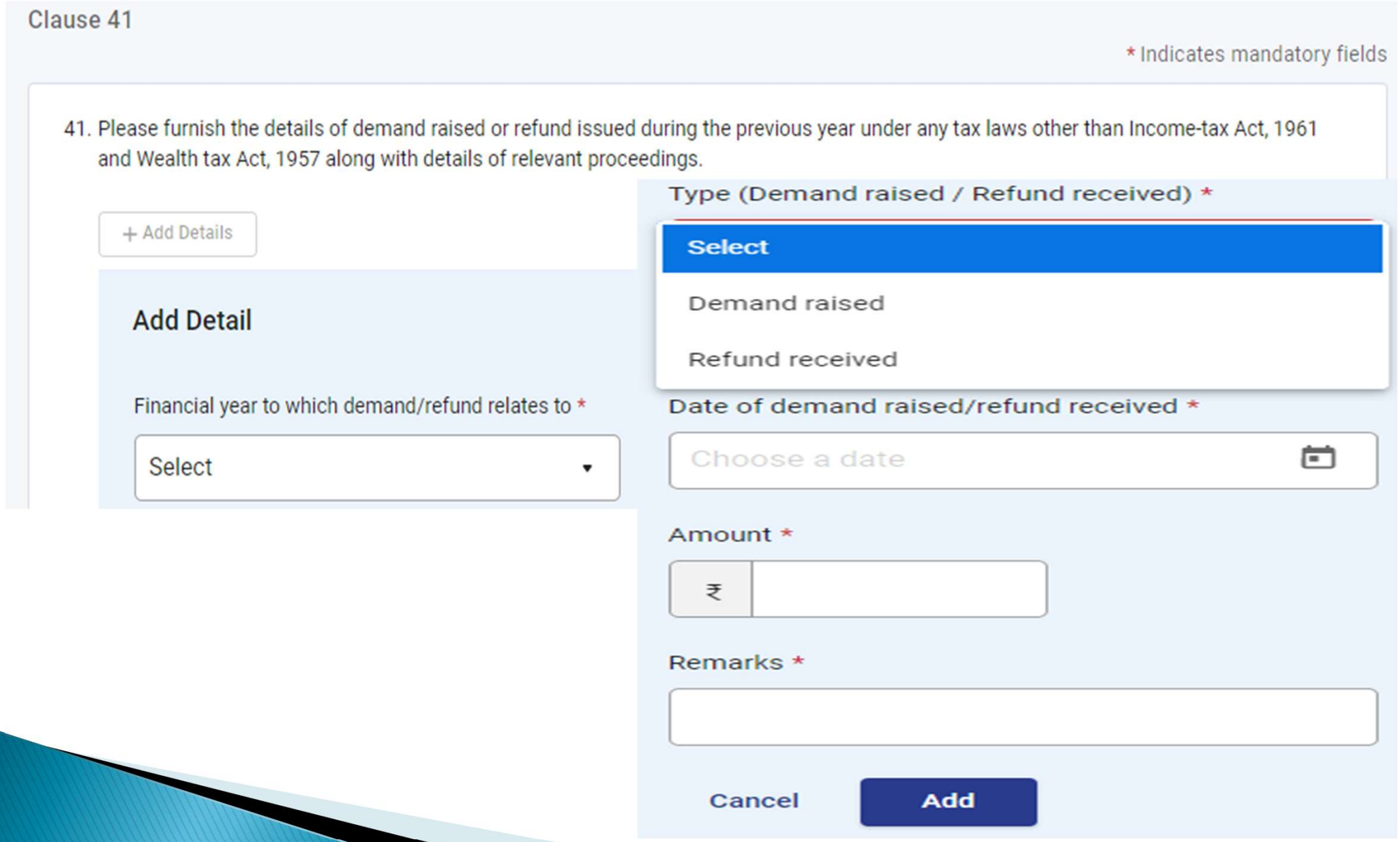
While reviewing various tax audit reports it was observed that there were mismatch of figures in the material consumed reported in respect of preceding previous years. However, nothing was mentioned / reported under Clause (3) of Form No.3CA or Clause (5) of Form No.3CB, as the case may be.

