

# Tax Audit u/s 44AB of the Income Tax Act, 1961

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# Objective

Tax audit is conducted / required by the department to:

Provide reasonable assurance on the financial statements of the assessee

Provide basic information (correct) to the department

Highlight items which need special attention

Create a chain of stakeholder thus ensuring better compliance

Auditing of major items of computation of income

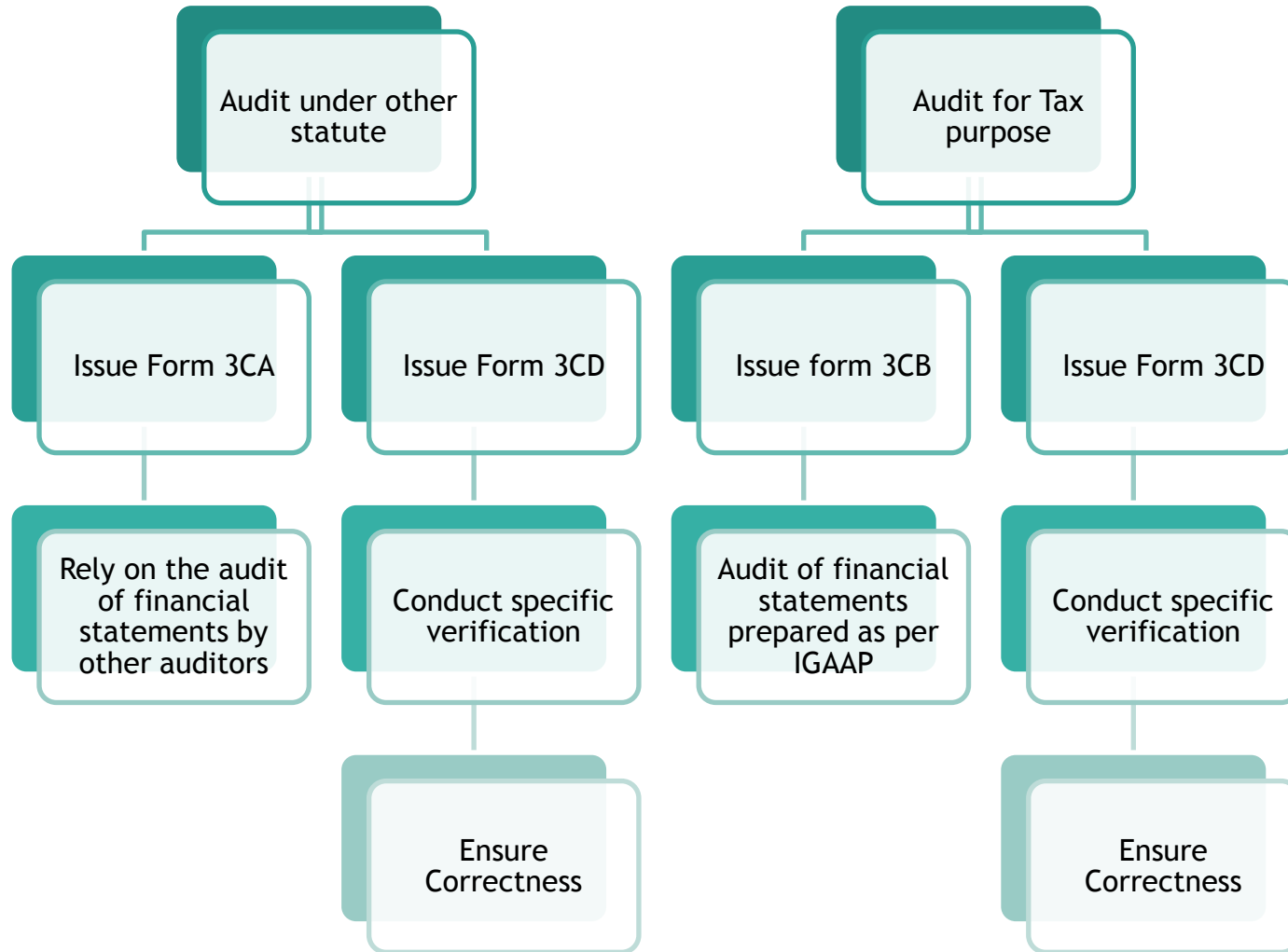
Assimilate relevant data for easy collation and referencing

Outsource some of the functions of the AO thus reducing cost of compliance to the Government

# Governing Statutes

Section	Requirement
44AB	Every person, carrying on business shall be required to furnish an audit report if his total sales, turnover or gross receipts, exceeds Rs . 1 crore
44AB	Every person, carrying on carrying on profession shall be required to furnish an audit report if his gross receipts in profession exceed Rs. 25 Lacs
44AD	A resident assessee being an individual, HUF or a partnership firm, engaged in any business other than that mentioned in section 44AE of the Act and whose total turnover or gross receipts in the previous year does not exceed an amount of Rs. 1 crore, shall be required to furnish an audit report, if the assessee claims lower profits and gains than the deemed profits and gains specified in sub-section (1) of section 44AD of the Act
44AE	An assessee, who is engaged in the business of plying, hiring or leasing such goods carriages and who owns not more than 10 goods carriages [at any time during the previous year] shall be required to furnish an audit report, if the assessee claims lower profits and gains than the deemed profits and gains specified in sub-section (1) & (2) of section 44AE of the Act
44AF	An assessee, who is engaged in retail trade in any goods or merchandise, shall be required to furnish an audit report, if the assessee claims lower profits and gains than the deemed profits and gains specified in sub-section (1) of section 44AF of the Act
44BB	A non-resident assessee, engaged in the business of providing services or facilities in connection with, or supplying plant and machinery on hire used, or to be used, in the prospecting for, or extraction or production of, mineral oils, shall be required to furnish an audit report, if the assessee claims lower profits and gains than the deemed profits and gains specified in sub-section (1) of section 44BB of the Act
44BBB	A non-resident assessee being a company, engaged in the business of civil construction or the business of erection of plant or machinery or testing or commissioning thereof, in connection with a turnkey power project approved by the Central Government, shall be required to furnish an audit report, if the assessee claims lower profits and gains than the deemed profits and gains specified in sub-section (1) of section 44BBB of the Act

# Overview





# Tax Audit Summary

- ❑ The presentation will primarily cover audit aspects related to audit of information required to be provided in Form 3CD
- ❑ The basic principle to be followed while auditing Form 3CD should be:
  - Collect all the relevant information each clause wise
  - Reference with applicable sections, which require such information
  - Validate the information as per the audit methodology set
  - Document the conclusions
  - Report the observations / information [obtain relevant representation letter, as appropriate]
  - Ensure extensive checking to ensure **HIGH ASSURANCE** on the information submitted



# FORM 3CD Highlights

- ☐ Predetermined Form in the nature of checklist/ questionnaire
- ☐ Has in total 41 Clauses + Annexure
- ☐ Need to answer / comment on each clause
- ☐ 12 clauses - Basic information/ data collation (1-8, 11, 29, 30, 31)
- ☐ Form 3CD needs to be submitted along with the audited financial statements
- ☐ Since FY 12-13 (AY 13-14) Tax Audit Report needs to be filed online
- ☐ Several new clause added as per CBTD notification dated July 25<sup>th</sup> 2014

# Applicability

- Due date of filing of return of income and tax audit report for an assessee who is required to file a report on international transactions is 30th November. However, in case of other assessee is 30th September.

Particulars	Limits
Business	Turnover/Sales/ Gross Receipts > 1 crore
Profession	Turnover/Sales/ Gross Receipts > 25 lacs
44AE	Minimum Presumptive Profits is not offered
44AD	Minimum Presumptive Profits @ 8 % not offered and income exceeds not taxable limits

- A charitable trust , cooperative society etc., though their income may be exempt, even if turnover exceed the threshold limit, they should get their account audited.



# Form 3CA and Form 3CB

## Old Form 3CA

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. 3CD *and the Annexure thereto* are true and correct.

## New Form 3CA

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. 3CD *and the Annexure thereto* are true and correct **subject to the following observations/qualifications, if any:**

## Old Form No 3CB

*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. 3CD and the Annexure thereto are true and correct.*

## New Form No 3CB

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. 3CD *and the Annexure thereto* are true and correct **subject to the following observations/qualifications, if any:**



# Form 3CD - Clause 1 - 8

Clause 1- Name of the Assessee

Clause 2- Address-

Clause 3- Permanent Account Number

**Clause 4- Registration Number**

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

Clause 5- Status

Clause 6- Previous Year ended

Clause 7- Assessment Year ended

**Clause 8-** Indicate the relevant clause of section 44AB under which the audit has been conducted

# Form 3CD - Verification Methodology

- *Verify the name from Certificate of Incorporation*
- *In case of a proprietor his/her name along with Proprietary Firm's name should be provided*
- *Check in Partnership deed, Memorandum of Association, MCA Records etc*
- *Latest Annual Return filled by the assessee*
- *In case of change in name, verify certification of change of name*
- *In case if there is change in the name of the assessee, the name of the company as on the date of signing of the report has to be mentioned along with the original name of the assessee*
- *Verify the address with last income tax return*
- *In the case of a new assessee, the address should be that of the principal place of business*
- *In case if there is any change in the address of the registered office verify whether it has been communicated to the assessing officer*
- *Verify the PAN with the copy of last Income Tax Return*
- *Verify PAN issued by Income Tax Department*
- *In case of application pending allotment copy of application must be kept with the auditor PAN Card, PAN Allotment Letter.*
- *Ensure the name in the PAN card and form 3CD are same*
- *Registration Numbers from various certificates*

# Form 3CD - Verification Methodology & Issues

- *Status as per Section 2(31) of the Income Tax Act 1961*
- *Verify the Previous year ended with the audited accounts*
- *Assessment year will be with reference to the previous year as mentioned against clause 6 should be stated*

