Contents

		PAGE
♦ Ci	hapter-heads	<i>I-5</i>
	lauses of Form No. 3CD not relevant/applicable to Tax Audit for seessment year 2020-21	I-31
	lauses of Form No. 3CD relevant/applicable to individuals/ UFs who are liable for Tax Audit u/s 44AB	<i>I-32</i>
	lauses of Form No. 3CD relevant/applicable to Firms/LLPs/ OPs/BOIs who are liable for Tax Audit u/s 44AB	<i>I-33</i>
	lauses of Form No. 3CD relevant/applicable to companies who re liable for Tax Audit u/s 44AB	I-34
	SECTION 44AB: AUDIT OF ACCOUNTS OF CERTAIN PERSONS CARRYING ON BUSINESS OR PROFESSION	
0.1	Persons carrying on business or profession who are required to get their accounts audited	1
0.2	Persons carrying on business or profession who are totally exempt from tax audit u/s 44AB	2
0.3	"Audit" - Definition	2
0.4	Aims and objects of compulsory audit under section 44AB	4
0.5	Features of audit under section 44AB popularly known as 'tax audit'	5
0.6	ICAI's Guidance Note on Tax Audit ["the Guidance Note"]	6
0.7	Constitutionality of section 44AB	6
	<u>1</u>	
	PERSONS CARRYING ON BUSINESS WHO ARE OBLIGED TO COMPLY WITH PROVISIONS OF SECTION 44AB AS REGARDS COMPULSORY AUDIT OF ACCOUNTS	
1.1	Which persons carrying on business are obliged to comply with provisions of section 44AB as regards compulsory audit of accounts?	7

	CONTENTS	I-10
		PAGE
1.2	Is tax audit applicable when income is exempt under section 10?	7
1.3	Agriculturist having no income under the head "Profits and gains of business or profession"	8
	<u>2</u>	
	TURNOVER-LINKED COMPULSORY AUDIT OBLIGATIONS U/S 44AB(a) ON CERTAIN PERSONS CARRYING ON BUSINESS	
2.1	When is a person carrying on business covered by compulsory tax audit under section 44AB	9
2.2	Are there any cases where a turnover/total sales/gross receipts threshold higher than Rs. 1 crore is applicable for attracting the compulsory audit provisions of section 44AB?	11
2.3	What is the turnover or gross receipts threshold limit for non- audit of accounts for resident individuals, HUFs and firms who are declaring the profits of their business in accordance with	
	section 44AD	11
	<u>3</u>	
	COMPULSORY AUDIT OBLIGATIONS U/S 44AB(c)/(e) ON CERTAIN PERSONS CARRYING ON BUSINESS REGARDLESS OF THEIR TURNOVER/GROSS RECEIPTS/SALES (NON-TURNOVER-LINKED AUDIT OBLIGATIONS)	
3.1	Who are the persons carrying on business who are required to get accounts audited regardless of their turnover/gross receipts/sales in a financial year?	12
	4	
	PERSONS CARRYING ON BUSINESS WHO ARE EXEMPT FROM TAX AUDIT (COMPULSORY AUDIT OBLIGATIONS) U/S 44AB	
4.1	Who are the persons carrying on business who are exempt from compulsory audit obligations of section 44AB?	13
4.2	Businesses covered by section 44B/section 44BBA exempt from tax audit	13
	<u>5</u>	
	PRESUMPTIVE TAX REGIME UNDER SECTION 44AD FOR ELIGIBLE BUSINESSES CARRIED ON BY RESIDENT INDIVIDUALS, HUFs & FIRMS	
5.1	What is the presumptive taxation regime of section 44AD of the Act?	16

I-11 CONTENTS

		PAGE
5.2	Which assessees are eligible to opt for the scheme under section 44AD?	18
5.3	Which assessees are barred from availing section 44AD scheme?	19
5.4	Disqualification incurred by opting out of section 44AD before availing it for 6 consecutive previous years	22
5.5	How to avoid the pitfalls of sub-sections (4) and (6) of section 44AD	23
5.6	Which are the businesses for which an eligible assessee can avail section 44AD ('eligible business')	23
5.7	What is the meaning of the phrase 'Engaged in an eligible business' used in section 44AD?	25
5.8	What is the amount which is deemed to be income by section 44AD?	25
5.9	What happens when actual income is more or less than the presumptive income calculated under section 44AD?	28
5.10	Whether AO can make additions for discrepancies in assessee's account books where assessee opts for section 44AD?	28
5.11	FAQs on section 44AD	29
5.12	Are there any circumstances in which eligible assessee is disqualified from availing section 44AD scheme?	29
5.13	Illustrations and Case Studies	30
5.14	What is the procedure for 'opting in' into the scheme?	34
5.15	What is the procedure for 'opting out' of the scheme?	34
5.16	What are the restrictions on opting in and opting out?	34
5.17	What are the consequences if eligible assessee opts out before availing it for 6 consecutive years?	36
5.18	If an assessee furnishes audit report beyond date specified in section 44AB, can he be denied benefit of claiming lower profits and gains than specified in section 44AD?	37
5.19	Suppose an individual or HUF opts out of section 44AD in Assessment Year 2018-19 after claiming the benefit in Assessment year 2017-18 and its total income is less than the taxable limit. If the individual/HUF does not maintain any books of account nor furnishes any tax audit report, will the income from eligible business declared @ less than 8% of total turnover or gross receipts (say @ 2%) in the ITR be accepted as it is?	37
5.20	Are firms availing section 44AD entitled to deduction of interest and remuneration paid to partners?	38
5.21	Will firms availing section 44AD have to amend their partner-ship deeds to omit 'interest to partner'/'remuneration to partner' clauses?	38
	parairer erauses.	30