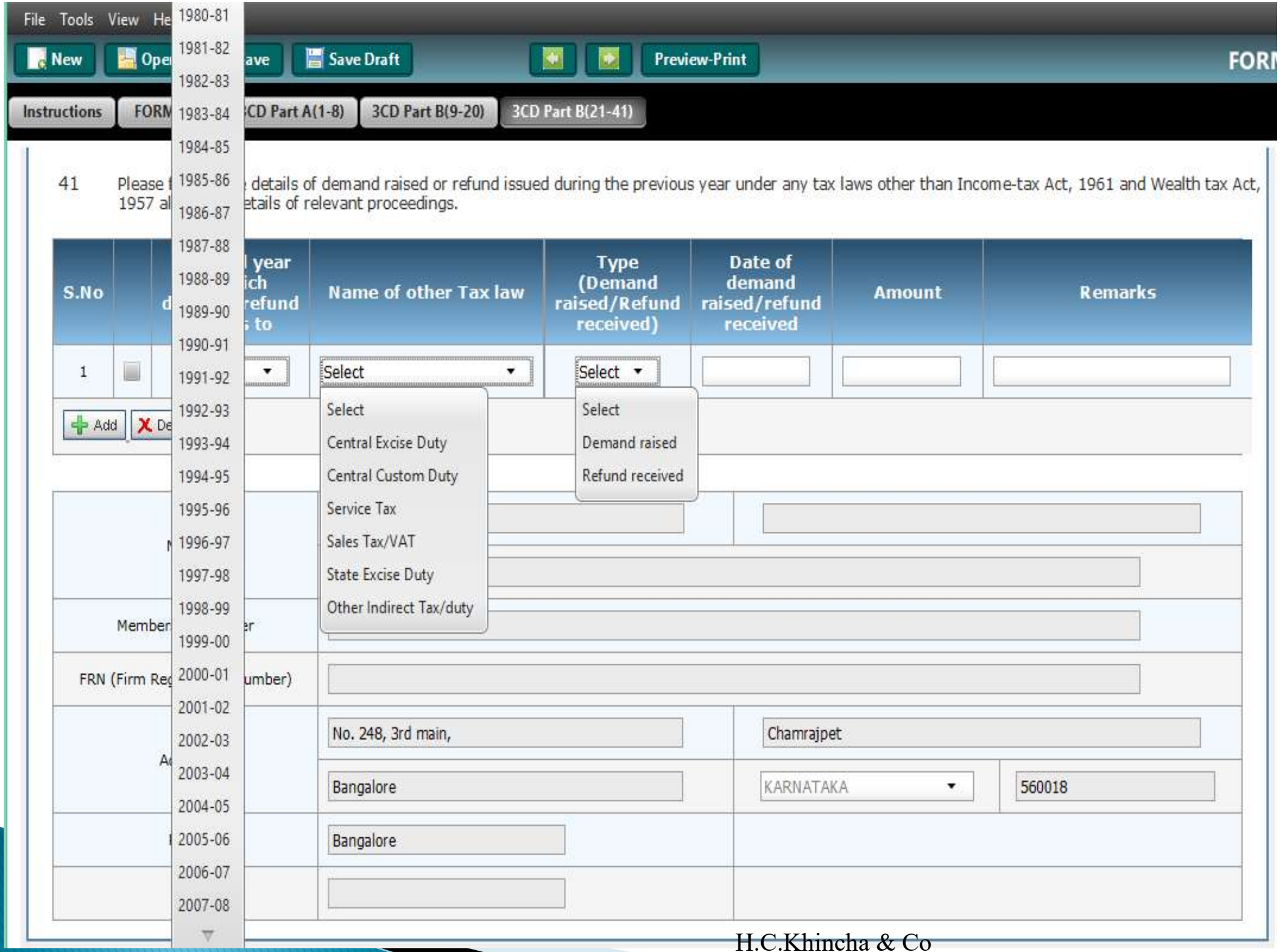
CLAUSE - 41

41. Please furnish the details of demand raised or refund issued during the previous year under any tax laws other than Income Tax Act, 1961 and Wealth Tax Act, 1957 along with details of relevant proceedings.

CLAUSE - 41

Format in e-utility




File Tools View He
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FORM
CD Part A(1-8)
3CD Part B(9-20)
3CD Part B(21-41)
41 Please f details of demand raised or refund issued during the previous year under any tax laws other than Income-tax Act, 1961 and Wealth tax Act, 1957 al etails of relevant proceedings.
S.No
year ich refund s to
Name of other Tax law
Type (Demand raised/Refund received)
Date of demand raised/refund received
Amount
Remarks
1
Select
Select
Central Excise Duty
Central Custom Duty
Service Tax
Sales Tax/VAT
State Excise Duty
Other Indirect Tax/duty
Select
Demand raised
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No. 248, 3rd main,
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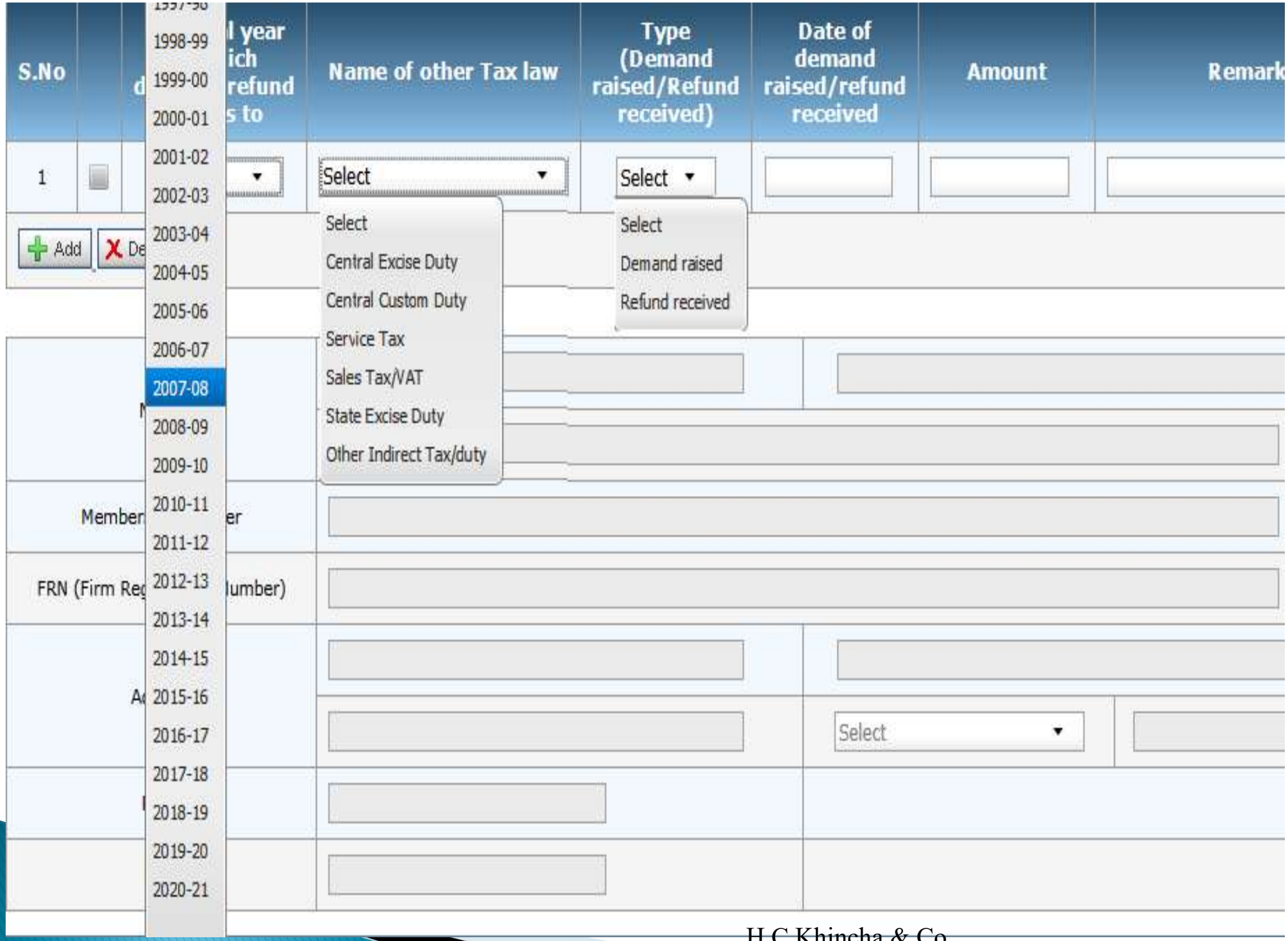
S.No
Name of other Tax law
Type (Demand raised/Refund received)
Date of demand raised/refund received
Amount
Remark
1
Select
Select
Select
Demand raised
Refund received
Central Excise Duty
Central Custom Duty
Service Tax
Sales Tax/VAT
State Excise Duty
Other Indirect Tax/duty
1998-99
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
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2016-17
2017-18
2018-19
2019-20
2020-21
Add
FRN (Firm Reg
umber)

As per Page no 333 & 334 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

76.1 The auditee may be assessed under various tax laws other than Income-tax Act, 1961 and Wealth-tax Act, 1957 resulting into a demand order or a refund order.

The tax auditor should obtain a copy of all the demand/ refund orders issued by the governmental authorities during the previous year and received by the assessee up to the date of audit under any tax laws other than Income Tax Act and Wealth Tax Act.

Normally, the tax laws such as Goods and Service Tax (GST), Central Excise Duty, Service Tax, Customs Duty, Value Added Tax, Central Sales Tax, Professional Tax etc. would be covered under as tax laws.