## Relevant Issues

- Only registration numbers relating to indirect tax needs to be covered
- etc, may cover LBT, Octroi, Cess
- If the assessee has VAT number in various states, whether everything needs to be disclosed? Yes

# Clause 9

## Clause 9 of Form 3CD

- 9(a) If firm or Association of Persons, indicate names of partners/members and their, profit Sharing ratios.
- 9(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

*This clause applies only on Firm and association of persons.*

### *Guidance -*

- If minor is admitted as a partner then name and PSR of minor partner also should be given*
- If either the profit or loss sharing ratio has been changed during the year, then full details have to be given in the statement of Particulars*

# Form 3CD - Verification and Issues

- *Verify Partnership deed, agreement, any other document evidencing partnership or association of persons*
- *Verify Minutes of meetings, any other understanding on recording any changes in the partners/ members or their profit sharing ratio*
- *Obtain certified copies of deeds, documents, Memorandum of Understanding, Notice of change, certified copies of the acknowledgement, if any, evidencing filing of documents*
- *Cross verify the names of the partners and their profit sharing ratios with that in the accounts of the current year and that of the previous year to ascertain any change*
- *Verify the Partnership ratios from the Deed that was last filed with the tax department. Also verify the Form 3CD of that year*

## Relevant Issues

- *If the partner is in representative capacity, the name of the beneficial partner is to be disclosed ? - Yes*
- *Whether profit sharing ratio includes loss sharing ratio? Yes, also Ratio for sharing losses, if different from the profit sharing ratio, should also be disclosed*
- *Will change in remuneration paid to partners without change in profit- sharing ratio would require any disclosure in tax audit report? - Only share in profit to be disclosed i.e. remuneration, if any should not be disclosed in this clause*

## 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)

10(b) If there is any change in the nature of business or profession, the particulars of such change

*Permanent discontinuance of a particular product line of business need to be reported not temporary suspension.*

*“Nature of business or Profession” given must be same as Annexure -I*

*Effect on Carry or forward of losses to determined*

# Form 3CD - Verification and Issues

- *Obtain knowledge of the Client's Business*
- *Obtain list of activities/principal lines of business from client and changes from previous year (if any) (i.e., both new and discontinued businesses)*
- *Identify and disclose new activities in preoperative stage, even if no revenues are generated from the same. For this purpose, scrutinize accounts such as capital W.I.P., pre-operative expenditure, interest costs, etc.*
- *Review business reports/minutes of meeting/ MOA/ AOA*
- *Website of the Company must be checked for any changes that have taken place in the current year*

## Relevant Issues/Guidance

- *Temporary suspension of business will not tantamount to change in business*
- *Only significant change in business would constitute change in business*



# Clause 11...

## Clause 11(a)

Whether books of account are prescribed under section 44AA read with Rule 6F, if yes, list of books so prescribed.

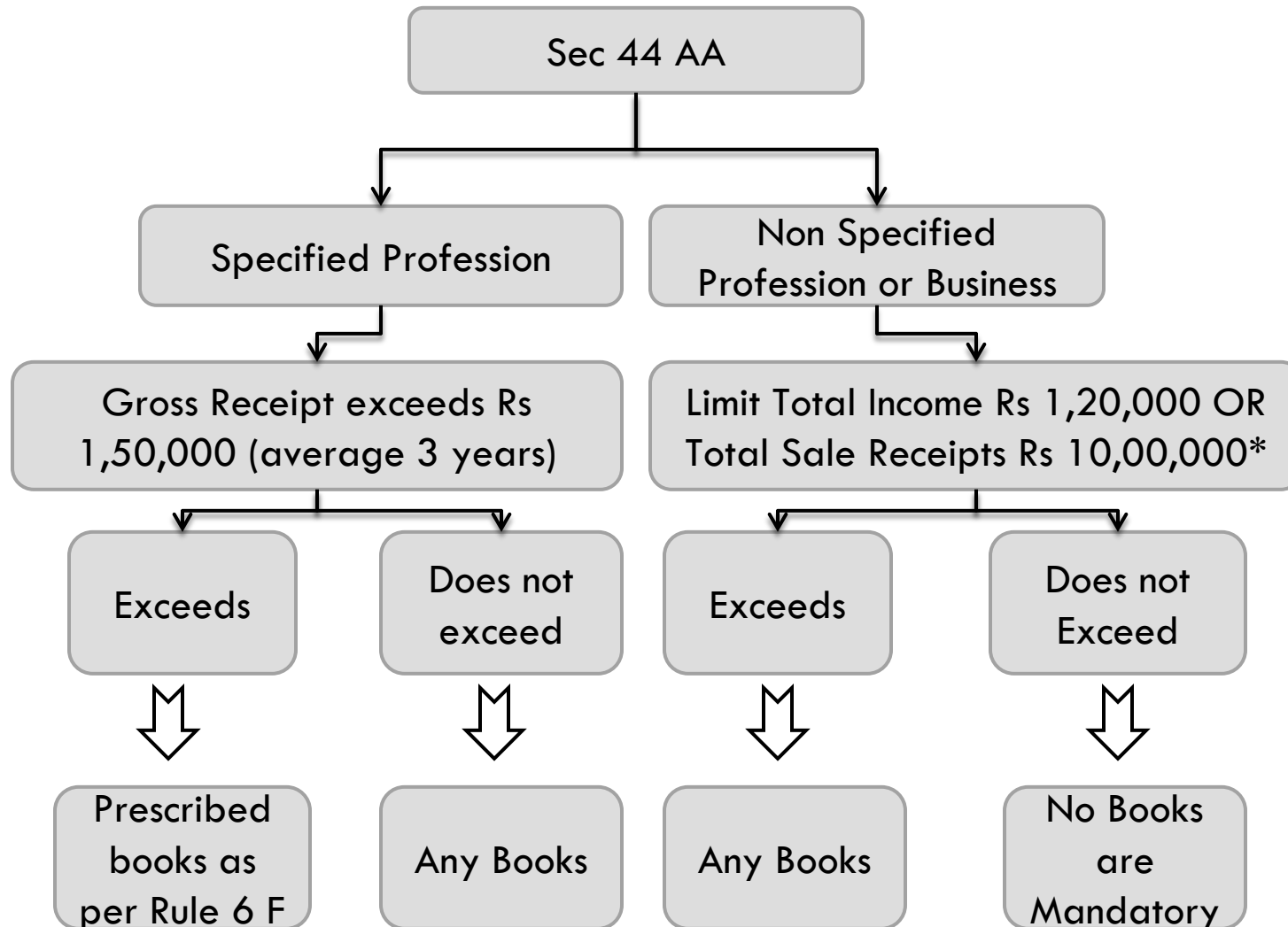
## Clause 11(b) -Books of account maintained and the address at which the books of accounts are kept

- Books generated by Computer System
- Books maintained manually on the Computer
- 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

## Clause 11(c)

List of books of account and nature of relevant documents examined

# ...Clause 11



# ...Clause 11 Verification & Issues

- *Section 44AA requires compulsory maintenance of books of account and other documents by assessee.*
- *Rule 6F prescribes the specified books of account to include a cash book, journal, ledger, carbon copies of bills, receipts, etc.*
- *Verify the books, records and documents maintained to check the compliance with requirements of Section 44AA of the Income-tax Act and make a note of any deviation*
- *In the case of computerised books, make a listing of all books / main reports generated through the system.*
- *Books of Accounts defined u/s 209 of the Companies Act, 1956*
- *Disclose only those books that are verified for the purpose of expressing true and fair view on financial statements*

## **Relevant issues**

- ***Whether Excise Records, Fixed Asset Register, Inventory records, Debit Note, Credit Note would comprise Books of Accounts? - Yes***
- *For the address/location of books of accounts maintained whether all address should be specified*



## Clause 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, **Chapter XII-G, First Schedule** or any other relevant section)

## ...Clause 12

Sr. No	Section	Business Covered
1	44AD	Civil construction business
2	44AE	Transport business
3	44AF	Retail Trade
4	44B	Shipping business of a non-resident
5	44BB	Providing service or facilities in connection with, or supplying plant and machinery on hire used, or to be used, in the prospecting for, or extraction or production of, mineral oils.
6	44BBA	Operation of aircraft by non-resident.
7	44BBB	Civil construction etc. in certain turnkey power project by non-residents.
8	Chapter XII-G, First Schedule	Special provision relating to income of shipping companies
9	Any other relevant section	This refers to the sections not listed above under which income may be assessable on presumption basis like section 44D and sec 115A(1)(b) and will include any other section that may be enacted in future for presumptive taxation.

# Form 3CD - Verification and Issues

- *Scrutinize the Statement of Profit & Loss, Accounts grouped under Income / Revenue, for the nature of income to ascertain whether the same would fall in any of the above categories and the conditions / requirements prescribed under the Income Tax Act, 1961 are satisfied/complied with.*

## Relevant Issues

*Where common books of accounts are maintained for all business, fair and appropriate basis to be considered for apportionment of expenditure*

*Whether net profit/loss for presumptive business is to be reported or only gross presumptive income is to be reported? - Gross basis*

## Clause 13...

- (a) Method of accounting employed in the previous year.
- (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.
- (c) If answer to(b) above is In the affirmative, give details of such change ,and the effect thereof on the profit or loss.
- (d) Details of deviation, if any, in the method of accounting employed in the previous year from the accounting standards prescribed under section 145 and the effect thereof on the profit or loss.