	CONTENTS	I-12
		PAGE
5.22	Will partnership firms be rendered ineligible to avail section 44AD if they pay interest/remuneration to partners?	38
5.23	Will assessee be required to maintain and furnish gross profit, expenses and net profit details to AO?	39
	<u>6</u>	
	PRESUMPTIVE TAX REGIME U/S 44AE FOR ASSESSEES OWNING GOODS CARRIAGES AND PLYING, HIRING OR LEASING THEM	
6.1	What are the features of the presumptive scheme for truck owners under section 44AE?	40
6.2	What happens when actual income is more or less than the presumptive income calculated as above section 44AE @ Rs. 1,000 per ton p.m./@ Rs. 7,500 p.m. or part thereof?	42
6.3	Whether AO can make additions for discrepancies in assessee's account books where assessee opts for section 44AE?	43
6.4	What if assessee owned 11 trucks at any point of time during the year but only 10 were operational as one was under repair? Is assessee eligible to avail section 44AE scheme?	43
6.5	If assessee owns 8 trucks, can he opt for section 44AE for say 3 of them and opt for regular taxation for the remaining 5 trucks?	44
6.6	Who can opt for section 44AE scheme?	44
6.7	Goods carriage	45
6.8	Whether assessee can avail the scheme in respect of trucks acquired on hire-purchase basis? Can he be considered owner of such trucks?	47
6.9	Can one freely opt in and opt out of section 44AE scheme?	47
6.10	What are the consequences of opting out? Will assessee be barred for availing it for certain number of years?	47
6.11	What are the implications of opting in into section 44AE regime?	47
6.12	If assessee claims his profits are lower than the presumptive income under section 44AE, will he be required to maintain books and get them audited if his income is below taxable	
	limit?	48
6.13	If an assessee furnishes audit report beyond date specified in section 44AB, can he be denied benefit of claiming lower profits and gains than specified in section 44AE?	49
6.14	Are partnership firms/LLPs availing section 44AE entitled to deduction under section $40(b)$ in respect of interest/remuneration paid to partners?	49
6.15	Will assessee be required to maintain and furnish gross profit,	• •
	expenses and net profit details to AO?	50

I-13 CONTENTS

	_	PAGE
	<u>7</u>	
	WHEN PERSON CARRYING ON PROFESSION IS REQUIRED TO GET HIS ACCOUNTS AUDITED U/S 44AB(d)	
7.1	Applicability of tax audit u/s 44AB to persons carrying on professions	52
7.2	'Every person' shall not include companies or other artificial persons	53
7.3	Business and profession	54
7.4	Profession as Judicially Defined	55
7.5	When would the activity of a professional doctor/lawyer/ architect etc. be a 'business' or commercial activity as distinct from professional activity	56
7.6	Horse-Trainer - Not a Profession	57
7.7	Stock-Broker - Not a Profession	57
7.8	Leadership of dance band - Not a profession	57
7.9	Tenant-right valuations and estates management	57
7.10	Manager or Managing Director - Not a profession	57
7.11	Gross Receipts - ICAI's views	57
7.12	Where assessee carried on business as well as profession - Obligations for tax audit under section 44AB	58
	<u>8</u>	
	PRESUMPTIVE TAX REGIME AVAILABLE UNDER THE ACT TO PERSONS CARRYING ON SPECIFIED PROFESSIONS	
8.1	What is the rationale for presumptive taxation scheme for professionals (section 44ADA)	59
8.2	What is the presumptive tax regime applicable to professionals under section 44ADA?	60
8.3	How to reckon the limit of Rs. 50 lakhs for the purposes of section 44ADA?	61
8.4	If professional is also carrying on some "eligible business" covered by section 44AD, can he avail either section 44AD or section 44ADA in respect of such business?	62
8.5	If gross receipts of nursing home run by doctor exceed Rs. 50 lakhs but are less than Rs. 2 cr. can the doctor avail presumptive tax under section 44AD?	63
8.6	What happens when actual income is more or less than the presumptive income calculated u/s 44ADA @ 50% of gross receipts?	64

