# Tax Audit

Section 44AB of the Income-tax Act, 1961 contains the provisions for the tax audit of an entity. As per these provisions, tax audit shall be conducted by a Chartered Accountant who ensures that the taxpayers has maintained proper books of account and complied with the provisions of the Income-tax Act.

Tax Audit conducted by a Chartered Accountant is reported to the Income-tax department in Form no. 3CA/3CB and Form no. 3CD along with the income tax return.

**Defination**

‘’ A **tax audit** is an examination of your **tax** return by an outside agency to verify that income and deductions filed are accurate. ... **The** Internal Revenue Service periodically produces estimates of **the** difference between **the** income taxes actually paid and what should have been paid by all taxpayers.”

Tax Audit refers to the independent verification of the books of accounts of the assessee to form an opinion on the matters related to taxation compliances carried out by the assessee. While preparing the books of accounts of the business or profession for the purpose of income tax filing, the assessee has to comply with the provisions of Income-tax Act, 1961 particularly from section 28 to section 44DB. The provisions in these sections deal with the income from business or profession which is chargeable to tax, how such incomes are computed, chargeability, various allowances or disallowances and the rate of depreciation on the various assets held by the assessee, deduction for making investments, deductions for making donations, treatment and tax compliances on borrowed capital, treatment and tax incidence on bad debts, statutory funds, accounting methods etc.

Tax audit can be conducted by a Chartered Accountant who holds the certificate of practice and is in full-time practice. However certain classes have been defined who cannot conduct tax audit under section 44AB.  The tax auditor (CA) carries out a systematical examination of books of account as per the formats prescribed by the department.

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| Threshold Limit for Tax Audit increased to Rs. 5 crore  [Applicable from Assessment Year 2021-22] |
| Every person carrying on business and maintaining books  of account is required to get them audited from a Chartered  Accountant if total sales, turnover or gross receipt from business  during the previous year exceeds Rs. 1 crore.  To reduce compliance burden on small and medium enterprises,  Section 44AB is proposed to be amended to increase the threshold limit, for a person carrying on business, from Rs. 1 crore to Rs. 5  crore.  However, the increased threshold limit of Rs. 5 crore shall  be applicable only when cash receipt and payment made during  the year does not exceed 5% of total receipt or payment, as the  case may be.  In other words, more than 95% of the business  transactions should be done through banking channels. |

The applicability of tax audit provisions from Assessment Year  2020-21 can be understood with the help of following table:

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| ***Nature of Business or Profession*** | ***Category of Taxpayer*** | ***When audit is Mandatory?*** |
| Any Professions (Specified or Non-specified) | Any | If Gross Receipts from Profession during the relevant previous year exceeds Rs.50 lakhs |
| Business | Bothe Payment and Receipt in case does not exceed 5% of the Total Receipts and Payments respectively. | If total Sales, Turnover or Gross Receipts from Business during the previous year exceeds Rs. 5 Crore. |
|  | Either payment or receipt in cash exceeds 5% of the total receipts and payment respectively | If total sales, turnover or gross receipt from business during the previous year exceeds Rs. 1 crore |
| Business eligible for Presumptive Tax Scheme under Section 44AD | Resident Individual or HUF | If income of assessee exceeds the maximum exemption limit and he has opted for the scheme in any of the last 5 previous years but does not opt for the same in current year. |
| Business eligible for Presumptive Tax Scheme under Section 44AD | Resident Partnership Firm | Taxpayer has opted for the scheme in any of the last 5 previous years but does not opt for the same in current year. |
| Profession eligible for Presumptive Tax Scheme under Section 44ADA | Resident Assessee | Taxpayer claims that his profits from profession are lower than the profits computed under Section 44ADA and total income exceeds the maximum exemption limit |
| Business eligible for Presumptive Tax Scheme un- derSection44AE | Any Assessee engaged in plying, hiring or leasing of goods carriage | Taxpayer claims that his profits from business are lower than the profit computed under Section 44AE |
| Business eligible for Presumptive Tax Scheme un- der Section 44BB | Non-resident assessee engaged in exploration of mineral oil | Taxpayer claims that his profits from business are lower than the profit computed under Section 44BB |
| Business eligible for Presumptive Tax Scheme under Section 44BBB | Foreign Co. engaged in civil construction | Taxpayer claims that his profits from business are lower than the profit computed under Section 44BBB |