# Form 3CD - Verification Methodology

- *Verify Notes to Account for disclosure of Significant Accounting Policies. If all significant policies have not been covered under the notes, please ascertain the impact thereof.*
- *Compare with previous year's tax audit report for basis of accounting adopted*
- *Ensure that any change in the method of accounting employed is appropriately disclosed and the effect thereof on the profit/loss for the year is also disclosed*
- *As per section 145 income of the company can be computed either by cash basis or mercantile basis. Hybrid system of accounting is not permitted.*

*Central Government has specified two accounting standards to be followed to prepare books as per mercantile system*

- *AS 1 “Disclosure of Accounting Policies”.*
- *AS2 “Prior Period and Extraordinary Items and changes in Accounting Policies”.*



# ...Clause 13 Issues

## *Relevant Issues*

- Whether change in accounting policy would tantamount to change in “method of accounting”? - *Guidance notes states - A change in an accounting policy will not amount to a change in the method of accounting, hence such change in the accounting policy need not be mentioned under sub-clause (b)*
- If this is the first year of tax audit, shall we rely on information and explanation given by the management for the purpose of sub clause (b) of clause 13
- Non corporate assessee having more than one business can follow Cash basis for one set of business and mercantile basis for other set of business

## Clause 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 & loss.~~ In case of deviation from the method of valuation prescribed under section 145A, and the effect thereof on the profit and loss, please furnish:

*Clause a of 3CD form refer to word closing stock and clause b refers to section 145A in which the term “inventory” includes finished goods, raw material, work-in-progress, maintenance supplies, consumables and loose tools.*

*The Liability for excise duty arise when the manufacture of goods is complete, it is necessary to create a provision for unpaid liability of Excise duty on stock lying in the factory or bonded warehouse.*

*In valuation of closing stock no adjustment of Sales tax. As liability of sales tax arises at the time of sale however in case of VAT included in the purchase value, the same amount be added in closing stock to neutralize the effect.*

*When closing stock is valued at Market Price (Being lower than cost) there is no need to add Excise duty.*

# ...Clause 14

## Guidance

- *In case of sales, purchases and stock of inputs, if assessee follows inclusive method then no reporting is required in clause 12(b). However, tax auditor should qualify his audit opinion in Form No.3CB. If assessee follows exclusive method then adjustments are to be made in computation of total income. Tax auditor should report the deviation from section 145A under this clause 12(b) and also the effect on profit / loss. In this case he need not, qualify the opinion as regards truth & fairness in Form No.3CB.*
- *The effect on the Statement of Profit and Loss of deviation from method of valuation prescribed under Section 145A should be given individually on the opening and closing stocks. Both the effects should be disclosed separately and not netted off. In case of netting off, there should be proper disclosure. In case of netting off, there should be proper disclosure*

# Form 3CD - Verification Methodology

- *Verify the accounting policy disclosed in the Notes to Accounts from the Audited Financial Statements with respect to valuation of Inventories*
- *Verify the procedure followed by the assessee for Stock Taking at the year-end.*
- *Verify that the method of valuation followed is consistent from one period to another*
- *Verify the adjustments for inclusion of taxes ( Like excise, VAT etc), duties, cess or fees in the valuation of stock. If these items mentioned are included, then quantify the effect thereof on opening and closing stock valuation*
- *Verify whether the method of valuation is in accordance with Accounting Standard - 2 - Valuation of Inventory.*
- *A reference can be drawn to Significant accounting policies in Financial Statements under this clause*

# Clause 15

Give the following particulars of the capital assets converted into stock in trade:

- a) Description of capital assets
- b) Date of acquisition
- c) Cost of acquisition
- d) Amount at which the asset is converted into stock-in-trade

## Guidance

- *The particulars to be stated under clause 15 should be furnished with respect to the previous year in which the asset has been converted into stock-in-trade. The clause does not require details regarding the taxability of capital gains or business income arising from such deemed transfer.*
- *Under clause (d) the amount recorded in the books of account at which the asset is converted into stock-in-trade should be stated. Such an amount may not be the fair market value as on the date of conversion or treatment as stock-in-trade. If a value other than carrying cost is recorded then examine the basis of arriving at such a value. The valuation of stock-in-trade is to be examined with reference to AS-2 - Valuation of Inventories. Non-compliance with AS-2 is to be suitably qualified in the main audit report*

# Form 3CD - Verification and Issues

- *Verify whether the assessee has converted any capital asset into stock in trade by scrutinizing the Asset accounts*
- *Obtain the list of assets converted into stock in trade together with the amount at which it is converted into stock-in-trade.*
- *Verify the date of acquisition and cost of acquisition with the supporting documents (e.g. Invoices, Bills, Broker's receipts)*
- *Verify the accounting entries for reclassification/conversion to ascertain the amount at which it is converted into stock in trade.*

## Clause 16 (a) to (e)

Amounts not credited to the profit and loss account, being,-

a) the items falling within the scope of section 28;

*Chargeability of Income under Profits or Gain from Business or Profession (Sec 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;

*If the amount have been netted off, such fact should be clearly stated*

c) escalation claims accepted during the previous year;

*Mere claims under negotiations cannot constitute accepted claims.*

d) any other item of income;

e) capital receipt, if any.

# Clause 16 (a) to (e)

## Guidance

- 16(a)** - Where speculative transactions constitute a business, such speculation business is deemed to be distinct and separate business from any other business
- 16(b)** - The words ‘admitted by the concerned authorities’ would mean ‘admitted by the authorities within the relevant previous year’
- 16(c)** - Escalation claims would normally arise pursuant to a contract (including contracts entered into in earlier years), if so permitted by the contract. Only those claims to which the other party has signified unconditional acceptance could constitute accepted claims. Mere making of claims by the assessee or claims under negotiations or claims. cannot constitute claims accepted



# Form 3CD - Verification and Issues

- *Scrutinize liability and capital reserve accounts to ascertain any amount in the nature of income.*
- *Scrutinize audit report and notes to accounts for comments, if any, on deferment/non-accounting of income.*
- *Identify whether the business of the assessee enjoys the benefit of any import license, cash assistance for exports, claims for duty drawback, proforma credits, refunds, etc.*
- *Scrutinize the miscellaneous income account subsequent to the year end so as to ensure that any amounts which fall in the above category are included for disclosure under this clause.*
- *Insurance claims*
- *Review the relevant assessment orders to determine whether any such claims are due*
- *Cross check with Notes to Accounts and qualifications in Auditor's Report for such credits*
- *Agree the schedule with the claim papers and relevant correspondence, records and evidence files. Further ensure that the claims have been admitted as due by the concerned authorities*
- *Agree the claims accepted with contracts and other relevant documents and ensure that claims have been accepted by the concerned authorities & parties to the contract*
- *Scrutinize Reserves and Surplus, Fixed Assets, Investments, etc*
- *Scrutinize all the items including casual and non-recurring items appearing in the books of account, particularly the credit items, and ensure whether any such credit which is in the nature of income has been credited to the statement of profit and loss or not*

## Clause 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:

Details of Property	Consideration received or accrued	Value adopted or assessed or assessable

# Form 3CD - Verification and Issues

- *Scrutinize Bank Records for the consideration received*
- *Refer Stamp Duty rates to identify market value*

## *Relevant Issues*

- What if the sale/agreement or transfer agreement is not yet registered with Stamp Duty?
- Is the Tax Auditor required to certify the correctness of the Stamp Duty valuation (ready reckoner rates)

## 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 following form :-

- a) Description of asset/block of assets
- b) Rate of depreciation.
- c) Actual cost or written down value, as the case may be.
- 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 -
  - i. ~~Modified Value Added Tax~~ Central Excise Value Added Tax (CENVAT) credit claimed and allowed under the Central Excise Rules, 1944, in respect of assets acquired on or after 1st March, 1994,
  - ii. change in 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 18 - Verification

## Work to be done

*Obtain from the client a depreciation schedule*

*Ensure that the fixed assets are correctly classified as per IT Act & read with New Appendix -I to the Rules*

*Verify the opening written down value from the previous year return*

*Ensure that the rate of depreciation for assets which have been **put to use** for less than 180 days is equal to 50% of the rate otherwise applicable.*

*Ensure that CENVAT has been excluded from the cost of the asset*

*Verify the claim of additional depreciation claimed by the assessee (section 32(1)(iia))*

*Reconciliation of additions to Fixed Assets:*

- Consider additions as per IT depreciation schedule*
- Aggregate additions over 180 days and less than 180 days*
- Compare with additions as per audited financial statement*
- Explain reasons for differences if any*

*Reconciliation of deletions to Fixed Assets:*

- Consider deletions as per audited financial statement*
- Compute : Gross book value of assets sold - Accumulated depreciation of assets sold (+ or -) profit or loss on sale of assets = Sale proceeds of assets sold*

# ...Clause 18 Issues

## Guidance

- *Suitable note should be put for our reliance on last Return of Income for opening WDV of the asset, since that may be subject to change during assessment. In case of first tax audit reliance on opening WDV as per last return should be mentioned by way of a note. It is now mandatory for the assessee to claim depreciation under the I.T. Act once the asset is put to use.*

## Relevant Issues

- *What if assets are wrongly classified in the previous year and come to the attention of the Tax Auditor in the current year? - Re-compute in the current year*
- *Where companies are exempt from Income Tax u/s 10, 10A or 10B, should TA give details of depreciation allowable under IT Act? - Yes*

## Clause 19...

Amounts admissible under section 32AC, 33AB, 33ABA, 33AC, 35, 35ABB, 35AC, 35AD, 35CCA, 35CCB, 35CCC, 35CCD, 35D, 35DD, 35DDA and 35E

- Debited to the profit & loss account ~~(showing the amount debited and deduction allowable under each section separately)~~ 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 the Income Tax Act, 1961 or the Income Tax Rules, 1962 or any other guidelines, circular etc, issued in this behalf.
- ~~Not debited to profit & loss account~~