	CONTENTS	I-14		
		PAGE		
8.7	Whether AO can make additions for discrepancies in assessee's account books where assessee opts for section 44ADA?	65		
8.8	Which professional assessees are eligible to opt for the section 44ADA?	65		
8.9	Are partnership firms eligible to avail section 44ADA scheme?	65		
8.10	Are Limited Liability Partnerships (LLPs) eligible to avail section 44ADA scheme?	65		
8.11	Are companies eligible to avail the scheme?	65		
8.12	Can an individual assessee availing deductions under section 80QQB or section 80RRB opt for section 44ADA?	66		
8.13	Can one freely opt in and opt out of section 44ADA scheme?	66		
8.14	What are the consequences of opting out? Will assessee be barred for availing it for certain number of years?	66		
8.15	If an assessee engaged in profession referred to in section 44AA(1) opts out of section 44ADA scheme by declaring less than 50% of gross receipts as income from the profession and his total income does not exceed the maximum amount not chargeable to income-tax, will income from the profession declared by him in his ITR be accepted as it is?	66		
8.16	What are the implications of opting for section 44ADA regime?	67		
8.17	What are the implications of not opting for or opting out of section 44ADA?	68		
8.18	What happens if total income of assessee (individual) does not exceed the taxable limit and assessee claims that his income from profession referred to is less than 50% of goods receipts while gross receipts do not exceed Rs. 50 lakhs?	69		
8.19	If an assessee furnishes audit report beyond date specified in section 44AB, can he be denied benefit of claiming lower profits and gains than specified in section 44ADA?	69		
8.20	Are partnership firms/LLPs availing section 44ADA entitled to deduction under section $40(b)$ in respect of interest/remuneration paid to partners?	70		
8.21	What compliances are required if assessee opts for section 44ADA?	71		
8.22	Will assessee be required to maintain and furnish gross profit, expenses and net profit details to AO?	71		
9				
	TURNOVER OR GROSS RECEIPTS			
9.1	'Total sales, turnover or gross receipts'	73		
9.2	Distinction between 'turnover' and 'total sales'	74		
9.3	ICAI's views on 'turnover'	74		

I-	1	5	CONTENTS

		PAGE
9.4	Items to be excluded/deducted from 'turnover'	74
9.5	Items to be included/not to be deducted from 'turnover'	75
9.6	"Gross Receipts" of business - ICAI's Views	75
9.7	Items to be included in 'gross receipts'	75
9.8	Items not to be included in 'gross receipts'	76
9.9	Additional sales found as a result of search	77
9.10	Share brokers/sub-brokers - How to compute ₹ 1 crore limit	78
9.11	Turnover/gross receipts - Transactions in shares, securities and derivatives	81
9.12	Turnover in case of chit fund companies	81
9.13	Computation of ₹1 crore limit - Commission agents	82
9.14	Tax audit in case of non-residents carrying on business	84
	10	
	OBLIGATIONS CAST BY SECTION 44AB	
10.1	Obligation cast by section 44AB	85
10.2	Audit of accounts, not audit of books of account	85
10.3	Audit confined to accounts of business or profession	86
10.4	Specified date	87
10.5	Accountant	87
10.6	Forms applicable for tax audit report under section 44AB	98
	<u>11</u>	
	PREPARATION OF FINANCIAL STATEMENTS	
11.1	Presentation of Financial Statements	99
	<u>12</u>	
	FORM NO. 3CA	
12.1	When applicable	100
12.2	Para 1 of Form No. 3CA	101
12.3	Para 2 of Form No. 3CA	101
12.4	Para 3 of Form No. 3CA	101
12.5	Where assessee has branches	106
12.6	Where assessee has branches abroad	106
12.7	Signature on Form No. 3CA	107

	CONTENTS	I-16
		PAGE
	<u>13</u>	
	FORM NO. 3CB	
13.1	When applicable	108
13.2	Para 1 of Form No. 3CB	108
13.3	Para 2 of Form No. 3CB	109
13.4	Para 3(a) of Form No. 3CB	109
13.5	Para $3(b)(A)$ of Form No. 3CB	109
13.6	Para $3(b)$ (B) of Form No. 3CB	110
13.7	Para $3(b)$ (C) of Form No. 3CB	112
13.8	Para 4 of Form No. 3CB	116
13.9	Para 5 of Form No. 3CB	116
13.10	Where assessee has branches	120
13.11	Tax auditor called upon to report on one or more businesses of assessee	120
13.12	Signature by CA on Form No. 3CB	121
13.13	Reporting on revised accounts	121
	14	
	FORM NO. 3CD	
14.1	Statement of particulars	122
14.2	Manner of Reporting in Form No. 3CD by Tax Auditor	122
14.3	Signature of Form No. 3CD by tax auditor	123
	15	
	CLAUSES 1 TO 3 AND 5 TO 7 ROUTINE PARTICULARS (NAME, ADDRESS, PAN OR AADHAAR NUMBER, STATUS, PREVIOUS YEAR, ASSESSMENT YEAR)	
15.1	Routine particulars	124
15.2	Name of the assessee [Clause 1]	124
15.3	Address of the assessee [Clause 2]	124
15.4	PAN or Aadhaar number [Clause 3]	125
15.5	Status [Clause 5]	125
15.6	Previous year ended [Clause 6]	126
15.7	Assessment year [Clause 7]	126

I-17 CONTENTS

		PAGE
	<u>16</u>	
	CLAUSE 4 OF FORM NO. 3CD : REGISTRATION UNDER INDIRECT TAX LAWS	
16.1	Requirements of Clause 4	127
16.2	Whether tax auditor is required by clause 4 to determine whether assessee liable for indirect taxes?	128
16.3	Audit Procedures	129
16.4	Documentation (Working Papers)	129
	<u>17</u>	
	CLAUSE 8 OF FORM NO. 3CD RELEVANT CLAUSE OF SECTION 44AB UNDER WHICH TAX AUDIT IS APPLICABLE	
17.1	Requirements of Clause 8	131
17.2	Relevant clause of section 44AB under which audit has been	
	conducted	131
	<u>18</u>	
	CLAUSE 9 OF FORM NO. 3CD : DETAILS REGARDING FIRMS/AOPs/LLPs	
18.1	Applicability of the clause	133
18.2	Requirements of Clause 9	133
18.3	"Firm" includes Indian Limited Liability Partnership (LLP) and not foreign LLP	134
18.4	'Partner' [Section 2(23)(ii)]	134
18.5	Audit Checklist (for firms and AOPs)	135
18.6	Audit Checklist for LLPs - Clause 9	136
	<u>19</u>	
	CLAUSE 10 OF FORM NO. 3CD : NATURE OF BUSINESS/PROFESSION	
19.1	Applicability of Clause 10	139
19.2	Requirements of Clause 10	139
19.3	Audit Checklist	140
	<u>20</u>	
	CLAUSE 11 OF FORM NO. 3CD : BOOKS OF ACCOUNT	
20.1	Applicability of clause 11	143