However, the auditor should exercise his professional judgment in determining the applicability to relevant tax laws for reporting under this clause.

As per Page no 334 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

76.2 **It may be noted that even though the demand/refund order is issued during the previous year, it may pertain to a period other than the relevant previous year.**

In such cases also, reporting has to be done under this clause.

The tax auditor should verify the books of account and the orders passed by the respective Department(s) for ascertaining whether any such demand has been raised or refund order has been issued under any other tax law and accordingly report the same.

It is advisable to cross verify the demands from online portal of the respective Department.

If there is any adjustment of refund against any demand, the same should be reported under this clause.

Management representation should be obtained from the assessee.

In case of corporate assessee, the auditor should check the said details with the disclosures of contingent liabilities in the audited financials, and disclosures in statutory auditor's report pursuant to CARO, if applicable.

As per Page no 334 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

76.3 It is recommended that the tax auditor maintains the following information in his working papers for the purpose of verifying the reporting in this clause in the format provided in the e-filing utility:

Sr. No.	Financial Year to which the Demand / refund relates	Name of the applicable Act	Demand refund order No., If any	Date of Demand raised/ refund issued	Amount of demand raised / refund issued	Remarks
1	2	3	4	5	6	7

76.4 The tax auditor also requires **details of relevant proceedings.**

This **information should be furnished** in remarks column by stating the **authority before which the matter is pending.**

CLAUSE NO. 41 - Demand raised/Refund Issued

In the utility:

Drop down list for financial years (to which demand / refund pertains) is provided – 1980-1981 to 2020-21

- For date of demand /refund – drop down calendar is provided – from 1914 to 2019!!!
- The last column of "REMARKS" appears to be mandatory

What is the relevant date for reporting under Clause 41 in case of a refund?

Clause 41 seeks details of demand raised or refund issued during the previous year under any tax laws other than the Income-tax Act, 1961 and Wealth-tax Act, 1957 along with details of relevant proceedings.

As per Para 79.1 of the ICAI's Guidance Note on tax audit, the tax auditor should obtain a copy of all the demand/refund orders issued by the governmental authorities during the previous year and received by the assessee up to the date of audit under any tax laws other than Income Tax Act and Wealth Tax Act.

It may be noted that even though the demand/refund order is issued during the previous year, it may pertain to a period other than the relevant previous year. Further, if there is any adjustment of refund against any demand, the same should be reported.

A demand was raised with respect to Customs duties on my client, and the same was adjusted against the refund due in his name. So, no amount was paid by him to the department. As an auditor, do I need to disclose the same in form 3CD?

Yes, an auditor is required to report the details of demand raised or refund issued to the assessee during the previous year, irrespective of the fact that it was adjusted against any pending demand or refund.

Details are to be shown under Clause 41 of Form 3CD.

CLAUSE – 42

80.(a) Whether the assessee is required to furnish statement in Form No.61 or Form No.61A or Form 61B? (Yes/No)

(b) If yes, please furnish :

S no	Income tax Department Reporting Entity Identification Number	Type of Form	Due date for furnishing	Date of furnishing, if	Whether the Form contains information about all details/ transactions which are required to be reported.	If not, please furnish list of the details /transactions which are not reported.

CLAUSE - 42

Format in e-utility

42. a. Whether the assessee is required to furnish statement in Form No.61 or Form No. 61A or Form No. 61B? *

Yes

b. If yes, please furnish:

+ Add Details

Add Detail

Income-tax Department Reporting Entity Identification Number *

Type of Form *

Select

Form No.61

Form No.61A

Form No.61B

Due date for furnishing *

Choose a date

Date of furnishing, if furnished

Choose a date

Whether the Form contains information about all details/furnished transactions which are required to be reported ? *

No

If not, please furnish list of the details/transactions which are not reported.

Cancel Add

As per Page no 335 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

77.1 Sub-clause (a) of clause 42 requires whether the assessee is required to furnish Form No. 61, Form No. 61A or Form No. 61B. The following table contains the provisions requiring the assessee to furnish these forms:

Form No	Section & Rule	Conditions
61	Section 139A(5)(c), Rule 114B, 114C and 114D	Form No. 61 is to be filed by certain persons who have received any declaration in Form No. 60. Persons who have to file Form No. 61 are persons referred to in: (i) Rule 114C(1)(a) to (k), and (ii) Following persons who are required to get their accounts audited under section 44AB of the Act: - persons raising bill in respect of payment made in cash for amount exceeding Rs. 50,000 to a hotel or restaurant - persons raising bill in connection with foreign travel or purchase of foreign currency payment for which payment is made in cash for an amount exceeding Rs. 50,000, and - person raising bill in respect of transactions of sale or purchase of goods or services other than those specified at serial numbers 1 to 17 of the Table in Rule 114B where value of the transaction exceeds Rs. 2 lakhs per transaction.

As per Page no 336 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

61A	Section 285BA, Rule 114E	Rule 114E(2) provides for the nature and value of transaction in respect of which the statement is required to be filed and persons who are required to file the statement
61B	Rule 114F, 114G and 114H	Rule 114F defines various terms, Rule 114G prescribes the information to be maintained and reported and Rule 114H prescribes the due diligence requirements.

77.2 The requirement of furnishing the forms is based on the conditions stated in the relevant section and rule; and accordingly, 'yes or 'no' should be stated.

The tax auditor should ascertain whether the assessee was required to furnish any of these three forms and if so, if he has furnished within the due date.

As per Page no 336 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

Due dates for furnishing the form/s are as under:

Form No.	Due date
61	31st October where declarations in Form No. 60 have been received during 01st April to 30th September; and by 30th April where declarations in Form No. 60 have been received during 01st October to 31st March of the immediately preceding financial year.
61A	31st May of the immediately following financial year
61B	31st May of the immediately following financial year

As per Page no 336 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

77.3 In case, answer to sub-clause (a) is in affirmative, the requisite information should be reported in sub-clause (b).

Every reporting financial institution has to communicate to the Principal Director General of Income-tax (Systems), the name, designation and communication details of the Designated Director and the Principal Officer and obtain a registration number.

This registration number is to be quoted in Form 61B. Form 61B also requires ITDREIN (Income-tax Department Reporting Entity Identification Number) which is a Unique ID issued by the Department which is communicated by the Department after the registration of the reporting entity.

Thereafter, type of Form i.e. Form no. 61, 61A or 61B is to be reported along with due dates of furnishing such Forms.

Date of actual furnishing is also to be reported, in case furnished by the assessee and such date can be obtained from assessee's e-filing acknowledgement number of the said Forms.

As per Page no 337 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

77.4 The tax auditor is further required to verify whether the Form contains information about all details or furnished transactions which are required to be reported. He may rely on the Management Representation Letter in this regard.