# ..Clause 19..

Sr. No.	Section
1	Section 32AC: Investment in new plant or machinery
2	Section 33AB : Tea/Coffee/Rubber Development Account.
3	Section 33ABA : Site Restoration Fund.
4	Section 35 : Expenditure on Scientific Research.
5	Section 35ABB : Expenditure for obtaining licence to operate telecommunication services.
6	Section 35AC : Expenditure on eligible projects/schemes.
7	Section 35AD : Expenditure on specified business
8	Section 35CCA : Expenditure by way of payments to associations and institutions for carrying out rural development programmes.
9	Section 35CCB : Expenditure by way of payments to associations and institutions for carrying out programmes of conservation of natural resources. (Not applicable from A.Y. 2002-03)
10	Section 35CCC: Expenditure on agricultural extension project
11	Section 35CCD: Expenditure on skill development project
12	Section 35D : Amortisation of certain preliminary expenses.
13	Section 35DD : Amortisation of expenditure in case of amalgamation and merger.
14	Section 35DDA : Amortisation of expenditure incurred under voluntary retirement scheme
15	Section 32E: Deduction for expenditure on prospecting etc., for certain minerals



# ..Clause 19

## Points to consider

- *Requirement of disclosure of amount only*
- *State the amount of each deduction separately if deduction under one or more section is eligible.*
- *Under clause (b) -Report any capital expense incurred and allowed as deduction for Computation of Profit & Gain*
- *Can the New Tax Auditor rely on the Tax Computation of previous years for the purpose of allowing deductions for expenses which were debited in earlier years? Yes (obtain relevant representations)*
- *Compute allowability of the expenses claimed as deduction*
- *Indicate the amount debited to the Statement of Profit & Loss and the amount actually admissible in accordance with the applicable provisions of law.*
- *The amount not debited to the Statement of Profit & Loss Account but admissible under any of the Sections mentioned in the clause have to be stated*

## Clause 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) ~~Any sum received from employees towards contributions to any provident fund or superannuation fund or any other fund mentioned in section 2(24)(x); and due date for payment and the actual date of payment to the concerned authorities under section 36(1)(va)~~ Details of contributions received from employees for various funds as referred to in section 36(1)(va)

# Form 3CD - Verification Methodology

- *Obtain a schedule stating the name of the employee, designation, amount etc. with respect to -*
  - *Bonus*
  - *Exgratia*
  - *commission paid/payable to employees*
- *Check payroll records for any deductions on account of*
  - *provident fund*
  - *Superannuation fund*
  - *ESIC*
  - *contribution towards any other fund for the welfare of employees.*
- *Obtain & verify the agreement under which employees have to make contributions to provident fund and other welfare funds.*
- *Check the rates at which deduction is made. Ensure completeness of such deductions*

# Form 3CD - Points to Consider

- *Sec 36(1)(ii) - Bonus or commission to employees allowed on commission basis.*
- *Only amounts which are not in nature of reward for services will be covered by this item.*
- *Only disclosure of amt is required but the Auditor's opinion about its allow ability or otherwise is not required.*
- *Is it mandatory to disclose amounts not deducted or collected from employees towards Provident Fund?*

# Clause 21

~~Amounts debited to the profit and loss account, being:~~

- (a) ~~expenditure of capital nature;~~ Please furnish the details of accounts debited to the profit and loss account, being in the nature of capital, personal, advertisement expenditure etc.

**Test:** *Brings into existence an asset of enduring benefit*

*Whether it is referable to fixed assets in contrast to current assets*

*Common examples of capital expenditure written off to the Statement of Profit and Loss would be - expenses on increasing authorised capital, share issue expenses written off, obsolete assets written off, etc*

## Relevant issues

Whether Serial Number means each voucher entry or a consolidated entry?

Whether advertisement includes contents on website, advertisement in the nature of printing and stationery? - *Await guidance from ICAI*

~~a) expenditure of personal nature;~~

~~a) expenditure on advertisement in any souvenir, brochure, tract, pamphlet or the like, published by a political party;~~

*Donation paid directly to political party, expense on advertisement in newspaper need not be reported.*

## Clause 21...

expenditure incurred at clubs,-

- i. ~~as entrance fees and subscription;~~
- ii. as cost for club services and facilities used;

### Relevant Issues/Guidance

- *By itself expenditure incurred at clubs are not disallowed if it is incurred for business purpose.*
- *Payments to clubs would not include payments to service organizations like Lions, Rotary, Giants, Diners, etc*
- *If club expenses are in the nature of personal expenditure than the same needs to be disclosed under Personal expenditure.*

# Clause 21...

expenditure by way of penalty or fine for violation

- i. expenditure by way of penalty or fine for violation, of any law for the time being in force;
- ii. ~~any other penalty or fine;~~ Expenditure by way of penalty or fine not covered above
- iii. expenditure incurred for any purpose which is an offence or which is prohibited by law;

## Relevant Issues

- The clause covers only penalty or fine for violation of law and not the payment for contractual breach or liquidator damages
- Penalty for not having adequate margin money is held to be in the course of business and hence not to be disclosed
- Interest on late payment of Service Tax, Excise etc need not be disclosed, it is an allowable expenditure
- Expenditure of only penal nature and not compensatory in nature needs to be disclosed
- Is compounding fee paid to various departments needs to be considered as Penalty or Fine?

# Clause 21...

Amounts debited to the profit and loss account, being:

**b. Amount 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:**

- I. date of payment
- II. amount of payment
- III. nature of payment
- IV. name and address of the payee

**(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)**

- I. date of payment
- II. amount of payment
- III. nature of payment
- IV. name and address of the payee
- V. amount of tax deducted



# Clause 21...

Amounts debited to the profit and loss account, being:

**b. Amount inadmissible under section 40 (a)**

**(ii) as payment referred to in sub-clause (ia)**

**(A) Details of payment on which tax is not deducted:**

- I. date of payment
- II. amount of payment
- III. nature of payment
- IV. 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 sub-section (1) of section 139**

- I. date of payment
- II. amount of payment
- III. nature of payment
- IV. name and address of the payee
- V. amount of tax deducted
- VI. amount out of (V) deposited, if any

# Clause 21...

Amounts debited to the profit and loss account, being:

b. Amount inadmissible under section 40 (a)

(iii) under sub -clause (ic) [wherever applicable]

(iv) under sub-clause (iia)

(v) under sub-clause (iib)

(vi) under sub-clause (iii)

(A) date of payment

(B) amount of payment

(C) name and address of the payee

(vii) under sub-clause (iv)

(viii) under sub-clause (v)

# Clause 21...

## Guidance

- *Sec 40(a) does not specify salary, so salary payable/ paid to employees is allowed as a deduction even if TDS is not deducted on the same*
- *Where taxes are paid abroad and are grouped under rates and taxes/any other account head, the same should be disclosed*
- *In cases where taxes are not deducted properly during the year but on an overall basis the amount deducted for the year is correct, then non-deduction/short deduction for a particular month need not be reported*

## Clause 21... Verification & Issues

- *Where tax is deducted in any subsequent year, or has been deducted during the previous year but paid after the due date specified in section 139(1), the expenditure is allowable as a deduction in the year in which such tax has been paid.*
- *Payment of TDS to non resident/foreign company allowed in the year of payment if not paid within the due date or not deducted in the previous year*
- *Wealth Tax, Income Tax, Cess, Interest under section 234 needs to be disclosed under this clause*
- *Salaries to employees (resident) is not considered under this clause, however salaries paid to non resident is to be disclosed under this clause.*
- *The assessee shall not be in default if the tax is not deducted at source or is been deducted but not paid in case the deductee satisfies the conditions of section 201 (1)*

### Relevant Issues

- *Manner of disclosure for liabilities subject to TDS accounted on accrual basis but payment not made*
- *Practical difficulty in case of assessee not held in default under the first proviso to sub section (1) of section 201. Obtaining 26A certificate*

## ...Clause 21...

(c) ~~interest, salary, bonus, commission or remuneration inadmissible under section 40(b)/40(ba) and computation thereof;~~

Amounts debited to profit and loss account being, interest, salary, bonus, commission or remuneration inadmissible under section 40(b)/40(ba) and computation thereof;

## Form 3CD - Verification and Issues

- *Verify the details of payments to partners/members for interest, salary, bonus, commission or remuneration with reference to the deed of partnership/other documents (in case of AOP or Body of Individuals) and books of account.*
- *Work out payments in excess of limits prescribed under Section 40(b)/40(ba) and report the same in the Statement of Particulars*
- *Obtain from the assessee a detailed working of the inadmissible remuneration, salary, bonus or commission under section 40(b). Verify the computation from the instrument or agreement or any other document evidencing partnership including any supplementary documents or other documents effecting changes which would affect the computation of the inadmissible amounts under section 40(b)*
- *Salary, Bonus or Commission to be within the limits laid down by the Rule 3 of section 40b*
- *Interest or remuneration paid by AOP to its members is not allowed as deduction to AOP*

## ...Clause 21...

~~(h) (A) whether a certificate has been obtained from the assessee regarding payments relating to any expenditure covered under section 40A(3) that the payments were made by account payee cheques drawn on a bank or account payee bank draft, as the case may be; [Yes/No]~~

~~—(B) amount inadmissible under section 40A(3) read with rule 6DD [with break-up of inadmissible amounts];~~

### (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:
- 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)

Per day, Per Person > 20,000

Exemption of Rule 6DD needs to be considered i.e. Public Holiday etc

## ...Clause 21...

- e. provision for payment of gratuity not allowable under section 40A(7);

If the contribution or provision is for an approved gratuity fund that it needs to be disallowed u/s 40A (7)

- f. any sum paid by the assessee as an employer not allowable under section 40A(9);

*payment made towards setting up, formation or contributions any fund other than approved gratuity fund, pension scheme, provident fund, superannuation fund or the contribution is required by any law for the time being in force.*

- g. particulars of any liability of a contingent nature;

### Relevant Issues

*If the expenditure can be scientifically proven, it is not a contingent liability*

*Reduction from assets, Investment provision, provision for bad debts are not to be disclosed under this clause*



## ...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

Verify whether all incomes are subject to tax.