	CONTENTS	I-18
		PAGE
20.2	'Books of account'	143
20.3	Audit Checklist	144
	21	
	CLAUSE 12 OF FORM NO. 3CD : PRESUMPTIVE INCOME	
21.1	Requirements of Clause 12	152
21.2	Relevant Legal provisions	153
21.3	"Assessable on Presumptive Basis"	155
21.4	"Any other relevant section" - Interpretation of	156
21.5	Audit Checklist	156
	22	
	-	
	CLAUSE 13 OF FORM NO. 3CD : METHOD OF ACCOUNTING & COMPLIANCES	
22.1	Applicability of clause 13	160
22.2	Method of accounting	161
22.3	Mercantile System/accrual basis of Accounting	161
22.4	Cash basis of accounting	163
22.5	Audit Checklist - Clause 13	165
	23	
	CLAUSE 14 OF FORM NO. 3CD : METHOD OF STOCK VALUATION	
23.1	Clause 14(a) - Method of Valuation of Closing Stock	171
23.2	Clause 14(<i>b</i>) - Details of deviation of Method of Valuation from section 145A	175
23.3	Audit Checklist - Clause 14(b)	176
	· /	1.0
	<u>24</u>	
	CLAUSE 15 OF FORM NO. 3CD : CAPITAL ASSET CONVERTED INTO STOCK-IN-TRADE	
24.0	Requirements of Clause 15	177
24.1	Capital Asset	177
24.2	Conversion of capital asset into stock-in-trade	180
24.3	Whether minutes of board meetings are evidence of conversion?	182
24.4	Audit Checklist - Clause 15	183

I-19 CONTENTS

		PAGE
	<i>25</i>	
	CLAUSE 16 OF FORM NO. 3CD : AMOUNTS NOT CREDITED TO PROFIT AND LOSS ACCOUNT	
25.1	Applicability of clause 16	187
25.2	Requirements of clause 16	187
25.3	'Not credited to profit and loss account'	188
25.4	Clause 16(<i>a</i>) - Items covered by section 28 not credited to P&L Account	188
25.5	Audit Checklist - Clause 16(a)	194
25.6	Clause 16(<i>b</i>) - Refunds/Drawback of taxes/duties admitted by the authorities but not credited to P& L account	197
25.7	Audit Checklist - Clause 16(<i>b</i>)	197
25.8	Clause $16(c)$ - Escalation claims not credited to P&L A/c	198
25.9	Audit Checklist - Clause 16(<i>c</i>)	198
25.10	Clause $16(d)$ - Any other income not credited to P&L A/c	198
25.11	Audit Checklist - Clause 16(d)	198
25.12	Clause $16(e)$ - Capital receipts not credited to P&L A/c	199
25.13	Audit Checklist - Clause 16(<i>e</i>)	200
	<u>26</u>	
	PROPERTY (LAND OR BUILDING OR BOTH) TRANSFERRED AT LESS THAN STAMP DUTY VALUE - CLAUSE 17 OF FORM NO. 3CD	
26.0	Requirements of Clause 17	201
26.1	Computation of capital gains in real estate transactions –	
	Section 50C	202
26.2	Special provision for full value of consideration for transfer of assets other than capital assets in certain cases [New section	205
26.2	43CA]	205
26.3	Applicability of clause 17 Requirements of clause 17	206 206
26.4 26.5	Transfer	200
26.6	Audit Checklist - Clause 17	210
20.0	Audit Checklist - Clause 17	210
	<u>27</u>	
	CLAUSE 18 OF FORM NO. 3CD : DEPRECIATION	
27.1	Applicability of clause 18	211
27.1A	Depreciation u/s 32 is a statutory allowance and not an expenditure	212

	CONTENTS	I-20
		PAGE
27.2	"Depreciation allowable"	212
27.3	Legal provisions related to depreciation	213
27.4	Additional depreciation - Section 32(1)(iia)	229
27.5	'Each asset or block of assets, as the case may be'	233
27.6	Audit Checklist - Clause 18(<i>a</i>) - Description of each asset/block of asset	233
27.7	Audit Checklist - Clause 18(b) - Rate of Depreciation	234
27.8	Audit Checklist - Clause $18(c)$ - Actual Cost/WDV	235
27.9	Audit Checklist - Clause 18(<i>d</i>) - Specified adjustments in respect of additions/deductions during the year	238
27.10	Audit Checklist - Clause 18(e) - Depreciation Allowable	240
27.11	Audit Checklist - Clause 18(f) - WDV at the end of the year	241
	28	
	CLAUSE 19 OF FORM NO. 3CD : AMOUNTS DEDUCTIBLE UNDER SECTIONS 33AB, 33ABA, ETC.	
28.1	No deduction under section 35CCB in respect of any expenditure incurred on or after 31-3-2002	245
28.2	Investment allowance - Section 32AC	245
28.3	Section 32AD - Investment allowance for investment in new plant and machinery in notified backward areas in certain states	245
28.4	Section 33AB - Tea development account, coffee development account and rubber development account	247
28.5	Section 33ABA - Site restoration fund	250
28.6	Section 35 - Scientific research expenditure	254
28.7	Section 35ABB - Expenditure for obtaining licence to operate telecommunication services	260
28.8	Section 35AC - Expenditure on eligible projects	262
28.9	Investment-linked tax incentives - Section 35AD	262
28.10	Section 35CCA - Payment to associations and institutions for carrying out rural development programmes	267
28.11	Expenditure on agricultural extension project [Section 35CCC]	267
28.12	Expenditure on skill development project [Section 35CCD]	271
28.13	Section 35D - Amortisation of preliminary expenses	280
28.14	Section 35DD - Expenditure in case of amalgamation or demerger	284
28.15	Section 35DDA - Amortisation of VRS expenditure	287