77.5 Form No. 61, 61A and 61B uploaded on the income tax portal should be examined by the tax auditor for the purpose of verifying the reporting under this clause.

If the forms have been revised, then, the auditor must verify whether all the particulars required to be reported have been reported in the revised form.

CLAUSE 43

43. (a) Whether the assessee or its parent entity or alternate reporting entity is liable to furnish the report as referred to in sub-section (2) of section 286? (Yes/No)

(b) If yes, please furnish the following details :

i. Whether report has been furnished by the assessee or its parent entity or an alternate reporting entity
ii. Name of parent entity
iii. Name of alternate reporting entity (if applicable)
iv. Date of furnishing of report

CLAUSE - 43

Format in e-utility

43 (a)Whether the assessee or its parent entity or alternate reporting entity is liable to furnish the report as referred to in sub-section (2) of section 286 — Select

(b)if yes, please furnish the following details:

Whether report has been furnished by the assessee or its parent entity or an alternate reporting entity	Name of parent entity	Name of alternate reporting entity (if applicable)	Date of furnishing of report
Select			DD/MM/YYYY

c) If Not due , please enter expected date of furnishing the report — DD/MM/YYYY

As per Page no 337 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

78.1 Clause 43 seeks information about applicability to furnish the report as referred to in sub-section (2) of section 286.

Section 286 deals with filing of Country by Country Report by 'international group'.

78.2 Under section 286(1), every constituent entity resident in India, if it is a constituent of an international group and the parent entity of which is not resident in India, has to notify the prescribed income tax authority in Form No. 3CEAC whether it is the alternate reporting entity of the international group; or the details of the parent entity or the alternate reporting entity, if any, of the international group, and the country or territory of which the said entities are resident.

As per Page no 337 & 338 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

78.3 Section 286(9)(g) defines the term 'international group' to mean any group that includes,

(i) two or more enterprises which are resident of different countries or territories; or

(ii) an enterprise, being a resident of one country or territory, which carries on any business through a permanent establishment in other countries or territories. Alternate Reporting Entity has been defined in clause (c) of section 286(9) to mean any constituent entity of the international group that has been designated by such a group, in place of the parent entity, to furnish the report of the nature referred to in sub-section (2) in the country or territory in which the said constituent entity is resident on behalf of such group.

As per Page no 338 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

78.4 Section 286(2) casts an obligation on the parent entity if it is resident in India or the alternate reporting entity if it is resident in India to furnish for every 'reporting accounting year', in respect of the international group of which it is a constituent, a report for the accounting year, which term is defined in section 286(9)(a), to the prescribed authority.

The reporting requirement under section 286 shall not apply in respect of an international group for an accounting year, if the total consolidated group revenue, as reflected in the consolidated financial statement for the accounting year preceding such accounting year does not exceed Rs. 6,400 crores (Rule 10DB).

As per Page no 338 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

78.5 Clause 43(a) requires the auditor to verify whether the assessee or its parent entity or alternate reporting entity is liable to furnish the report referred to in section 286(2). Thus, the obligation to furnish the report referred to in section 286(2) arises under following situations requiring reply in affirmative to clause 43(a):

(i) If the assessee itself is the parent entity of the international group and is resident in India, it will have the obligation to furnish the report under section 286(2);

(ii) If the assessee is resident in India and has been designated as the alternate reporting entity of the international group, it will have obligation to furnish the report under section 286(2);

As per Page no 338 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

(iii) If the assessee is a constituent of the international group with its parent entity resident in India and the group has not designated any other resident constituent entity as the alternate reporting entity, the parent entity will have the obligation to file the report under section 286(2);

(iv) If the assessee is neither the parent entity nor has it been designated as the alternate reporting entity, but other constituent entity resident in India of the international group has been designated as the alternate reporting entity by the group, such other constituent entity resident in India will have obligation to file the report under section 286(2).

As per Page no 338 & 339 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

78.6 The tax auditor should verify in the case of the assessee if any of the above four situations exist.

The tax auditor should verify if the assessee whose parent is a non-resident has filed Form No. 3CEAC.

Form No. 3CEAC has to be furnished within a period of 10 months from the end of the reporting accounting year referred to in section 286(2).

Therefore, the due date for furnishing Form No.3CEAC will fall on 31st January, which is after the specified date of tax audit (30th September/31st October, as the case may be).

Therefore, the details required under this clause relating to the immediately preceding previous year in respect of which Form No.3CEAC has been filed in the relevant previous year or before the specified date can be furnished.

As per Page no 339 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

78.8 If the reply to clause 43(a) is in affirmative, the following information has to be furnished:

(i) Whether report has been furnished by the assessee or its parent entity or an alternate reporting entity.

(ii) Name of parent entity

(iii) Name of alternate reporting entity (if applicable)

(iv) Date of furnishing of report

If the assessee has filed a report, the tax auditor should verify acknowledgement for furnishing the same. If the report has been filed either by the parent of the assessee or another constituent entity of the international group, the tax auditor should ask for a copy of the report and acknowledgement for filing the report.

As per Page no 339 of Guidance Note on Tax Audit u/s. 44AB of IT Act, 1961 (Revised 2026)

78.9 The term parent entity is defined in section 286(9)(h).

The tax auditor should examine which is the parent entity and verify whether the same has been correctly reported.

The term ‘alternate reporting entity’ is defined in section 286(9)(c).

The tax auditor should examine whether any such alternate reporting entity exists and if yes, name of the alternate reporting entity should be stated.

From acknowledgement for furnishing report as referred to in subsection (2) of section 286, the date of furnishing of the said report should be stated.