Verify the existence of Tax exempt income.

Ensure whether the Mgmt. has identified expenditure relatable to the above. Determine the basis of allocation & report.

### Relevant Issues

- 14A- Whether expenditure to be restricted to the extent of income?
- Whether Assessee to apply Rule 8D formulas in all case?
- Shall 14A apply in case there is no exempt income during the year?

- i. amount inadmissible under the proviso to section 36(1)(iii)

*36(1)(iii), verify the purpose of Loans if any, Verify the Loan agreements/arrangements.*

*Check for Interest Payment disclosure in Financials*

*Ensure the Loan taken for capital purposes, have been added to the cost of the asset till date of put to use.*



## Clause 22

### Amount of interest inadmissible under section 23 of the MSMED Act, 2006

As per section 16 of Micro small & Medium Enterprises Development Act, 2006, Where any buyer fails to make payment of the amount to the supplier, as required under section 15, the buyer shall, 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.

Section 23 provides that notwithstanding anything contained in the Income-tax Act, 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.

# Form 3CD - Verification and Issues

- *The auditor should seek information regarding status of the enterprise i.e. whether the same is covered under the MSME Act. The auditor should mention about whether the information is available or whether the information is not available in the Form No.3CD.*
- *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 MSME Act. It is the responsibility of the auditee to classify and identify those suppliers who are covered by this Act*
- *Verify from the books of account whether any interest payable or paid to the buyer in terms of section 16 of the MSME Act has been debited or provided for in the books of account*

## Relevant Issue

- *If no interest on MSME provision is made in the books of accounts, than no disclosure is to be made?*

## Clause 23...

### Particulars of payments made to persons specified in section 40A(2)(b)

Sec 40A(2) -Payment to Specific Persons & AO is of the opinion that such payments is excessive or unreasonable. Then disallow the excessive or unreasonable amount.

A person will be deemed to have a substantial interest in a business or profession if, (in case of a company) the person is beneficially owning the shares (other than the preference shares), carrying not less than 20% of the voting power and in any other case, person is entitled to not less than 20% of the profits of business or profession.

If information is not available about specified persons with the client, suitable disclaimer may be given.

Tax auditor should obtain from assessee list of specified persons and expenditure/payment made to them and then scrutinize the items with reference to sec. 40A(2).

## ...Clause 23

Individual	Firm	AOP	HUF	Company
Relatives	Its Partners	Its Member	Its Member	Its Director
	Its Relatives	Its Relatives	Their Relatives	Their Relatives

Where person is having substantial interest in the BOP of the assessee is

Individual	AOP	HUF	Company
Relatives	Its Member	Its Member	Its Director
	Its Relatives	Their Relatives	Their Relatives
			Any other Company in which the first mentioned company has substantial Interest

Director	Partner	Member of AOP	Member of HUF
Companies in which he is a director	Firm in which he is a partner	AOP of which he is a partner	
All the other directors of such Companies	All other partner of such firm	All other member of such AOP	All other member of such HUF
Their Relatives	Their Relatives	Their Relatives	Their Relatives

# Clause 23

## Guidance

- Payment would include amounts paid/payable
- Only amounts debited to the Statement of Profit and Loss should be disclosed
- Obtain all contracts or agreements entered into by the assessee and list out the contracts or agreements entered into with the specified persons and segregate the items of payments made to them under these agreements
- Restrict the scrutiny only to such payments in excess of certain monetary limits depending upon the size of the concern and the volume of business of the assessee

# Clause 23

## Relevant Issues

- 40A(2)(b) is a wider section compared to AS-18 related party disclosure. Companies with common director covered under 40A (2)(b) but not necessarily a Related Party as per AS-18.
- Is capital expenditure or advance or loan given covered u/s 40A (2)(b).
- Is it a sufficient compliance if the auditor relies on the list of person covered by under 40A (2) (b) from the management.
- Only expenditure needs to be disclosed and not income.
- The item does not require report of the auditor as to his own inference, whether the payment is excessive or unreasonable. He is required to specify the amounts paid to such related persons.



# Clause 24

Amount deemed to be profits and gains under section 32AC or 33AB or 33ABA or 33AC.

Sec 32AC - Investment in new plant or machinery

Sec 33AB-Tea Development

Sec 33ABA-Site Restoration Fund

Sec 33AC-Reserve for Shipping Business.



# Form 3CD - Verification and Issues

- *Check the opening / closing balances in the deposit accounts under section 33AB or 33ABA with the deposit statements/pass books*
- *Confirm the workings of profits and gains as per the requirement of these sections*
- *In respect of section 33ABA verify the Accountants' Report required under sub section (2) of this section*
- *Amount withdrawn from such deposit account for other than the specified purposes is to be deemed income chargeable to tax.*



## Clause 25

Any amount of profit chargeable to tax under section 41 and computation thereof.

# Form 3CD - Verification and Issues

- *Scrutinize Miscellaneous Receipts, for items which were expensed out in any of the earlier years has been refunded back e.g. waiver of Bank Interest, Bad Debts written off in earlier years recovered later, Provisions no longer required, etc*
- *Scrutinize Prior Period Adjustments, for items which were expensed out in any of the earlier years has been refunded back e.g. waiver of Bank Interest, Bad Debts written off in earlier years recovered later, Provisions no longer required, etc*
- *Check whether such write back was earlier allowed as deduction eg. Bonus, Doubtful Debts, Duties, Cess, etc.*
- *Cross tally items falling under section 43B which are written back, with information disclosed in clause 21(i)(A) of Form 3CD*
- *Verify sales of fixed assets to identify deemed profits covered by section 41(2)/(3)*
- *Verify the provisions outstanding for a long time against which no payment has been made to identify amounts which have become taxable due to cessation of profits u/s 41(1)*

## Relevant Issues:

- *Report profit chargeable to Tax under this Clause, irrespective of the fact whether the relevant amount credited to P&L a/c or not.*
- *Computation of chargeable profit be also reported in this clause.*

## Clause 26...

- i. In respect of any sum referred to in clause (a), (b), (c), (d), (e) or (f) 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.

## ...Clause 26 Verification & Issues

- Arithmetically reconcile the details with previous years tax audit and current year accounts
- Verify the challan, receipts and entries in the books to ascertain the amounts paid and remained unpaid during the year
- State whether sales tax, customs duty, excise duty or any other indirect tax, levy, cess, imposts etc is passed through the Profit and Loss Account?
- Gratuity, Bonus, Commission, Leave Encashment, VAT, Superannuation, Provident Fund, Profession Tax, Labour Welfare Fund, Excise Duty, Service Tax, Interest on loan from PFI, Scheduled Bank etc

### Relevant Issues

- Conversion of outstanding interest into Loan or Borrowing or Advance allowed on payment.
- Payment of PF in relation to employers contribution under this clause
- In case of payment made by cheque, date of clearance of cheque is considered date of payment.
- Whether sales tax, custom duty or any other indirect tax not routed through profit and loss account is to be disclosed u/s 43B?

## Clause 27...

Clause 27(a): Amount of ~~Modified Value Added Tax credits~~ (CENVAT) availed of or utilized during the previous year and its treatment in the profit and loss account and treatment of outstanding Modified Value Added Tax credits in the accounts.

Clause 27(b): Particulars of income or expenditure of prior period credited or debited to the profit and loss account:

Tax auditor should verify that there is a proper reconciliation between balance of CENVAT credit in the accounts and relevant excise records.

Reporting in following format:

Balance at beginning of the year	XXX
Add: CENVAT Credit available during the year	XXX
Less: CENVAT Credit utilized during the year	<u>(XXX)</u>
Outstanding at the end of the year	<u>XXX</u>

## ...Clause 27.. Verification & Issues

- *Verify opening balances with previous years 3CD*
- *Review the Excise Accounts in general ledger & Excise Registers / Reconciliation.*
- *Review the total debits /total Credits in RG 23A/23C i.e. cenvat register for Excise Credits & Utilisation*
- *Verify Computations to arrive at Closing Balances.*

### Relevant Issues

- *What if no prior period income/expenses is disclosed in the financials but ascertained during the Tax Audit. Shall it be disclosed?*
- *If liability is crystallised in the current year than it is not a prior period item.*
- *Change in estimate is not a prior period item. Useful life of assets changed from 3 to 5 years.*

## Clause 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.

*Finance Act 2010, inserted 56(2)(viia) to prevent practice of transferring shares of an unlisted company without consideration or at a price lower than the Fair Market Value (FMV) and to bring it under the tax net.*

*The legislative intent behind introduction of this provision was to prevent laundering of unaccounted income under the pretext of gifts, especially after abolition of the Gift Tax Act.*



## Clause 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.

Section 56(2)(viib) states that if any closely held company issues shares to a resident person for a consideration higher than fair market value (FMV) of such shares, then the difference between the FMV and the consideration shall be considered as income and taxed in the hands of such company.

### Audit procedure to be performed:

- Obtain Valuation Report from Chartered Accountant of Merchant Banker
- Verify Valuation under Rule 11U
- Understand the reasonableness of the valuation

## 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].

### Audit Procedures to be followed for this clause:

- *The Tax auditor should obtain a complete list of borrowings and repayments of hundi loans otherwise than by account payee cheques.*
- *Verify the same with the books of account.*
- *Verify records in possession of assessee.*
- *Scrutinize cash and petty cash book*
- *There will be practical difficulties in verifying the loan taken or repaid on hundi by account payee cheque. In such cases, the auditor may obtain suitable certificate/ management representation in this regard.*

## Clause 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 (if available with the assessee) of the lender or depositor;
  - ii. Amount of loan or deposit taken or accepted;
  - 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 otherwise than by an account payee cheque or an account payee bank draft.