I-21	CONTENTS
1- <u>4</u> 1	CONTENTS

		PAGE
28.16	Section 35E - Deduction of expenditure incurred on prospecting etc. for certain minerals	288
28 17	Audit Checklist - Clause 19	290
20.17		200
	<u>29</u>	
	CLAUSE 20 OF FORM NO. 3CD : BONUS/ EMPLOYEES CONTRIBUTION TO PF	
29.1	Applicability of clause 20	303
29.2	Clause 20(a) - Bonus/Commission to Employees	303
29.3	Audit Checklist - Clause 20(a)	305
29.4	Clause 20(b) - Sum received from employees towards contributions to provident fund/superannuation fund/other funds -	306
29.5	Relevant provisions Audit Checklist - Clause 20(<i>b</i>)	300 307
29.3	Audit Checklist - Clause 20(b)	307
	<u>30</u>	
	CLAUSE 21 OF FORM NO. 3CD : AMOUNTS DEBITED TO PROFIT AND LOSS ACCOUNT	
30.0	Applicability of first item of clause 21(a) - Capital expenditure	311
30.1	Clause 21 - General	311
30.2	Relevant legal provisions - First item of Clause 21(a)	311
30.3	Capital Expenditure	312
30.4	Audit Checklist - First item of Clause 21(a) - Capital expenditure	316
30.5	Personal expenses - Second item of Clause 21(a)	317
30.6	Audit Checklist - Personal expenses - Second item of Clause 21(a)	319
30.7	Legal Provisions - Advertisement expenditure - Third item of Clause $21(a)$	320
30.8	Audit Checklist - Advertisement expenses - Fourth and Fifth items of clause 21(<i>a</i>)	321
30.9	Legal provisions - Expenditure on clubs - Fourth and Fifth items of clause $21(a)$	322
30.10	Audit Checklist - Club expenditure - Fourth and Fifth items of clause 21(<i>a</i>)	323
30.11	Legal Provisions - Expenditure prohibited by law - Sixth, Seventh and Eighth items of clause $21(a)$	323
30.12	Audit Checklist - Expenditure prohibited by law - Sixth, Seventh and Eighth items of clause 21(<i>a</i>)	325
30.13	Requirement of sub-clause (b) of clause 21	326
30.14	Legal Provisions - Clause 21(b)	326

	CONTENTS	I-22
		PAGE
30.15	Audit Checklist - Clause 21(<i>b</i>)	334
	Requirements of sub-clause (c) of clause 21	336
30.17	Legal provisions - Clause 21(<i>c</i>)	336
30.18	Judicial views on section 40(<i>b</i>)	338
30.19	ICAI's views on clause 21(<i>c</i>)	340
30.20	Audit Checklist - Clause 21(<i>c</i>) in case of firm/LLP	342
30.21	Requirements of sub-clause (d)(A) of clause 21	344
30.22	Legal Provisions - Clause 21(d)(A)	344
30.23	Audit Checklist - Clause 21(d)(A)	347
30.24	Clause $21(d)(B)$ - Deemed income u/s $40A(3A)$	348
30.25	Clause 21(d)(B) - Legal provisions - Section 40A(3A)	348
30.26	Clause 21(d)(B) - Audit Procedures	349
30.27	Requirements of sub-clause (e) of clause 21	350
30.28	Legal Provisions - Clause 21(<i>e</i>)	350
30.29	Audit Checklist - Clause 21(e)	350
30.30	Applicability of sub-clause (f) of clause 21	351
30.31	Legal Provisions - Clause 21(f)	351
30.32	Applicability of sub-clause (g) of clause 21	353
30.33	"Contingent liability"	353
30.34	Audit Checklist - Clause 21(g)	355
30.35	Applicability of clause 21(<i>h</i>)	356
30.36	Legal Provisions - Clause 21(h)	357
30.37	Audit Checklist - Clause 21(h)	357
30.38	Applicability of clause 21(i)	358
30.39	Relevant legal provisions - Clause 21(i)	358
30.40	Distinction between the proviso and GAAP (AS 16)	358
30.41	Audit Checklist - Clause 21(i)	358
	<u>31</u>	
	CLAUSE 22 OF FORM NO. 3CD : AMOUNT OF INTEREST INADMISSIBLE UNDER SECTION 23 OF MSMED ACT, 2006	
31.1	Micro, Small & Medium Enterprises Development Act	360
31.2	Definition and classification of Micro, Small & Medium Enterprises under the MSMED Act, 2006	360