## Objectives of Tax Audit

**Here’s why tax audit is necessary**:

* An analysis of the accuracy of income tax returns filed in an assessment year by individuals and companies, and maintenance of records by the Chartered Accountant.
* Reporting of findings by the tax auditor after a detailed analysis of accuracies/inaccuracies in tax returns filed.
* Reporting essential details regarding compliance, tax depreciation, etc., as per the laws for income tax. This streamlines the processes for the income tax authorities in calculation and assessing the accuracy of the income tax return filed by the individual or company.
* Checks frauds and malpractices in filing income tax returns.

## Penalty for Non-compliance of Tax Audit

**Non-compliance of tax audit regulations by taxpayers attracts a penalty of whichever is lower from the following**:

* 0.5% of total sales or
* Turnover or
* Gross receipts or
* Rs. 1,50,000

A penalty is waived only when a taxpayer is able to show a reasonable cause for non-compliance. If the account books of a business or profession is not audited as per Section 44AB, then the assessee has to pay penalty as per Section 271B of the Income Tax Act. In case of a delay in completing audit and submitting the report on time (before or on September 30), then 0.5% of the turnover, a maximum of Rs. 1.5 lakh, has to be paid as penalty. If there is a genuine reason for delay or non-filing of audit report, then as per Section 273B, no penalty will be applicable. Among the permitted reasons are:

* Delay caused by resignation of the tax auditor
* Delay caused by death or physical inability of the partner responsible for accounts
* Delay caused by labour issues such as strikes or lock-outs
* Delay caused by loss of accounts due to theft or fire, or incidents that are not under the assessee’s control
* Natural calamities

## Forms Required for Tax Audit

Tax Audit reports can be presented in two different ways by tax auditors, differing on the basis of the laws under which the accounts have been audited.

* Form 3CB and Form 3CD: For tax audit reports presented under Section 44AB of the Income Tax Act, 1961, Form 3CB and the prescribed details have to be reported in the Form 3CD.
* Form 3CA and Form 3CD: When a taxpayer prefers to get the accounts audited under any law other than Section 44AB, then the relevant form is Form 3CA, while the prescribed details have to be reported in the Form 3CD.

## What is the Importance of Tax Audit in your Organisation?

A Tax Audit will have the following advantageous or importance in an organization:

* A Tax Audit will maintain the books of accounts and all other records regarding the revenue and expenditure properly so that the eleventh hour rush and panic can be avoided

* It will ensure that the total income and the claims for deduction are correctly and accurately entered by the businessman

* It restricts the chance of fraudulent practices.

* Tax Audit helps proper presentation of accounts before the tax authorities. It identifies the weaknesses in the accounting system and enables to suggest the improvements.

* An Audit facilitates the provision of advice that can have real financial benefits for a business.

* An Audit adds credibility to published information for employees, customers, suppliers, investors and tax authorities.

* An Audit provides assurance to shareholders that the figures in the accounts show a true and fair view.

* An Audit builds up the reputation of the company.

* Government authorities accept audited statements as true and fair for the purpose of taxation.

* Auditors can give concrete suggestions regarding the improvements of business on the basis of their findings in the record.

## What is the effectiveness of Tax Audit on an organization?

Since Tax Audit is the re-evaluation of a company’s role as a taxable body by the government, its efficacy on an organization is very significant.

* A Tax Audit protects the rights of the tax payer. The tax payer has been granted the right to verify the professional identification cards of the tax auditors. He can obtain a copy of the tax audit notification. He can attend the auditing procedures and obtain copies of any original paper or digital documents

* It maintains the professional confidentiality. The FTA employees are prohibited to disclose any information obtained if not requested by the judicial authorities.

* It gives guidance to a tax payer. Its aim is to settle any questions and problems related to tax as thoroughly as possible through an open dialogue between the tax recipient and the tax payer.

* A Tax Audit increases the credibility of the business and avoids loss of reputation. The true value of the business is known after the audit