Statute: If loan or deposit to be accepted together along with loans or deposits already accepted, exceeding Rs. 20,000 to be availed only through account payee cheque or account payee bank draft.

# ...Clause 31

## Audit Procedures to be followed for this clause :

The Tax auditor to obtain details of all loans or deposits taken and verify the same with records maintained by the assessee. Where records are not available auditor to give a disclaimer that necessary evidence is not in possession of assessee.

## Points to Consider

- Payments not made through account payee cheques or bank drafts but through bank transfers like RTGS, NEFT , then tax auditor should give an appropriate note to that effect.
- Sec 269SS applies even when loans are taken free of interest.
- Deposit also includes current account, security deposit against contracts.
- Scrutinize advances account to verify whether advances are in nature of deposits.
- Sec 269SS shall not apply when loans are accepted by Government, Banking Company, Govt. Co. or Co. established under Central, State, Provincial Act.

## Clause 31

- b) Particulars of each repayment of loan or deposit 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;
  - i. Amount of repayment;
  - ii. Maximum amount outstanding in the account at any time during the previous year;
  - iii. Whether the repayment was made otherwise than by account payee cheque or account payee bank draft.

**Statute:** Sec 269T is attracted when repayment of loan or deposit is made to a person when aggregate amount of loans or deposits held by such person on date of repayment exceeds Rs. 20,000 even though repayment amount may be less than Rs. 20,000

## Clause 31

- ~~c) Whether a certificate has been obtained from the assessee regarding taking or accepting loan or deposit, or repayment of the same through an account payee cheque or an account payee bank draft. [Yes/No]~~
- c) Whether the taking or accepting loan or deposit, or repayment of the same were made by account payee cheque drawn on a bank or account payee bank draft based on the examination of books of account and other relevant documents.

### Note:

The particulars (i) to (iv) of clause (b) and the Certificate at (c) above need not be given in the case of a repayment of any loan or deposit taken or accepted from Government, Government company, banking company or a corporation established by a Central, State or Provincial Act.

## Clause 32..

(a) Details of brought forward loss or depreciation allowance, in the following manner, to the extent available :

Serial Number	Assessment Year	Nature of Loss/allowance (in rupees)	Amount as returned (in rupees)	Amount as assessed (give reference to relevant order)	Remarks

### Audit procedure to be followed:

The Tax auditor to study the assessment records i.e. income tax returns filed, assessment orders, appellate orders and rectification / revised orders and trace the amounts of loss / allowance from the income tax returns and the assessment orders.

## ..Clause 32

(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

Statute:

Notwithstanding anything contained in Chapter, where a change in shareholding has taken place in a previous year in the case of a company, not being a company in which the public are substantially interested, 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 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 same persons.

### Audit procedure to be followed:

- The Tax Auditor to enquire with the management and review statutory records of the entity to ascertain whether there is a change in shareholding of the company and report accordingly.
- Carry forward and set off of unabsorbed depreciation will not be hit by change in shareholding.



## ..Clause 32

- (c) 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.
- (d) 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 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, if yes, please furnish the details of speculation loss if any incurred during the previous year.

### Audit procedures to be performed:

- Obtain list from the client for all the securities transactions entered into during the year
- Verify the contract notes and ensure that the delivery has been taken for such transactions
- Obtain representation from the client

# Clause 33

Section-wise details of deductions, if any, admissible under Chapter VI-A or Chapter III (Section 10A, section 10AA)

Audit procedure to be followed:

Tax Auditor to perform corroborative inquiry with the entity to ascertain if there are any deductions:-

- i. In respect of certain Payments
- ii. In respect of certain Incomes
- iii. Others

Tax auditor to scrutinize books of account and other documents for ascertaining value of deductions under Chapter VIA

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 the Income Tax Act, 1961 or Income Tax Rules, 1962 or any other guidelines, circular, etc, issued in this behalf.

Whether TA can rely on the certificate from other professionals certifying that that necessary conditions are fulfilled for the purpose of claiming deduction under Chapter VIA and Chapter III

## Clause 34...

~~(a) Whether the assessee has complied with the provisions of Chapter XVII-B regarding deduction of tax at source and regarding the payment thereof to the credit of the Central Government. [Yes/No]~~

~~(b) If the provisions of Chapter XVII-B have not been complied with, please give the following details\*, namely:-~~

<del>Particulars</del>	<del>Amount Rs</del>
<del>i. Tax deductible and not deducted at all</del>	<del>XX</del>
<del>ii. Shortfall on account of lesser deduction than required to be deducted</del>	<del>XX</del>
<del>iii. Tax deducted late</del>	<del>XX</del>
<del>iv. Tax deducted but not paid to the credit of the Central Government</del>	<del>XX</del>

## ...Clause 34

(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)	Section	Nature of payment	Total amount of payment or receipt of the nature specified in column (3)	Total amount on which tax was required to be deducted or collected out of (4)	Total amount on which tax was deducted or collected as specified rate Out of (5)	Amount of tax deducted or collected out of (6)	Total amount on which tax was deducted or collected at less than specified rate out of (7)	Amount of tax deducted or collected on (8)	Amount of tax deducted or collected not deposited to the credit of Central Government out of (6) and (8)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)

Audit procedure to be followed:

- ☐ Tax Auditor to test the controls established by the entity for appropriate deduction of tax at source. Tax auditor also needs to obtain and verify details of payment of TDS deducted, for timely payment, with TDS returns.

## ...Clause 34

(b) Whether the assessee has furnished the statement of tax deducted or tax collected within the prescribed time. If not please -

Tax deduction and collection Account Number (TAN)	Type of Form	Due date for furnishing	Date of furnishing, if furnished	Whether the statement of tax deducted or collected contains information about all transactions which are required to be reported
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## ...Clause 34

(c) Whether the assessee is liable to pay interest under section 201(1A) or section 206C(7). If yes, please furnish:

Tax deduction and collection Account Number (TAN)	Amount of interest under section 201(1A)/206C(7) is payable	Amount paid out of column (2) along with date of payment

### Relevant Issues:

- Whether TDS deducted and paid late but before filing of the Income Tax Return needs to be disclosed? No
- Whether entire expenses will be disallowed in case of short deduction of TDS?



## Clause 35...

- a In the case of a trading concern, give quantitative details of 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.

## ...Clause 35

- b. In the case of a manufacturing concern, give quantitative details of 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 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 Verification and Issues

- Factual Clause
- Service Company fall out of this clause
- Certificate to be taken for shortage, damage
- Consider Materiality

## Relevant Issues

- More than 10% of purchase, consumption or turnover would qualify for principal items of goods
- Civil Contractor or construction company will not qualify as manufacturing concern and hence this clause is not applicable
- If input and output are not in common units that necessary conversion needs to be done in order to arrive at the yield.

## Clause 36

In the case of a domestic company, details of tax on distributed profits under section 115-O in the following form :—

- a) total amount of distributed profits;
- b) amount of reduction as referred to in section 115-O(1A)(i);
- c) amount of reduction as referred to in section 115-O (1A)(ii);
- d) total tax paid thereon;
- e) dates of payment with amounts

### Audit procedure to be followed:

- Tax Auditor to verify the statutory records / minutes to ascertain the amount of profits distributed.
- Auditor to verify the tax paid thereon and the date of payment, on the basis of duly received challan and books of account.
- Ensure that total amount of profits distributed and the tax paid thereon is as per the audited Statement of profit and loss

## Clause 36

In Finance Act 2012, With a view to remove the cascading effect of DDT in multi-tier corporate structure, it was proposed to amend section 115-O to provide that in case any company receives, during the year, any dividend from any subsidiary and such subsidiary has paid DDT as payable on such dividend then, dividend distributed by the holding company in the same year, to that extent, shall not be subject to Dividend Distribution Tax under section 115-O of the Act.

### Points to be considered: -

- Subsidiary company means only that subsidiary company in which parent company holds more than 50% in nominal value of equity share capital
- Benefit of reduction of dividend is available on year on year basis, i.e., dividend paid for one Financial Year can be claimed in the same Financial Year only. Carry forward of benefit is not allowed
- Dividend on both preference shares and equity shares shall be considered

## Clause 37, 38 & 39

Whether any cost audit was carried out, if yes, ~~enclose a copy of the report of such audit~~ ~~[See section 139(9)]~~ give the details, if any, of disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the cost auditor.

Whether any audit was conducted under the Central Excise Act, 1944, if yes, ~~enclose a copy of the report of such audit~~ give the details, if any, of disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the auditor.

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/value/quantity as may be reported/identified by the auditor.

### Audit procedure to be followed:

The tax auditor to ascertain from the management whether an audit was carried out and if yes enclose a copy of the report of such audit.

Where an audit may have been ordered and is not completed by the time the tax auditor gives his report, he need not report in this clause.

## Clause 40

~~Accounting ratios with calculations as follows :-~~ Details regarding turnover, gross profit, etc. for the previous year and preceding previous year:

Sr. No.	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.		

### Audit procedure to be followed:

The Tax auditor to verify the ratios. The tax auditor should assign meaning to the terms used in the above ratios having due regard to the generally accepted accounting principles.

Calculate ratios for manufacturing or trading concern in terms of value only.

Calculate ratios for the business as a whole and not product wise.

If Closing stock is Nil, this sub clause (c) is not applicable.

Stock -in -trade include only closing stock of finished goods not stock of raw material & work -in -progress.