I-23	CONTENTS

		PAGE		
31.3	Whether the new definition and classification based on composite criteria applicable only to new enterprises established on or after 01.07.2020? Or does it apply to enterprises existing as on 30.06.2020 also?	366		
31.3A	Relevant provisions of the MSMED Act, 2006	366		
31.4	Disallowance of interest payable under the MSMED Act	367		
31.5	"Disclosures required in buyer's annual accounts"	368		
31.6	Identification of MSE suppliers	369		
31.7	Notes on Accounts to be added by buyer entities	370		
31.8	Audit Checklist - Clause 22	370		
	<u>32</u>			
	CLAUSE 23 OF FORM NO. 3CD : PAYMENTS TO PERSONS SPECIFIED UNDER SECTION $40A(2)(b)$			
32.1	Applicability of clause 23	374		
32.2	Requirements of Clause 23	374		
32.3	Persons specified under section 40A(2)(b)	374		
32.4	ITAT's Interpretation of reporting requirements	378		
32.5	Audit Checklist - Clause 23	378		
	<u>33</u>			
	CLAUSE 24 OF FORM NO. 3CD : AMOUNTS DEEMED TO BE PROFITS AND GAINS UNDER SECTION 32AC/32AD/33AB/33ABA/33AC			
33.0	Requirements of Clause 24	380		
33.1	Applicability of clause 24	380		
33.2	Legal Provisions - Clause 24	381		
33.3	Audit Checklist - Clause 24	381		
33.4	Audit documentation - Clause 24	381		
	<u>34</u>			
CLAUSE 25 OF FORM NO. 3CD : AMOUNTS DEEMED TO BE PROFITS AND GAINS UNDER SECTION 41				
34.0	Requirements of Clause 24	382		
34.1	Applicability of clause 25	382		
34.2	Deemed profits and gains under section 41	382		
34.3	Audit Checklist - Clause 25	387		

	CONTENTS	I-24
		PAGE
	<u>35</u>	
	CLAUSE 26 OF FORM NO. 3CD : SUMS COVERED BY SECTION 43B	
35.0	Requirement of clause 26	389
35.1	Applicability of clause 26	390
35.2	Provisions of section 43B - Certain deductions to be only on actual payment	390
35.3	What is "actual" payment	395
35.4	Audit Checklist	400
35.5	Audit procedures/documentation	402
	36	
	CLAUSE 27 OF FORM NO. 3CD : CENVAT CREDIT/INPUT TAX CREDIT (ITC)/ PRIOR PERIOD ITEMS	
36.0	Requirements of clause 27	404
36.1	Applicability of clause 27(a)	405
36.2	Applicability of clause 27(<i>b</i>)	405
36.3	Audit Checklist - Clause 27(<i>b</i>)	406
	<u>37</u>	
	'GIFTS' OF UNLISTED SHARES RECEIVED BY LLPs/FIRMS/COMPANIES ON OR BEFORE 31-3-2017 - CLAUSE 28 OF FORM NO. 3CD	
37.1	Clause 28 not applicable w.e.f. A.Y. 2018-19	408
	38	
	SHARE PREMIUM RECEIVED BY CLOSELY HELD COMPANIES IN EXCESS OF FMV TAXABLE -SECTION 56(2)(viib) - CLAUSE 29 OF FORM NO. 3CD	
38.1	Statutory background	409
38.2	Valuation of fair market value of unquoted equity shares	410
38.3	Judicial rulings	411
38.4	Definition of "start-up" as per the new start-up Notification No. GSR 127(E), dated 19.02.2019	414
38.5	Exemption from application of section $56(2)(viib)$ in case of Start-Ups	414

T-	2	5	CONTENTS

		PAGE
38.6	Start-up should be a private limited company recognised by DPIIT	417
38.7	Aggregate consideration for shares should not exceed INR 25 crores	417
38.8	Start-up has not invested in specified assets for period of 7 years from end of latest F.Y. in which shares are issued for premium	418
38.9	Declaration in Form 2 to be submitted by start-up fulfilling conditions in paras 38.6 & 38.7 above	420
38.9A	Assessees to whom clause 29 is applicable	420
38.10	Reporting requirements of clause 29	421
38.11	Audit Procedures - Clause 29	421
	39	
	AMOUNT CHARGEABLE UNDER SECTION 56(2)(<i>ix</i>) - CLAUSE 29A	
39.1	Requirements of Clause 29A	423
39.2	How tax auditor should verify and report under new clause 29A	423
	<u>40</u>	
	GIFTS/DEEMED GIFTS CHARGEABLE UNDER SECTION 56(2)(x) - CLAUSE 29B	
40.1	Requirements of Clause 29B	426
40.2	Provisions of section $56(2)(x)$	427
40.3	Tax-Exempt Gifts	428
40.4	Audit procedures	433
	<u>41</u>	
	HUNDI TRANSACTIONS - CLAUSE 30 OF FORM NO. 3CD	
41.1	Applicability of clause 30	435
41.2	Legal provisions - Section 69D	435
41.3	Hundi	436
41.4	Audit Checklist - Clause 30	439

