Tax Audit

There are various types of audits prescribed under different laws like company law requires a company audit, cost accounting law requires a cost audit, etc. The Income-tax Law requires the taxpayer to get the audit of the accounts of his business/profession under the provisions of Income-tax Law. Tax audit can be defined as ***'an examination of financial records to assess correctness of calculation of taxable profit, to ensure compliance with the provisions of the Income-tax Act and also ensure fulfilment of conditions for claiming deductions under the Income-tax Act'.*** The provisions relating to the class of taxpayers who are required to get their accounts audited under tax audit are given in Section 44 AB. The audit under section 44AB aims to ascertain the compliance of various provisions of the Income-tax Law and the fulfilment of other requirements of the Income-tax Law. The audit conducted by the chartered accountant of the accounts of the taxpayer in pursuance of the requirement of section 44AB is called tax audit.

Objectives of Tax Audit

The objectives of tax audit are as following:

a. To ensure that the books of account and other records are properly maintained,

b. To check whether the accounts truly reflect the income of the taxpayer and claims for deduction are correctly made by him.

c. To check and detect any fraudulent practices.

d. To facilitate the administration of tax laws by a proper presentation of accounts before the tax authorities and

e. To save the time of Assessing Officers in carrying out routine verifications, like checking correctness of totals and verifying whether purchases and sales are properly vouched for or not. The time of the Assessing Officers saved could be utilised for attending to more important and investigational aspects of a case.

Compulsory tax Audit under section 44AB

As per section 44AB, following persons are compulsorily required to get their accounts audited:

• A person carrying on business, if his total sales, turnover or gross receipts (as the case may be) in business for the year exceed or exceeds rupees one crore. This provision is not applicable to the person, who opts for presumptive taxation scheme under section 44AD and his total sales or turnover does not exceeds rupees two crores.

• A person carrying on profession, if his gross receipts in profession for the year exceed rupees fifty lakhs.

• An assessee who declares profit for any previous year in accordance with section 44AD and if profit decreases in any one of the five assessment years referred to the previous year succeeding such previous year lower than the profit computed as per section 44AD and his income exceeds the amount which is not chargeable to tax.

•If an eligible assessee opts out of the presumptive taxation scheme, within the aforesaid period, he cannot choose to revert back to the presumptive taxation scheme for a period of five assessment years thereafter.

• A person who is eligible to opt for the presumptive taxation scheme of section 44ADA but he claims the profits or gains for such profession to be lower than the profit and gains computed as per the presumptive taxation scheme and his income exceeds the amount which is not chargeable to tax.

• This provision is not applicable to the person, who opts for presumptive taxation scheme under section 44AD and his total sales or turnover does not exceeds rupees two crores.

• A person who is eligible to opt for the presumptive taxation scheme of sections 44AE but he claims the profits or gains for such business to be lower than the profits and gains computed as per the presumptive taxation scheme of sections 44AE.

• A person who is eligible to opt for the taxation scheme prescribed under section 44BB or section 44BBB but he claims the profits or gains for such business to be lower than the profits and gains computed as per the taxation scheme of these sections. (*) section 44BB is applicable to non-resident taxpayers engaged in the business of providing services or facilities in connection with, or supplying plant and machinery on hire basis to be used in exploration of mineral oils. Section 44BBB is applicable to foreign companies engaged in the business of civil construction or erection of plant or machinery or testing or commissioning thereof, in connection with a turnkey power project.

Tax Audit under section 44AB

Tax audit can be conducted by a Chartered Accountant who holds the certificate of practice and is in full-time practice. The tax auditor carries out a systematical examination of books of account as per the formats prescribed by the department. The tax auditor may be appointed by the management of entity or any person duly authorised by it for making such an appointment. A partner of a firm, a proprietor or any other authorised person can appoint the tax auditor in case of partnership firms or proprietary concerns. A chartered accountant cannot accept more than sixty tax audit assignments in a financial year. In case of a firm of chartered accountants, the specified number of sixty tax audit assignments is to be counted for every partner of the firm. The following are disqualified from becoming a tax auditor:

a. An employee of the assesse or of a concern under the same management.
b. A chartered accountant who has written the books of the assesse.
c. Internal auditor if appointed after December, 2008.

Due Date for Tax Audit

A person covered by section 44AB should get his accounts audited and **should obtain the audit report on or before the due date of filing of the return of income, i.e., on or before 30th September of the relevant assessment year**, e.g., Tax audit report for the financial year 2017-18 corresponding to the assessment year 2018-19 should be obtained on or before 30th September, 2018. In case of a taxpayer who is required to furnish a report in Form No. 3CEB under section 92 in respect of any international transaction or specified domestic transaction, the due date of filing the return of income is 30th November of the relevant assessment year. The tax audit report is to be electronically filed by the chartered accountant to the Income-tax Department. After filing of report by the chartered accountant, the taxpayer has to approve the report from his e-fling account with Income-tax Department (i.e., at www.incometaxindiaefiling.gov.in).

Penalty for not getting the Accounts Audited under section 44AB

According to section 271B, if any person who is required to comply with section 44AB fails to get his accounts audited in respect of any year or years as required under section 44AB or furnish such report as required under section 44AB, the Assessing Officer may impose a penalty. The penalty shall be lower of the following amounts:

(a) 0.5 per cent of the total sales, turnover or gross receipts, as the case may be, in business, or of the gross receipts in profession, in such year or years.

(b) Rs. 1,50,000.

However, according to section 271B, no penalty shall be imposed if reasonable cause for such failure is proved.

Sources for the E-Content

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Disclaimer:

1. These notes are only for the students.

2. These notes are prepared after referring various books and websites.