Exclude extraordinary items for calculation of ratios unless give material effect



# Clause 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.

## Points to Consider

Demand or refund issued under any other tax laws other than Income Tax and Wealth Tax may cover laws of Indirect tax

# PROCEDURE FOR E-FILING



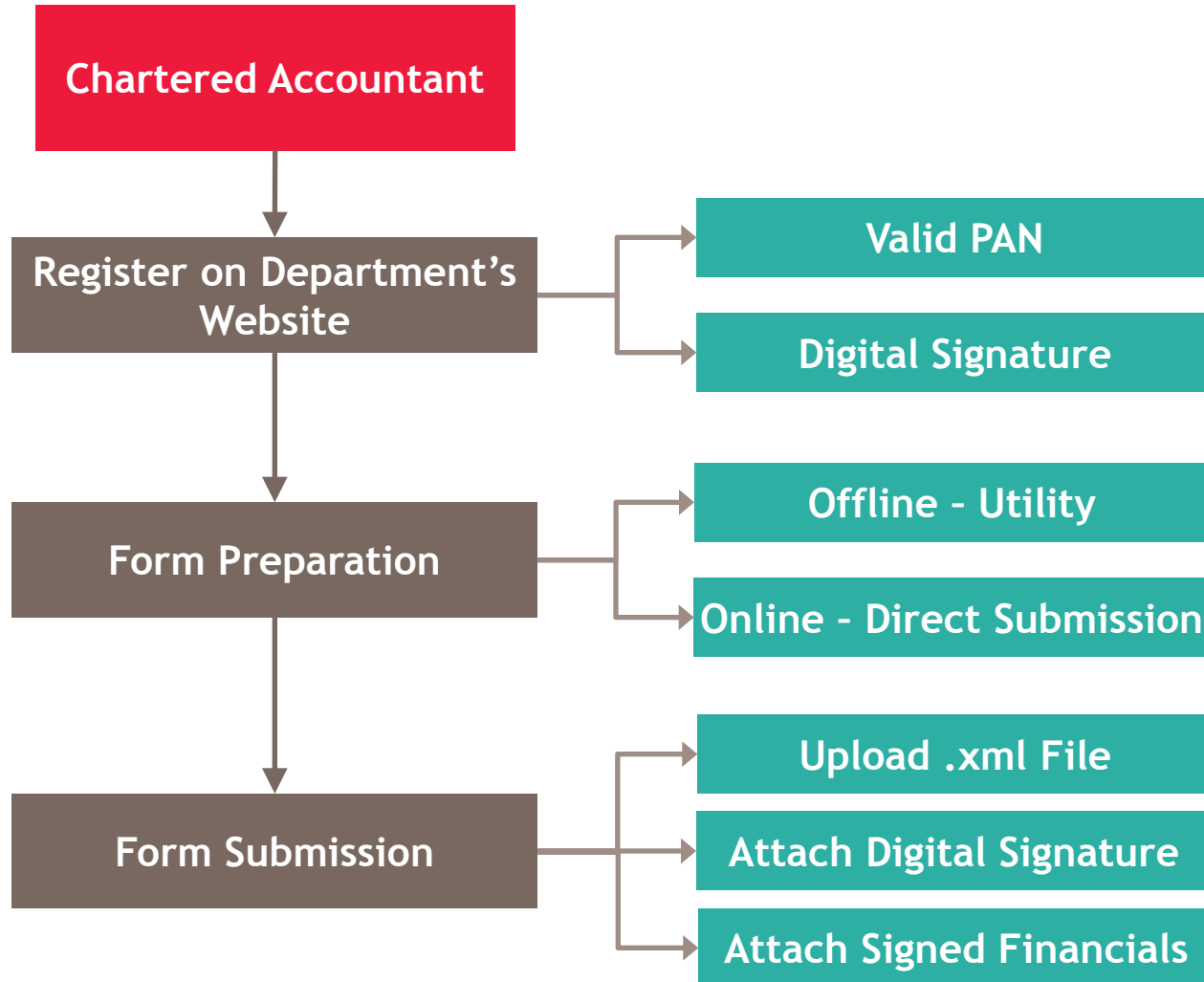
# E-FILING

## Audit Reports & Forms

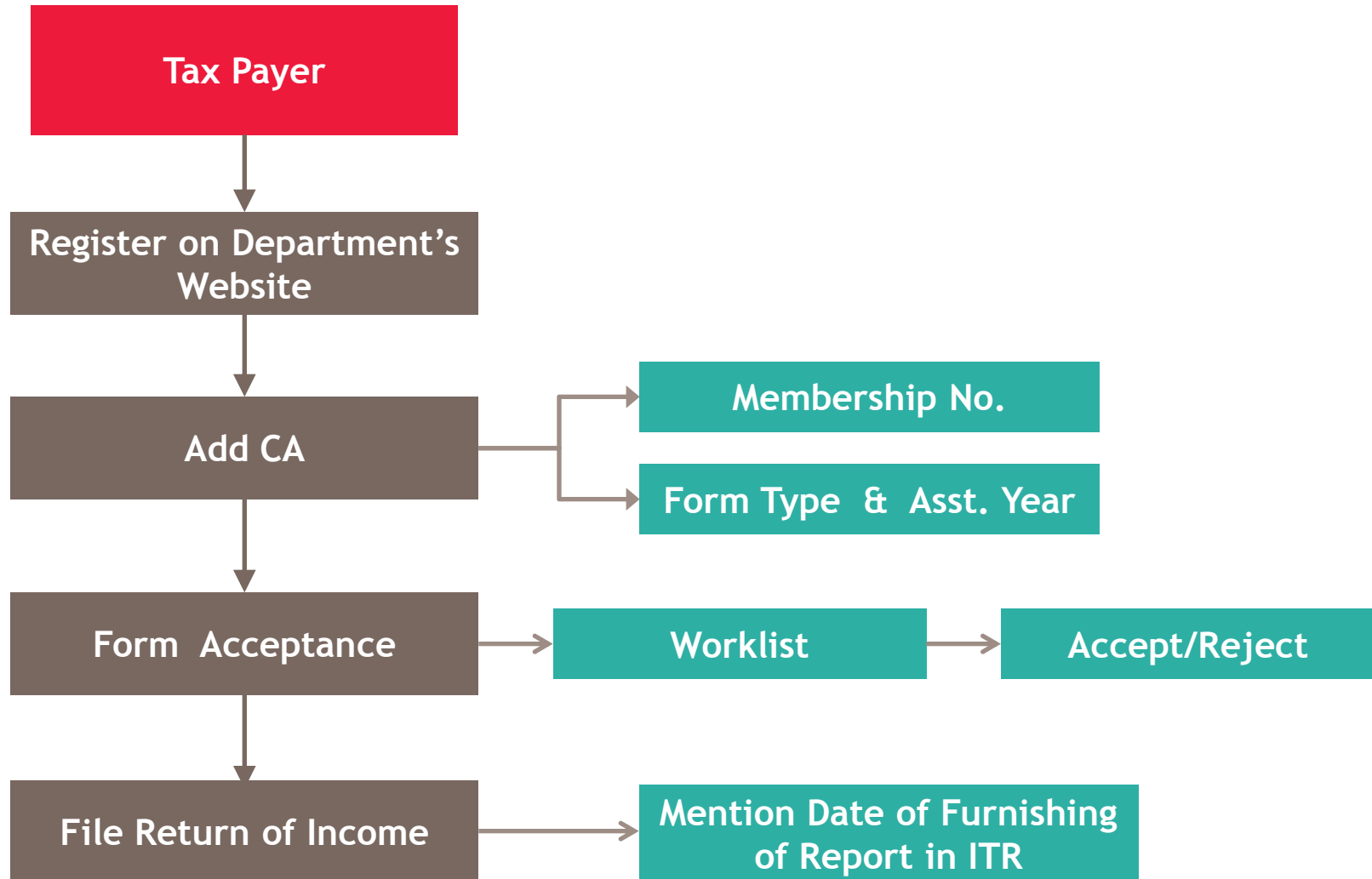
- Tax Audit Report u/s 44AB
  - 3CA-3CD
  - 3CB-3CD
- Report u/s 92E
  - 3CEB
- Report u/s 115JB
  - 29B
- Other forms
  - 10B ( Charitable Trusts )
  - 10BB ( Educational / Medical Institutions )
  - 10CCB ( 80IA/80IB/80IC/80ID/80JJAA/80LA )



# PROCEDURE FOR E-FILING




# PROCEDURE FOR E-FILING





# CHARTERED ACCOUNTANT - SCREEN SHOTS

# CA - REGISTER ON DEPARTMENT'S WEBSITE



**e-Filing** *Anywhere Anytime*  
Income Tax Department, Government of India

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### Quick Link

- [Tax Calculator](#)
- [Apply Online - PAN/TAN](#)
- [E-Pay Tax](#)
- [View Form 26AS \(Tax Credit\)](#)

### Need Assistance?

For Income tax related queries  
**ASK : 1800 180 1961**

For Rectification and Refund  
**CPC : 1800 425 2229**

For e-Filing of Returns  
**e-Filing : 1800 4250 0025**

## Registration Form

Select User Type \*

**Individual/HUF**  
☐ Individual ☐ HUF

**Other than Individual/HUF**  
☐ Company ☐ Body of Individuals (BOI) ☐ Local Authority ☐ Firm  
☐ Trust ☐ Association of Persons (AOP) ☐ Artificial Juridical Person

**Bulk PAN Verification Users**  
☐ External Agency

**Tax Professional**  
☒ Chartered Accountants

☐ Income Tax Department Employee

☐ Helpdesk

[Continue](#)

### Instructions

- Fields marked with asterisk (\*) are mandatory.
- Select a User type
- Please keep your PAN card handy to fill in the Registration details

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**Need Assistance?**



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**e-Filing : 1800 4250 0025**

## Registration Form - Authorized Representatives Registration

Step 1: Enter Basic Details    Step 2: Registration Form    Step 3: Registration Successful

<b>Membership No. *</b>	<input type="text"/>
<b>Enrollment Date (DD/MM/YYYY) *</b>	<input type="text"/> 
<b>Personal Details</b>	
<b>Surname *</b>	<input type="text"/>
<b>Middle Name</b>	<input type="text"/>
<b>First Name</b>	<input type="text"/>
<b>Date of Birth (DD/MM/YYYY) *</b>	<input type="text"/> 
<b>PAN *</b>	<input type="text"/>
<b>E-mail ID *</b>	<input type="text"/>
<b>DIGITAL CERTIFICATE REGISTRATION</b>	
<b>Select the type of Digital Signature Certificate *</b>	<input type="radio"/> Sign with .pfx file <input type="radio"/> Sign with your USB token
<input type="button" value="Continue"/>	

**Instructions**

- Fields marked with asterisk(\*) are mandatory.
- Please enter your PAN , Name and Date of Birth as mentioned on your PAN card.
- Do not pre-fix title to your name e.g.:Dr., Mr., Miss, Mrs, etc.
- Select Date of Birth using the calendar provided.