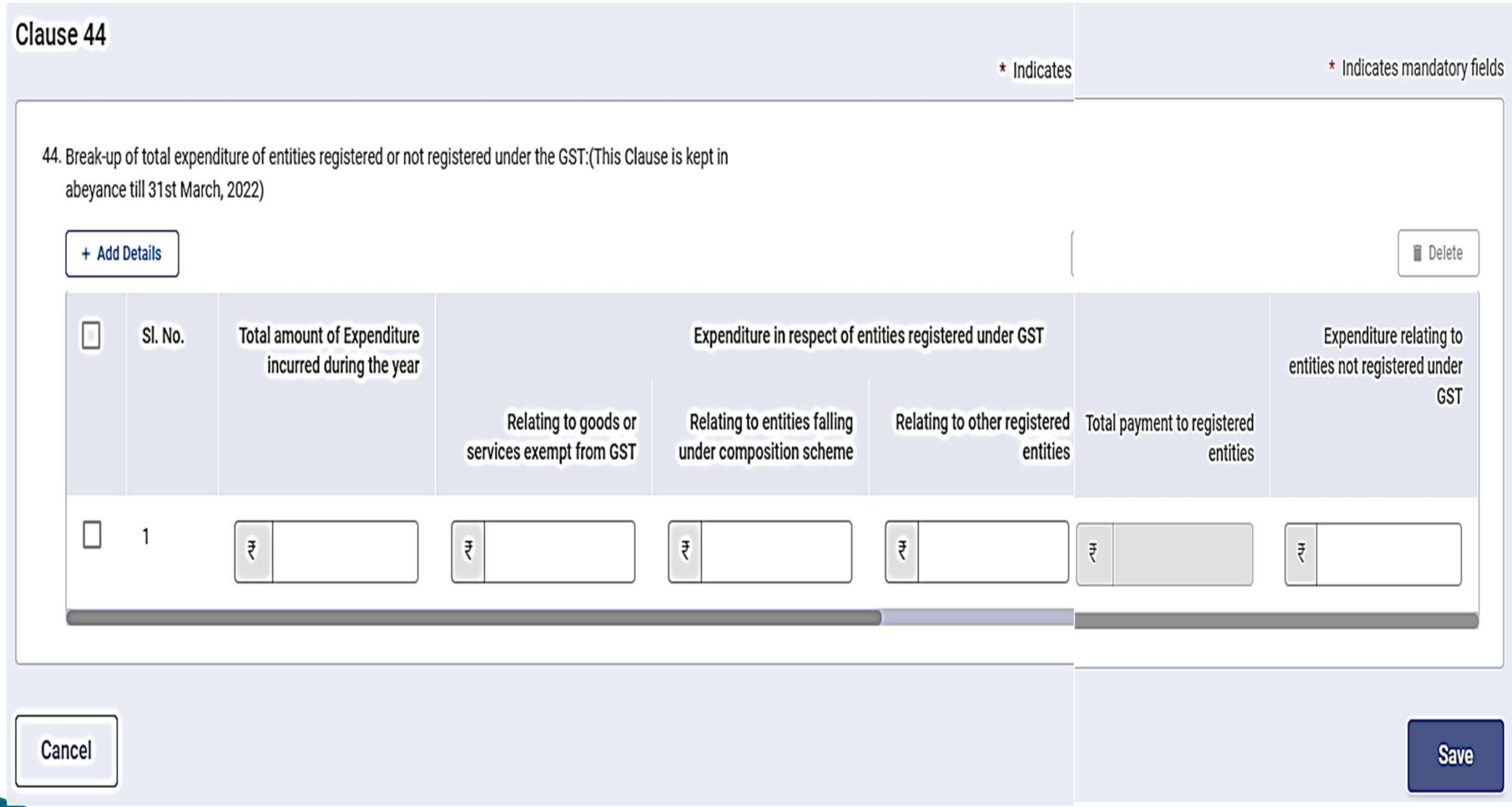
CLAUSE – 44

Break-up of total expenditure of entities registered or not registered under the 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 composition scheme	Relating to other registered entities	Total payment to registered entities	
(1)	(2)	(3)	(4)	(5)	(6)	(7)

CLAUSE – 44

Format in e-utility



History of Clause 44 of Form 3CD

Form 3CD of Tax Audit Report was originally amended in July 2018 by Notification No. 33/2018 dated 20.07.2018 to incorporate Clause 30C and Clause 44

- 30C: GAAR transactions
- 44: GST transactions

The notification was to come into effect from 20.08.2018.

Representations were done to defer it due to the **genuine hardships of the taxpayers as the time was too less to ensure the compliance.**

Order under section 119 of the Act vide Circular No. 06/2018 dated 17th August 2018, to keep the operation of Clause 44 in Form 3CD in abeyance till 31st March, 2019

In May 2019, the CBDT once again deferred the implementation of clause 44 till March 31, 2020 to make it applicable from April 1, 2020

Amidst Covid-19, CBDT for the third time extended the applicability date of Clause 44 till March 2021

Fourth time, the CBDT deferred and postponed the reporting requirement of Clause 44 from 31.03.2021 to31st March, 2022 vide a Circular No. 05/2021 dated 25.03.2021.

Is it applicable for AY 2022-23?

Reading of Circular No. 5/2021 dated 25.03.2021

In view of the prevailing situation due to COVID-19 pandemic across the country, it has been decided by the Board that the reporting under clause 30C and Clause 44 of the Tax Audit Report shall be kept in abeyance till 31st March, 2022.

Reading of Circular No. 06/2018 (first time extension).

reporting under the proposed clause 30C and proposed clause 44 of the Tax Audit Report shall be kept in abeyance till 31st March, 2019. Therefore, for Tax Audit Reports to be furnished on or after 20th August, 2018 but before 1st April, 2019, the tax auditors will not be required to furnish details called for under the said clause 30C and clause 44 of the Tax Audit Report."

Applicable for Tax Audit Report to be filed after 31.03.2022.

Arguments may not available

a) Assessee was not given sufficient time to maintain the required details.
b) Auditor did not get sufficient time to compile the information
c) The GST Law(s) are new in India
d) The reporting requirement does not have implication on IT collection

Is there no requirement under GST to maintain records as required in Clause 44

SECTION 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) production or manufacture of goods;

(b) inward and outward supply of goods or services or both;

(c) stock of goods;

(d) input tax credit availed;

(e) output tax payable and paid; and

(f) such other particulars as may be prescribed :

Is there no requirement under GST to maintain records as required in Clause 44

RULE 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 ……. supplies attracting payment of tax on reverse charge.**

(4) Every registered person shall keep and maintain an account, containing the details of input tax, input tax credit claimed,

(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;

(14) Every **registered person executing works contract** shall keep separate accounts for works contract showing –

(e) **the names and addresses of suppliers from whom he received goods or services**

Section 35(6) / 125 of CGST Act 2017

Implication of Non-Maintenance of books of account as per GST provisions

Section 35(6) Subject to the provisions of clause (h) of sub-section (5) of section 17, where the registered person fails to account for the goods or services or both in accordance with the provisions of sub-section (1), the proper officer shall determine the amount of tax payable on the goods or services or both that are not accounted for, as if such goods or services or both had been supplied by such person and the provisions of section 73 or section 74, as the case may be, shall, mutatis mutandis, apply for determination of such tax.

SECTION 125. General penalty - Any person, who contravenes any of the provisions of this Act or any rules made thereunder for which no penalty is separately provided for in this Act, shall be liable to a penalty which may extend to twenty-five thousand rupees.

Sr. No (Column 1)

Analysis of column (1) of the table, which requires mention of the serial number, suggests that expenditures are required to be reported in a head-wise manner.

Otherwise, if it is interpreted to be a consolidated figure then there is no requirement to mention the serial number in the table.

One can give consolidate figures for all the expenditure under this clause or one can give Revenue and Capital Expenditure under the serial Number 1 and 2.

The Form 3CD utility provides for adding rows more than one. However, the possibility of a contrary alternative view cannot be ruled out.

Total amount of Expenditure incurred during the year (Column 2)

As the heading of the table starts with the words "Breakup of total expenditure" and hence the total expenditure including purchases as per the specified format may be given.

