

RECENT CHANGES U/S 44AB OF THE INCOME TAX ACT

- Brief history and Intent
- Compliance Requirements
- Competence
- Utilities

TAX AUDIT EVOLUTION IN INDIA

Introduction of Tax Audit

Tax audit was introduced in 1984 under Section 44AB to address tax evasion and promote transparency. CA's had better access to books and data of the taxpayer to unearth finer details.

Amendments and Expansion

Over the years, amendments have increased turnover thresholds and broadened reporting requirements for tax audits. In 2020, incentive to encourage digital transactions were introduced

Purpose of Tax Audit

The tax audit aims to verify tax declarations' accuracy and encourage compliance among taxpayers in India.



TAX AUDIT AMENDMENTS: SEC 44AB

Enhanced Reporting Focus

Recent amendments require detailed reporting of related party transactions and GST reconciliations to ensure greater transparency and compliance.

Key Audit Checklists

Auditors must verify turnover thresholds, maintain proper documentation, and ensure the timely filing of tax audit reports as per regulations. Notes as required in the report.

Retention of Working Notes

Working notes should comprehensively detail audit procedures and compliance checks and be kept for regulatory scrutiny.



FORM 3 CD

Form 3CD is an e- form and is divided into two parts, Part A & Part B:

Part A (Clause 1 to 8) of Form 3CD requires the CA to furnish the basic details of the assessee. The user can move ahead only once Part A of the form has been filled and saved.

Part B of Form 3CD has further divisions basis clauses 9 to 44. Particulars of all the clauses are required to be filled here.



KEY AMENDMENTS

Cl.18: (ca) Adjustment to WDV

Cl.19. Certain sunset clauses omitted

Cl.21(a)

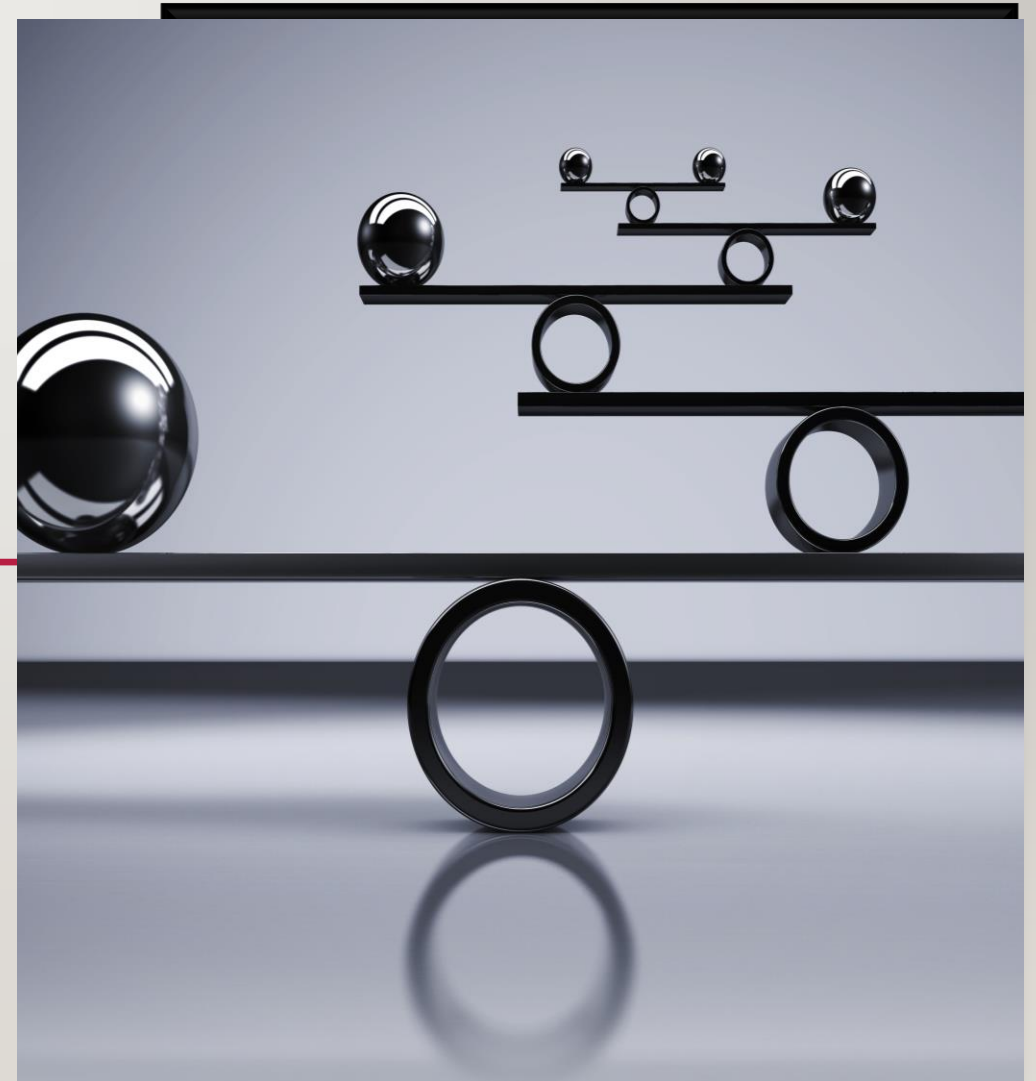
- Expenditure in the nature of offence or prohibited by law, or penalty or fine
- Expenditure incurred to compound an offence in India or Outside
- Expenditure incurred to provide any benefit or perquisite

