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## Audit u/s 44AB of Income Tax Act, 1961 (w.e.f AY 2024-25)

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**THIS** is in continuation to our [article](#) on tax audit published in TIOL on 18/10/2021 incorporating/considering amendments effected by the Finance Act, 2023 with effect from AY 2024-25 in section 44AB, 44AD and 44ADA under Income Tax Act, 1961.

**Amendments by Finance Act 2023 at a Glance (Sections - 44AB, 44AD and 44ADA )**

In the case of eligible business by eligible assessee for Turnover/Gross Receipt up to Rupees 3 crore or in case of profession by eligible assessee for Gross Receipts up to Rupees 75 lakh, if the amount received during the previous year in cash does not exceed 5 percent of such Turnover/Gross Receipt he may opt for 44AD/44ADA as the case may be. For the turnover up to Rs.2 crore and Rs.50 lakhs in business and profession respectively, assessee is eligible for opting for 44AD/44ADA irrespective of whether cash receipt exceed 5 percent or not.

It is also provided that the receipt by a cheque drawn on a bank or by a bank draft, which is not account payee, shall be deemed to be the receipt in cash. Again Section 44 AB has been amended so as to exclude applicability of said section in the case of persons who declare profit and gains for the previous year in accordance with 44AD(1) or 44ADA(1).

### **Applicability of Tax Audit under Section 44AB**

For easy understanding to taxpayers regarding applicability of audit under above section, an analysis based on turnover in case of income from business or profession is given below.

**Please note that income from person carrying business of plying, hiring or leasing goods carriages, business of exploration, etc., of mineral oils or** foreign companies engaged in the business of civil construction, etc., in certain turnkey power projects or income in the nature of commission or brokerage ,agency business are not covered in below cases.

#### **A. Persons carrying on Business**

##### **Case 1 - Turnover above Rs. 10 Crores (All assesseees)**

Every person carrying on business whose turnover exceeds Rupees 10 crore is liable for tax audit irrespective the mode of receipt/payment or profit declared- by virtue of Section 44AB(a)

##### **Case 2 - Turnover from Rs.3 to 10 Crores (All assesseees)**

If a person carrying on business has cash receipt and payment less than 5 percent of gross receipts and payments respectively such person is not liable for audit, else 44 AB audit is applicable by virtue of proviso to Section 44AB (a)

##### **Case 3- Turnover Rs. 2 to 3 Crores (Resident individual, HUF or Partnership firm other than LLP)**

(a) If the cash receipts do not exceed 5% of Gross receipts and declare Income In accordance with provisions of Section 44AD (1), Tax audit under 44AB is not applicable (*Inserted by Finance Act, 2023*) else tax audit is applicable.

(b) Again if a person carrying on business has cash receipt and payment less than 5 percent of gross receipts and payments respectively such person is not liable for audit

But if above mentioned [( a) and (b)] persons had opted out of presumptive taxation in any of the 5 preceding years and having total income above maximum exemption limit for taxation, then such assessee is liable for audit as per Section 44AB(e).

**Case 4 - Turnover Rs. 1 to 2 Crores (Resident individual, HUF or Partnership firm other than LLP)**

(a) An individual, HUF or partnership firm can declare 6 percent of his receipts through banking channel and 8 percent of his receipts in cash as deemed income so that such eligible assessee could claim exemption from tax audit as per section 44AD(1).

(b) Again if a person carrying on business has cash receipt and payment less than 5 percent of gross receipts and payments respectively such person is also not liable for audit

But if above mentioned [( a) and (b)] assessee had opted out of presumptive taxation in any of the 5 preceding years and having total income above maximum exemption limit for taxation, then such person is liable for audit as per Section 44AB(e)

**Case 5 - Turnover Rs.1 to 3 Crore (Assessee other than Resident Individual, HUF or Partnership firm other than LLP)**

They have no option but to go for tax audit irrespective of declared profit unless person carrying on business has cash receipt and payment less than 5 percent of gross receipts and payments by virtue of Section 44AB

**Case 6 - Turnover Up to Rs.1 Crore (Resident Individual, HUF or Partnership firm other than LLP)**

Not liable for audit unless such assessee had opted out of presumptive taxation in any of the 5 preceding years and their total income including income from all sources exceed taxable limit.

For a firm with above turnover if ends in loss and opts out of presumptive scheme, then that firm is not liable for audit by virtue of Section 44AD(4) and (5)

**Case 7- Turnover Up to Rs. 1 Crore (Other than Resident Individual, HUF or Partnership firm other than LLP).**

Not liable for tax audit as the section 44AB (a) gives exemption up to 1 crore.

**B. Persons carrying on Profession**

**Case 1. Gross receipt from Profession above Rs. 75 Lakhs (All Assessee )**

Tax audit under Section 44AB is applicable by virtue of Section 44AB (b)

**Case 2 .Gross receipt from Profession Rs. 50 to 75 Lakhs (Assessee other than Individuals or partnership firms other than LLP)**

Tax audit under Section 44AB is applicable by virtue of Section 44AB(b)

**Case 3 - Gross receipt from Profession Rs. 50 to 75 Lakhs (Assessee being Individuals or partnership firms other than LLP)**

Tax payers whose receipts from profession by cash is less than 5% of gross receipts and declare profit of at least 50 percent of total gross receipts in accordance with section 44ADA(1) read with proviso there to, not liable for tax audit under section 44AB.

**Case 4- Gross Receipts up to Rs.50 Lakhs (Assessee being Individuals or partnership firms other than LLP)**

The taxpayer, if declares his income minimum @50% of gross receipts under section 44ADA (1), audit under section 44AB will not be applicable. However if declaring lower income, that is less than 50% of gross receipts and total income exceeds maximum exemption limit, then Tax audit will be applicable by virtue of Section 44AB (d).

**Case5 - Gross Receipts up to Rs.50 Lakhs (Assessee other than Individuals or partnership firms other than LLP)**

They are not liable for tax audit by virtue of Section 44AB (b).

**Post Script:**

Person carrying on business coming under section 44AE (person carrying business of plying, hiring or leasing goods carriages) or section 44BB (business of exploration, etc., of mineral oils) or section 44BBB (foreign companies engaged in the business of civil construction, etc., in certain turnkey power projects) and claiming profit not as per the said sections has to do tax audit – Section 44 AB (c).

**[The views expressed are strictly personal.]**

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