Here, the total amount of expenditure incurred by the entity during the year will include both:

i. Revenue expenditure and

ii. Capital expenditure

How reporting to be done – GSTIN Wise / Entity Wise / Branch Wise

This report may be prepared for an entity as a whole or for a branch thereof, as may be required and accordingly the information in these clauses may have to be filled up consolidating the expenditure incurred under various GST registrations.

Multiple registrations

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 composition scheme	Relating to other registered entities	Total payment to registered entities	
(1)	(2)	(3)	(4)	(5)	(6)	(7)"
1.	100	10	10	10	30	70
2.	200	20	20	20	60	140

Expenditure vs ?

- **Expenditure vs Provision**

Should exclude provisions

- **Expenditure vs Purchases**

Should include purchases (as revenue expenditure)

- **Expenditure vs Assets**

Should include assets (Capital Expenditure)

- **Expenditure vs Bad Debts**

May be an expenditure but not a supply, or goods or service. Can be treated as loss and hence no reporting.

What about Depreciation?

Whether depreciation will be included in total expenditure ?

Under clause 44, details of expenditure are being asked for with break up between the inward supplies received from registered and unregistered suppliers.

As depreciation as an expense is not towards any inward supply, the same will not be included in the total expenditure.

Whether expenditure on non-supplies are required to be reported?

The main issue is that whether the expenditure which is not directly incurred towards supply of any goods or service like payment of bonus to employee, would be required to be disclosed or not.

There are two approaches.

Conservative Approach: An expenditure should be disclosed as the heading does not say that 'expenditure on supply' is to be reported only. Rather it states that expenditure is to be disclosed.

Another Approach: The main objective of the Central Government is to introduce this clause for matching such figures with the GST returns, wherein non-supplies are not required to be disclosed and, thus, there should be no need to disclose expenditure incurred on non-supplies.

Expenditure relating to goods or service exempt from GST(Column 3)

Here, the value of all inward supply of goods or services which are exempt from GST is to be given.

Section 2(47) of the Central Goods and Service Tax Act, 2017 defines exempt supply as follows:

- ***exempt supply*** *means supply of any goods or services or both which*
- ***attracts nil rate of tax*** *or*
- *which may be wholly exempt from tax under the Integrated Goods and Services Tax Act, and (***That is wholly exempted from tax under section 11 of the CGST Act or wholly exempted from tax under section 6 of IGST Act).**
- *includes non-taxable supply".*

Further, the **definition of exempt supply also includes non-taxable supply.**

The term **"non-taxable supply" has been defined in section 2(78) of the CGST Act, 2017** as follows:

"non-taxable supply" means a supply of goods or services or both which is not leviable to tax under this Act or under the Integrated Goods and Services Tax Act"

As per the above definition "non-taxable supply" includes supply of goods or services which are not leviable to tax under the CGST Act, 2017 or under the IGST Act, 2017.

As per section 9(1) of the CGST Act, 2017 / 5(1) of the IGST Act, 2017, supply of alcoholic liquor for human consumption is not leviable to tax.

Hence, it is an exempt supply the value of inward supply in respect of the same, if any, shall be included in the value of exempt supply.

Further, as per section 9(2) of the CGST Act, 2017 / 5(2) of the IGST Act, 2017, tax on supply of petroleum crude, high speed diesel oil, motor spirit, natural gas and aviation turbine fuel shall be levied with effect from such date as may be notified.

Presently, these goods are not leviable to tax under GST law.

Hence, the value of inward supply in respect of these goods, if any, shall be included in the value of exempt supply.

Schedule III to the CGST Act, 2017 lists out activities or transactions which are treated neither as a supply of goods nor a supply of services and thus expenditure incurred in respect of such activities need not be reported under this clause in any of the columns from 3 to 7.

For example, Para (1) of the Schedule III covers "Services by an employee to the employer in the course of or in relation to his employment" and thus, remuneration to employees need not be reported.

Schedule-III- Transactions ?

- Sale of Land
- Sale of completed building
- Salary to employees
- High Seas Purchase
- Purchase of Goods within Customs Warehouse
- Drop Shipment Purchases

Treated neither as supply of goods nor as supply of services.

Expenditure in respect of entities registered under GST

Relating to entities falling under the composition scheme (Column 4)

It includes the amount of expenditure incurred from the composition dealers.

To know whether any of the vendors was a composition dealer or not, you can either recheck the vendor invoice or visit the GST portal and search the vendor through GSTIN to know his registration status.

It may be noted here that details of value of inward supplies under composition scheme, exempt and NIL rated supply are also required to be disclosed in return form GSTR 3B **and while disclosing data here it should be ensured as an Auditor that the total of column 3 (exempt supply) and 4 (composition scheme) matches with the figures as disclosed in GSTR 3B filed by the auditee.**

Expenditure relating to entities falling under composition Scheme (Column 4)

Levy of tax under composition scheme is governed by section 10 of the CGST Act, 2017.

While reporting the expenditure under this head, the following should be considered:

a) A composition dealer cannot charge GST in the invoices.

b) A composition dealer cannot make inter-State supply.

c) A composition dealer can issue only bill of supply and not a tax invoice.

d) The composition dealer should have mentioned the following words at the top of the bill of supply issued by them:

"Composition taxable person, not eligible to collect tax on supplies"

Who cannot opt for composition scheme?

- Manufacturers of ice cream, pan masala, or tobacco
- Person engaged in the supply of non-taxable goods under the GST law (Petrol, Diesel, Natural Gas, Alcohol).

Help from GSTR-3B?

Table 5 of GSTR-3B

Values of exempt, nil-rated and non-GST inward supplies

Nature of supplies	Inter-State supplies	Intra-State supplies
1	2	3
From a supplier under composition scheme, Exempt and Nil rated supply		
Non GST supply		

Reality: Practice of not recording the GSTIN of Composition supplier. **Treated as Unregistered Entity in books and may be reported in Column 7 as per Revised Guidance Note 2026**. Hence may need appropriate disclosures.

Disclaimer : Details as required in column 4 of clause 44 is separately not maintained by the assessee and in absence of this, we are unable to comment.

Expenditure relating to other registered entities (Column 5)

Value of all inward supplies from registered dealers, other than

- supplies from composition dealers and
- exempt supply from registered dealers,

are to be mentioned here.

The amount of expenditure to be disclosed here would be inclusive of GST.

Further, here also it should be ensured as an Auditor that the amount disclosed tallies with the figures as disclosed in GSTR 3B filed by the auditee.

However, while matching appropriate adjustment be made for GST as in GST returns the value would be depicted without GST.

There is a **possibility that assessee may procure both exempt and taxable supplies from one registered person.**

Every inwards supply from a registered person should be analysed and if it is an exempt supply, the same should be reported under column (3).

Only value of taxable inwards supply should be reported under column (5).