Cl. 22 Payments to MSMED Act 2006 Interest and other amount payable

Cl.26.Allowed changed to Allowable

Cl. 28 & 29 omitted

Cl.31 (a) and (b)





KEY AMENDMENTS IN CLAUSE 12, 18 AND 19 OF 3CD FORM

Detailed Disclosure of Accounts

Clause 12 now requires comprehensive reporting of disclosure of profits and gains assessable on presumptive basis including 44 ADA.

Depreciation Reporting Specifics

Clause 18 amendment requires reporting on depreciation adjustment on WDV pursuant to option u/s 115 BAA, 115 BAC/ BAD,

Enhanced Payment Reporting

Clause 19 mentions exclusionn of sunsetted sections.

CLAUSE 21: ILLEGAL EXPENDITURE



- Prohibition of Illegal Funding
 - Clause 21 strictly forbids spending company funds on any activities that break the law, including bribery or smuggling.
- Examples of Offences
 - Examples include using resources for bribery, smuggling operations, or unauthorized gambling, which are all strictly prohibited.
- Safeguarding Organizations
 - Compliance with this clause protects organizations from legal penalties and damage to their reputation.



CLAUSE 22. MSMED DUES & INTEREST DISCLOSURE

Disclosure of MSME Dues

Entities must report the amounts due to MSMEs as of the balance sheet date for compliance.

Reporting Principal and Interest

Both principal and interest payable to MSMEs under the MSMED Act, 2006 must be disclosed.

Importance of Timely Payments

Timely payments to MSMEs are crucial to avoid penalties and legal complications for entities.





REPORTING RELATED PARTY TRANSACTIONS

Disclosure Requirements

Form 3CD mandates recording all related party transactions to ensure transparency and regulatory compliance under the Income Tax Act.

Auditor's Responsibilities

Auditors must report the nature, amount, and details of each transaction, supporting scrutiny and compliance with tax regulations.

Relationship and Transaction Details

Reporting includes relationship description, transaction type, and value to help detect tax avoidance and confirm proper transfer pricing.

CLAUSE 31. SECTION 269SS: LOAN & DEPOSIT RULES



Cash Transaction Restrictions

Loans or deposits of Rs. 20,000 or more cannot be accepted in cash under Section 269SS to curb black money.



Permissible Payment Modes

Such transactions must use account payee cheques, bank drafts, or electronic modes to ensure traceability and transparency.



Penalty for Violation

Violating Section 269SS invites a penalty equal to the amount received, enforcing strict compliance.

S.271 D, S.271 DA, S.271 DB

TO AUDIT OR NOT TO AUDIT

Exempt Income

Trusts

Agriculture

Societies