	CONTENTS	I-26
		PAGE
	<u>42</u>	
	CLAUSE 30A OF FORM NO. 3CD : SECONDARY TRANSFER PRICING ADJUSTMENTS	
42.1	Primary Transfer Pricing Adjustments	441
42.2	'Primary Adjustments referred to in sub-section (1) of section 92CE'	442
42.3	Secondary Adjustments	442
42.3A	Books of account	445
42.4	Requirements of clause 30A	446
42.5	Audit Procedures	446
	<u>43</u>	
	CLAUSE 30B OF FORM NO. 3CD : THIN CAP ADJUSTMENTS	
43.1	Concepts of "Thin capitalization" and "Thin Capitalization adjustment"	450
43.2	Thin cap adjustment provisions - Section 94B	450
43.3	Ingredients of thin cap provisions of section 94B	451
43.4	Requirements of clause 30B	454
43.5	Audit procedures	454
	<u>44</u>	
	CLAUSE 31 OF FORM NO. 3CD : ACCEPTANCE/ REPAYMENT OF LOAN/DEPOSIT/SPECIFIED SUM	
44.1	Applicability of clause 31(<i>a</i>)	459
44.2	Legal provisions - Section 269SS	460
44.3	ICAI's views on clause 31(a)	467
44.4	Requirements of clause 31(b)	469
44.5	Clause 31(<i>b</i>) - Specified sum - <i>i.e.</i> advance or other sum received in connection with transfer of immovable property	470
44.6	Applicability of clause $31(c)/(d)/(e)$	470
44.7	Legal Provisions - Section 269T	470
44.8	ICAI's views on clause 31(<i>c</i>)	471
44.9	Requirements of clause 31(<i>c</i>)	472
44.10	Clause 31(<i>d</i>) and 31(<i>e</i>) - Particulars of repayment of loans or deposits or specified advances in an amount exceeding the specified limit in section 269T (₹ 20,000) received by cash or	
	uncrossed cheque or uncrossed bank draft or transfer entry	472

I-27 CONTENTS

		PAGE
44.11	Ingredients of section 269ST	474
44.12	Persons to whom section 269ST shall apply	475
44.13	Receipts to which section 269ST shall apply	476
44.14	Applicability of section 269ST to transactions of accepting loan or deposit	477
44.15	Applicability of section 269ST to transactions of sale of immovable property	477
44.16	Whether section 269ST shall apply to single cash withdrawal of Rs. 2,00,000 or more from a bank account?	478
44.17	Applicability to receiving share application money by a company from a resident	478
44.18	Capital contribution accepted by firm/LLP from partner in cash whether section 269ST applicable?	478
44.19	Drawings from firm by partner in cash-whether section 269ST is applicable	478
44.20	Whether section 269ST shall apply to receipt of Rs. 2,00,000 or more in cash where TDS deducted by payer?	478
44.21	Cash payment tendered to clear very old outstanding of Rs. 5,00,000 from a dodgy debtor and it is risky to refuse money from him	479
44.22	Applicability of section 269ST to cash against cheque	479
44.23	Applicability of section 269ST where hotel receives money from guests for safe custody	479
44.24	Permissible modes of accepting payments	479
44.25	How to reckon the limit of Rs. 2,00,000?	482
44.26	Requirements of clause 31(ba)	484
44.27	Requirements of clause 31(bb)	484
44.28	Requirements of Clause 31(bc)	485
44.29	Requirements of clause 31(bd)	485
44.30	Audit procedures relating to sub-clauses (ba) to (bd)	485
44.31	Audit documentation	488
	<u>45</u>	
	CLAUSE 32 OF FORM NO. 3CD : UNABSORBED LOSS/DEPRECIATION	
45.1	Applicability of clause 32(<i>a</i>)	490
45.2/3	Applicability of clause 32(<i>b</i>)	490
45.4	Legal Provisions - Section 79	491
45.5	Audit Checklist - Clause 32(<i>b</i>)	494

	CONTENTS	I-28
		PAGE
45.6	Details of speculation loss, if any, incurred by assessee - Clause $32(c)$	495
45.7	Details of loss referred to in section 73A in respect of any specified business - Clause $32(d)$	496
45.8	Whether company is deemed to be carrying on a speculation business in terms of <i>Explanation</i> to section 73	496
	46	
	CLAUSE 33 OF FORM NO. 3CD : CHAPTER VI-A DEDUCTIONS	
46.1	Requirements of clause 33	499
46.2	Applicability of clause 33	499
46.3	Legal Provisions - Clause 33	500
46.4	Audit Checklist - Clause 33	500
	<u>47</u>	
	CLAUSE 34 OF FORM NO. 3CD : AUDIT OF COMPLIANCE WITH TDS PROVISIONS	
47.1	Applicability of clause 34	502
47.2	Assessee's primary responsibility	503
47.3	Audit Procedures - Clause 34(a)	503
47.4	Audit Procedures - Clause 34(b)	507
47.5	Audit Procedure - Clause 34(<i>c</i>)	507
Annex	47.1 : Remittances to non-residents under section 195 of the Income-Tax Act - Matters connected thereto	509
Annex	47.2 : Form No. 15CB	511
	48	
	CLAUSE 35 OF FORM NO. 3CD : QUANTITATIVE DETAILS	
48.1	Applicability of clause 35	514
48.2	Audit Checklist	514
	49	
	CLAUSE 36 OF FORM NO. 3CD : DIVIDEND DISTRIBUTION TAX	
49.1	Applicability of clause 36	517
49.2	Audit Checklist	517