Reporting of Registered supplier

- Supply from same person can be exempt and taxable
  - Reporting nature wise and not person wise
    - Eg Purchases from Agarwal and Sons (Regd entity)

Petrol	500 non GST
Lubricant	100 taxable
Grains	200 Nil rates
Milk	30 Exempt

2(78) of CGST exempt supply also includes non taxable supply 2(47) - Nil rates included in exempt supply

Expenditure in respect of entities registered under GST

Relating to goods or services exempt from GST	Relating to entities falling under composition scheme	Relating to other registered entities	Total payment to registered entities
(3)	(4)	(5)	(6)
730		100	830

Total payment to registered entities (Column 6)

The language used here is total payment to registered entities.

Total payment for

- Exempted
- Composition Supplier
- Other supplies from registered person

Total payment to registered entities (Column 6)

This is the sum total of all the expenditures you incurred in the above column (3), (4) and (5).

Total payment to registered entities. Based upon the prima facie examination of the format in which details of expenditure are to be given, it appears that the total of the amounts stated in the columns 3, 4 and 5 would be stated here.

However, this view is not free from doubt in view of fact that the **total payment** is to be disclosed here, **whereas expenditure incurred** is required to be mentioned in columns 3, 4 and 5.

We all know that there is big difference between incurred which means accrued (even if not paid).

Another view that can be taken here is that the information to be given in Column 6 is independent of columns 3, 4 and 5 and here the total payment to registered persons needs to be shown.

However, seeking the quantum of total payments made to the registered entities will not serve any purpose since the expenditure is normally recorded on accrual basis.

Such information is also very difficult to obtain and would pose accounting challenges.

In column 6 we need to incorporate payment made to a GST registered person irrespective of whether the payment relates to current year expenses or expenses relating to previous financial year, further this shall also include payment made for expenses in advance.

The only possible way to extract such information from voluminous books of accounts is by following this formula.

Sundry Creditors (GST registered) as on 31.03.2021
Add: Total amount of Expenditure incurred during the year towards GST Registered entities
Less: Sundry Creditors (GST registered) as on 31.03.2022
So, Total payment to registered entities

Expenditure relating to entities not registered under GST (Column 7)

The value of inward supply of goods and/or services received from unregistered persons should be reported here.

Include here, Import of Goods or Services which are leviable to GST also Expenditure which may be treated as from Unregistered Person but may be from registered person.

Section under GST	Nature of Expenditure	Possible Solution
17(5)	Blocked ITC- ITC not allowed and GST booked with expenses	Check GSTR-2A Reconciliation & Table 4D(1) of GSTR-3B
9(3)	Supplies under RCM -	For Registered: Check GSTR-2A. For Unregistered: Check RCM Invoice / Purchase Invoice – Sec 31(3)(f)
10 / 11	Composition Supplier Exempt Supplies from Registered Person	Check Table 5 of GSTR-3B
GSTIN of Auditee not mentioned	ITC not claimed and tax booked with expense / Expense in Cash	Only possible to verify from supplier master or vouching

As per Revised Guidance Note 2026: It should be ensured that the total of columns 6 (Registered) and 7 (Unregistered), tallies with the amount mentioned in column (2) (Total Expenditure).

Risk of Over reporting in Table 7

Over reporting of expenditure from unregistered may attract scrutiny.

A disclosure for Table 7 about possibility of inaccuracy due to reasons listed above should be given in Form 3CD.

A declaration should be taken from the auditee that he has not recorded GSTIN where ITC has not been claimed

Support from GSTR 2A

Year	
Month	

1.	GSTIN		
2.	(a)	Legal name of the registered person	
	(b)	Trade name, if any	

PART A

(Amount in Rs. all Tables)

3. Inward supplies received from a registered person including supplies attracting reverse charge

GSTIN of sup-lier	Trade/ Legal name	Invoice details				Rate (%)	Tax-able value	Amount of tax			
		No.	Type	Date	Value			Integrat-ed tax	Central tax	State/ UT tax	Cess
1	2	3	4	5	6	7	8	9	10	11	12

Place of supply (Name of State/ UT)	Supply attracting reverse charge (Y/N)	GSTR-1/5 period	GSTR-1/5 filing date	GSTR-3B filing status (Yes/ No)	Amendment made, if any (GSTIN, Others)	Tax period in which amen-ded	Effective date of cancellation, if any
13	14	15	16	17	18	19	20

GSTR 2A Reconciliation

- Checking of GSTR-2A thoroughly
- To identify the Purchases unaccounted in Books of accounts
- To Identify the purchases which are not reported /short reported by suppliers.
- To identify the purchase which are reported but having difference in amount /tax.
- Helps it taking timely rectification steps / follow up

Check List - Data of Auditee

The Tax auditor should verify the details furnished with the underlying document on a test check basis and retain the same as part of his working papers :

Expenditure head	Name of the entity to whom payment is made	GSTIN of the entity	Value debited to expenditure account	Value for which input tax credit is taken	Total amount paid to the vendor	Reason for NIL GST	General Remarks, if any

How will you help GST Consultants

Table - 14 GSTR 9C

14	Reconciliation of ITC declared in Annual Return (GSTR9) with ITC availed on expenses as per audited Annual Financial Statement or books of account			
	Description	Value	Amount of Total ITC	Amount of eligible ITC availed
	1	2	3	4
A	Purchases			
B	Freight/ Carriage			
C	Power and Fuel			
D	Imported goods (Including received from SEZs)			
E	Rent and Insurance			
F	Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples			
G	Royalties			
H	Employees' Cost (Salaries, wages, Bonus etc.)			
I	Conveyance charges			
J	Bank Charges			
K	Entertainment charges			
L	Stationery Expenses (including postage etc.)			
M	Repair and Maintenance			
N	Other Miscellaneous expenses			
O	Capital goods			

Whether non-cash items should be considered as part of expenditure for Column 2 reporting like depreciation / loss of sale of fixed assets etc.?

The reporting requirement of Clause 44 is to provide details of expenditure from GST registered vendors and unregistered vendors. Non cash items like depreciation / loss on sale or discard of property plant & equipment / unrealized losses / impairments or the like are expenditure not in the nature of supply and hence should not form part of any Column from 3 to 7.

Schedule III to the CGST Act, 2017 lists out activities or transactions which are treated neither as a supply of goods nor a supply of services and thus expenditure incurred in respect of such activities need not be reported under this clause in any of the columns from 3 to 7.

For example, “Services by an employee to the employer in the course of or in relation to his employment” is neither supply of goods nor supply of service and hence need not be reported.

Whether expenditure on which RCM is applicable should be included for reporting purpose?

There may be cases where a vendor is rendering services to the Assessee and his services are covered under RCM and hence may not raise a taxable invoice on the Assessee.

However, such vendor may still be registered under GST since he may be rendering other services which may not be covered in RCM and hence may have a GST registration.

As per the requirement of the clause, expenditure needs to bifurcated between registered and unregistered vendor in GST and not whether the expenditure is covered under RCM or otherwise.