**Note**

- Java Runtime Environment 1.6 or above should be installed in your system in order to successfully upload Digital Signature Certificate.

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# CA - REGISTER ON DEPARTMENT'S WEBSITE

## Registration Form - Authorized Representatives Registration

Step 1: Enter Basic Details

Step 2: Registration Form

Step 3: Registration Successful

User ID	To be e-mailed to you after successful submission of form.		
Password Details			
Password *	<input type="text"/>	Zero Length	
Confirm Password *	<input type="text"/>		
Primary Secret Question *	Select		
Primary Secret Answer *	<input type="text"/>		
Secondary Secret Question *	Select		
Secondary Secret Answer *	<input type="text"/>		
Contact Details			
Landline Number	+91	<input type="text"/>	<input type="text"/>
Mobile Number *	+91	<input type="text"/>	
Alternate Number	+91	<input type="text"/>	
E-mail Id *	<input type="text" value="demo@gmail.com"/>		
Alternate E-mail Id(Optional)	<input type="text"/>		
Fax Number	+91	<input type="text"/>	<input type="text"/>

### Instructions

- Fields marked with asterisk(\*) are mandatory.
- **Password:** Please enter a password between 8-14 characters. It can be a combination of upper and lower case letters and must contain atleast one alphabet, one number and one special character.
- **Primary Secret Question/Secondary Secret Question:** Select the secret question from the dropdown. This will be used in case you forgot your password
- Do not pre-fix '0' against any of your contact numbers.

# CA - FORM PREPARATION

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### Quick Link

- Tax Calculator
- Apply Online - PAN/TAN
- E-Pay Tax
- View Form 26AS (Tax Credit)

[Income Tax Return Forms \(Other than ITR\)](#)  
[Forms \(Other than ITR\)](#)  
[Schema Downloads](#)

2013-14

**Note:**

1. Please enable Macros in the excel sheet before entering data.
2. Read the instructions before filling the form [Checklist of documents and pre-requisites](#)

### Need Assistance?

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For Rectification and Refund  
**CPC : 1800 425 2229**

For e-Filing of Returns  
**e-Filing : 1800 4250 0025**

### Forms (Other than ITR) - Offline

Form Name	Form Description	Utility
Form 3CA-3CD	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	
Form 3CB-3CD	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	
Form 3CEB	Report from an accountant to be furnished under section 92E relating to international transaction(s)	
Form 29B	Report under Section 115JB of the Income-tax Act, 1961 for computing the book profits of the company	e
Form 6B	Audit report under section 142(2A) of the Income-tax Act, 1961	
Form 10B	Audit report under section 12A(b) of the Income-tax Act, 1961, in the case of charitable or religious trusts or institutions	



# CA - FORM PREPARATION

The screenshot shows the 'Offline Forms Utility' window. The title bar reads 'Offline Forms Utility'. Below it is a menu bar with 'File'. A toolbar contains icons for 'Open Draft', 'Save Draft', 'Validate', 'Generate XML', 'Previous', and 'Next'. The status bar at the top right indicates '(Page 0 of 0)'. The main content area has a green background with three instructions:

1. To Open a new Form Go to "File->New Form" and select the Form.
2. To open an existing draft (previously saved) click "Open Draft" in the toolbar and select the draft from the path you have saved and click OPEN.
3. Please read the instructions provided at the start of the Form, before filling in the data.

Below the instructions is a large, faint watermark of the Government of India emblem and the text 'आयकर विभाग' (Income Tax Department). On the right side, there is a vertical panel with a blue header 'Validation Errors' and a white area below it. At the bottom right, there is a scrollbar.



# CA - FORM SUBMISSION

[Dashboard](#) [My Account](#) [e-File](#) [Downloads](#) [Profile Settings](#) [My Request List](#) [Worklist](#) [Helpdesk](#)

### Quick Link

- Upload Form
- Tax Calculator
- e-Filing - Do's & Don't
- ITR V - Do's & Don't

### Upload Form

Prepare and Submit Online Form(Other than ITR)

[Click to view Notifications](#)

### Need Assistance?

For Income tax related queries  
**ASK : 1800 180 1961**

For Rectification and Refund  
**CPC : 1800 425 2229**

For e-Filing of Returns  
**e-Filing : 1800 4250 0025**

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### Need Assistance?

For Income tax related queries  
ASK : 1800 180 1961

For Rectification and Refund  
CPC : 1800 425 2229

For e-Filing of Returns  
e-Filing : 1800 4250 0025

Navigation Trail: Upload Form

## Upload Form

User ID	ARCA149846
PAN of the Assessee *	
PAN of the CA *	
Form Name *	3CB-3CD
Assessment Year *	Select
Attach the XML file *	<a href="#">Choose File</a> No file chosen
Select the type of Digital Signature Certificate *	<input type="radio"/> Sign with .pfx file <input type="radio"/> Sign with your USB token
Upload Attachments(Up to 20 MB - *.tiff, *.pdf)	
Balance Sheet *	<a href="#">Choose File</a> No file chosen
Profit Loss Statement *	<a href="#">Choose File</a> No file chosen
Cost Audit Report	<a href="#">Choose File</a> No file chosen
Excise Audit and/Or Other Report	<a href="#">Choose File</a> No file chosen
<a href="#">Submit</a> <a href="#">Cancel</a>	

# TAX PAYER - SCREEN SHOTS

# TAX PAYER - ADD CA

The screenshot displays the Income Tax e-filing portal interface. At the top, a navigation bar includes links for Dashboard, My Account, e-File, Downloads, Profile Settings, My Request List, Worklist, and Helpdesk. On the left, a 'Quick Link' menu is open, listing various services. The 'Add CA' option is highlighted in blue. Below the menu, a 'Need Help?' section provides contact information for income tax queries.

**Quick Link**

- View Form 26AS (Tax Credit)
- My Returns/ Form
- Refund/Demand Status
- Refund Re-issue Request
- Rectification Request
- Rectification Status
- Request for Intimation u/s 143(1)/154
- Add CA**
- List of CA
- Outstanding Tax Demand
- Dis-engage CA
- Dis-engage ERI
- Tax Credit Mismatch

**Need Help?**

For Income Tax queries, ASK : 1800-4250-0623

For Rectification, CPC : 1800-4250-0623

For e-Filing : 1800-4250-0623

**View Returns / Forms**

**View Notifications**

# TAX PAYER - ADD CA

[Dashboard](#) [My Account](#) [e-File](#) [Downloads](#) [Profile Settings](#) [My Request List](#) [Worklist](#) [Helpdesk](#)

## Quick Link

- Upload Return
- View Form 26AS (Tax Credit)
- Rectification Request
- Tax Calculator
- Download ITR
- e-Filing - Do's & Don't
- ITR V - Do's & Don't

## Need Assistance?


For Income tax related queries  
ASK : 1800 180 1961

For Rectification and Refund  
CPC : 1800 425 2229

For e-Filing of Returns  
e-Filing : 1800 4250 0025

Navigation Trail: [Add CA](#)

## Add CA

Membership Number *	<input type="text"/>
Name of the CA *	<input type="text"/>
Form Name *	<div>3AC 3AD 3AE 3CA-3CD 3CB-3CD</div>
Assessment Year *	<div>Select</div>
Captcha Code	<input type="text"/>
Image	
Enter the number as in above image *	<input type="text"/>
<div>Submit Cancel</div>	

## Instructions

- Fields marked with asterisk(\*) are mandatory.
- Enter the Membership Number of the CA
- Select the Form(s) and the Assessment Year
- To add more than one Form, click mouse by holding CTRL (Control) key

# TAX PAYER - FORM ACCEPTANCE

[Dashboard](#) [My Account](#) [e-File](#) [Downloads](#) [Profile Settings](#) [My Request List](#) [Worklist](#) [Helpdesk](#)

### Quick Link

- Upload Return
- View Form 26AS (Tax Credit)
- Rectification Request
- Tax Calculator
- Download ITR
- e-Filing - Do's & Don't
- ITR V - Do's & Don't

Navigation Trail: [Add CA](#) ▶

## Dashboard

[Click to view Returns / Forms](#)

[Click to view Notifications](#)

### Need Assistance?

For Income tax related queries  
**ASK : 1800 180 1961**

For Rectification and Refund  
**CPC : 1800 425 2229**

For e-Filing of Returns  
**e-Filing : 1800 4250 0025**

# TAX PAYER - FORM ACCEPTANCE

Dashboard My Account e-File Downloads Profile Settings My Request List **Worklist** Helpdesk

## Quick Link

- Upload Return
- View Form 26AS (Tax Credit)
- Rectification Request
- Tax Calculator
- Download ITR
- e-Filing - Do's & Don't
- ITR V - Do's & Don't

Navigation Trail: [Add CA](#) > Worklist

## Worklist

### Uploaded forms details

Sl.No	CA Name	Form Name	A.Y.	Submitted On	Approval Status
1		Form 10B	2013-14	05/06/2013	Successfully e-Filed <a href="#">View Form</a>

## Need Assistance?

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THANK YOU