I-29 CONTENTS

		PAGE
	<u>50</u>	
	CLAUSE 36A OF FORM NO. 3CD : DEEMED DIVIDEND U/S 2(22)(e)	
50.1	Deemed Dividend under section 2(22)(e)	520
50.2	Audit procedures	521
	<u>51</u>	
	CLAUSE 37 OF FORM NO. 3CD: COST AUDIT REPORT	
51.0	Requirements of clause 37	524
51.1	Audit Checklist	524
	<u>52</u>	
	CLAUSE 38 OF FORM NO. 3CD : CENTRAL EXCISE AUDIT REPORT	
52.1	Applicability of clause 38	525
52.2	Audit Checklist - Clause 38	525
	<u>53</u>	
	CLAUSE 39 OF FORM NO. 3CD : SERVICE TAX AUDIT FOR VALUATION FOR SERVICES	
53.1	Applicability of clause 39	526
53.2	Requirements of clause 39	526
53.3	Audit Checklist - Clause 39	526
	<u>54</u>	
	CLAUSE 40 OF FORM NO. 3CD : ACCOUNTING RATIOS	
54.1	Principal items of goods traded or manufactured or services	528
54.2	Audit Checklist - Clause 40	528
	<u>55</u>	
	DETAILS OF DEMANDS RAISED OR REFUNDS ISSUED UNDER TAX LAWS : CLAUSE 41 OF FORM NO. 3CD	
55.1	Requirements of clause 41	531
55.2	Audit Procedures - Clause 41	532

	CONTENTS	I-30	
		PAGE	
	<u>56</u>		
	CLAUSE 42 OF FORM NO. 3CD : FURNISHING OF FORM NOS. 61, 61A AND 61B		
56.1	Form No. 61	533	
56.2	Form No. 61A	534	
56.3	Form No. 61B	535	
Annex	x 56.1 : Furnishing of statement of financial transaction	537	
	<u>57</u>		
	CLAUSE 43 OF FORM NO. 3CD : FURNISHING OF COUNTRY BY COUNTRY REPORT (CbCR) U/S 286		
57.1	Country by Country Report (CbCR)	542	
57.2	Interpretation of requirements of clause 43	543	
57.3	Audit Procedures & Reporting	544	
57.4	7.4 Whether the Clause 43 also requires the tax auditor to comment in respect of report under section 286(4)		
	<u>58</u>		
	CLAUSE 44 OF FORM NO. 3CD : BREAK-UP OF TOTAL EXPENDITURE OF ENTITIES REGISTERED OR NOT REGISTERED UNDER GST		
58.1	Clause No. 44 - Break-up of total expenditure of entities registered or not registered under the GST	546	
	APPENDICES		
Apper	ndix 1 : Relevant Extracts of Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020	549	
Apper	ndix 2 : Relevant Rule of Income-tax Rules, 1962	564	

Contents

			PAGE			
Clauses of Form No. 3CD relevant/applicable to individuals/ HUFs who are liable for tax audit u/s 44AB						
Clauses of Form No. 3CD relevant/applicable to firms/LLPs/AOPs/BOIs who are liable for tax audit u/s 44AB						
	,	Form No. 3CD relevant/applicable to companies le for tax audit u/s 44AB	I-11			
	1	AMENDMENTS TO FORM NO. 3CD BY THE INCOME-TAX (22ND AMENDMENT) RULES, 2020				
1.1		lments to Income-tax Rules and Form No. 3CD d by CBDT w.e.f. 1-10-2020	1			
1.2	Amend No. 3C	lments made by Notification No. 82/2020 to Form D	1			
1.3	Assess	ees to whom amendments are applicable	2			
1.4 Amendments apply to all tax audit reports signe after 1-10-2020		lments apply to all tax audit reports signed on or -10-2020	3			
		AUSE 8a OF FORM NO. 3CD: WHETHER THE SESSEE HAS OPTED FOR TAXATION UNDER SECTION 115BA/115BAA/115BAB?				
2.1	New Clause 8a - Whether assessee has opted for taxation under section 115BA/115BAA/115BAB		4			
2.2	Domestic Company					
	2.2-1	Benefit of sections 115BA, 115BAA and 115BAB is not available to a foreign company	5			
	2.2-2	Indian Company	5			
	2.2-3	Are sections 115BA, 115BAA and 115BAB applicable to listed companies	5			

	CONTENTS				
2.3	•	arison of section 115BA, section 115BAA and section	PAGE		
2.4	115BAB Tax Auditor's duty under Clause 8a		6 11		
2.4	2.4-1	Tax Auditor's remarks in respect of clause 8a where assessee has not opted for section 115BAA/section 115BAB as of date of signing tax audit report	14		
	2.4-2	Tax Auditor's remarks in respect of clause 8a where assessee has opted for section 115BAB as of the date of signing the tax audit report	15		
	2.4-3	Tax Auditor's remarks in respect of clause 8a where assessee has opted for section 115BAA as of the date of signing the tax audit report	15		
	CL	AUSE 18 OF FORM NO. 3CD : DEPRECIATION			
3.1	New s	ub-clauses (ca) and (cb) of clause 18	17		
		CLAUSE 32 OF FORM NO. 3CD: UNABSORBED LOSS/DEPRECIATION			
4.1		ub-clause (<i>a</i>) of clause 32 - Details of brought forward depreciation allowance	19		
		APPENDICES			
•	• Relevant sections of Income-tax Act, 1961				
•	♦ Relevant rules of Income-tax Rules, 1962				
•		e-tax (Twenty-second Amendment) Rules, 2020 nt Extracts)	31		