Accordingly, such expenditure should be covered in column 3-6, as the case may be.

However, the Assessee may not have captured the registration details of the vendor covered in RCM in their accounting software.

The tax auditor under such a scenario may provide appropriate note in their tax audit report as to how such transactions have been included / excluded from reporting in Clause 44.

Whether expenditure including GST or excluding GST to be reported in clause 44?

Technically the word total expenditure means expenditure which is revenue or capital.

If the Assessee has taken ITC on expenditure, the amount of such ITC cannot be considered as expenditure since is it not claimed as such.

On the other hand, if the Assessee does not take ITC or there are cases of ineligible ITC and are charged to Statement of Profit and Loss, the same may be considered as expenditure since ITC is not claimed and such ITC is recognised either as revenue or capital expenditure by the Assessee.

The tax auditor under such a scenario may provide appropriate note in their tax audit report with regard to inclusion / exclusion of ITC in Clause 44.

It may be noted that Tax audit report consists of two parts – Form No. 3CA or 3CD and Form No. 3CD.

- Form No. 3CA / 3CB has to be there before reporting in Form NO. 3CD.

- Form No. 3CA / 3CB requires auditor to certify the figure as **"True & Correct" and not as "True and Fair".**

It means that it doesn't leave the scope of estimation or correctness to a major extent.

In short, if the auditor is doing estimation, it would be better to give the disclaimer rather than disclosure.

Disclosure suggested by ICAI

It may be noted that the guidance note issued by the ICAI 2026 also mention at para 79.21 as under:

"79.21 *An appropriate disclosure should be made by the Tax auditor in Form 3CA/3CB, as the case may be, for the view taken by the assessee in relation to the meaning of "Total expenditure" and the method of filling up the appropriate columns. If the assessee is not in a position to give the details as required in clause 44, an appropriate disclosure/disclaimer may be made by the auditor in Form 3CA/3CB. Where the assessee has provided reason for not being able to provide details, the same may be reported, if found appropriate.".*

In short, Guidance note also recognizes the fact that it may not be possible for auditor to give the details in clause 44 and in such cases an appropriate disclosure/disclaimer may be made by the auditor in Form 3CA/3CB.

It has been provided in the guidance note that where the assessee has provided reason for not being able to provide details, the same may be reported, if found appropriate.

The tax auditor in such a case, can give the following disclosure & disclaimer in Form No. 3CA or 3CB as may be applicable:

1. Assessee has not maintained the details in proper format as required in Clause 44. In absence of this, we are unable to give the details as required in Clause 44 of Form No. 3CD.

2. Considering the nature of business and volume of transactions, it is not possible for us to verify and give the details as required in Clause 44 of TAR in 3CD.

3. Assessee has not maintained the details as required in Clause 44 of TAR in 3CD. In view of this, we express our inability to report the same.

4. Details as required in the required format in Clause No. 44 are not maintained by the Assessee. It is told that the assessee is not having the proper system and manpower to compile and report the same. In view of this, we are unable to give the required details in Clause No. 44.

5. The software and accounting system of the assessee is not properly designed so as to maintain & give the details in the format as required in Clause No. 44. Assessee has given the submission that they are not having the proper system and manpower to compile and report the same. Considering the nature of business and volume of transactions and submission done by the assessee, it is not possible for us to give the details as sought in Clause 44 of TAR in 3CD.

Even if Clause 44 is filled by the auditor then also the above details / disclosure regarding the view taken by the Auditor regarding the meaning of 'Total Expenditure & method for filling appropriate Columns" is required to be mentioned in the Form NO. 3CA/3CB.

The same could be as under:

- The total expenditure has been taken by excluding the amount of Depreciation, Salary, Wages, Bad debts, etc which are not considered as supply within the meaning of the Supply under GST Act.

- The figures in Column No. 6 of clause No. 44 have been taken as total of 3, 4 & 5 and word "Payment" has been taken as "Accrued".

Whether disclaimer tantamount to Penal consequences of ICAI or Income Tax Department:

Guidance note also recognizes the fact that it may not be possible for auditor to give the details in clause 44 and in such cases an appropriate disclosure/disclaimer may be made by the auditor in Form 3CA/3CB.

It has been provided in the guidance note that where the assessee has provided reason for not being able to provide details, the same may be reported, if found appropriate.

The date required is voluminous and bulky.

Without the same being maintained and streamlined, giving the details may not be possible.

In view of this, the disclaimer may not involve the penal consequences.

Wrong reporting or erroneous reporting would be more penal in nature as compared to the disclaimer / disclosure of reason for non reporting.

Section S.271J

Penalty for furnishing incorrect information in reports or certificates.

- 271J. Without prejudice to the provisions of this Act,
- where the Assessing Officer or the Commissioner (Appeals),
- in the course of any proceedings under this Act,
- finds that an accountant or a merchant banker or a registered valuer
- has furnished incorrect information in any report or certificate furnished under any provision of this Act or the rules made thereunder,
- the Assessing Officer or the Commissioner (Appeals) may direct
- that such accountant or merchant banker or registered valuer,
- as the case may be,
- shall pay,
- by way of penalty,
- a sum of ten thousand rupees for each such report or certificate.

Explanation - For the purposes of this section,—

(a) "accountant" means an accountant referred to in the Explanation below sub-section (2) of section 288;

(b) "merchant banker" means Category I merchant banker registered with the Securities and Exchange Board of India established under section 3 of the Securities and Exchange Board of India Act, 1992 (15 of 1992);

(c) "registered valuer" means a person defined in clause (oaa) of section 2 of the Wealth-tax Act, 1957 (27 of 1957).

Explanation - For the purposes of this section,—

(a) "accountant" means an accountant referred to in the Explanation below sub-section (2) of section 288;

(b) "merchant banker" means Category I merchant banker registered with the Securities and Exchange Board of India established under section 3 of the Securities and Exchange Board of India Act, 1992 (15 of 1992);

(c) "registered valuer" means a person defined in clause (oaa) of section 2 of the Wealth-tax Act, 1957 (27 of 1957).

Penalty - S.271J

AO or CIT(A) notices that

incorrect information is given in

- Report
- Certificate

Rs. 10000 per report/certificate

Audit report disclosure in 2030 (forecast)

- Firm Name
- Auditor's name
- MRN
- FRN
- PAN
- UDIN
- Birth certificate No of CA
- BLOOD GROUP OF CA
- DNA TEST REPORT
- Aadhaar of CA
- Aadhaar of Client
- Google Tag of CA's Office
- PIC WITH CLIENT
- Live video with client 30 second,
- Biometric verification of Fingerprints, Heartbeat and Retina scan!!
- Birth certificate of clients....
- fingers print of Accountants..
- GST NO.
- PASSPORT NO.
- Clint Vehicle no..
- Employees all mentioned above...



Thanks to my computer operator

Sri. N. Beeresh & Sri Vinay Kumar H