

Applicability of Tax Audit under section 44AB or 44AD or 44ADA

Audit of accounts of certain persons carrying on business or profession:

Section 44AB, first time inserted by the Finance Act, 1984, by the Finance Minister Shri Pranav Mukharji with effect from 1st April 1985. At that time there was so opposed of this section, by business persons, professional persons and particularly by Tax Advocates and Tax Practitioners, because Audit of books of account, by every person, who carrying on business shall, if his total sales, turnover or gross receipts, as the case may be, in business exceed or exceeds rupees Forty Lakhs, and for professional persons whose gross receipts exceed or exceeds rupees Ten Lakhs, in any previous year, by Chartered Accountants. Many representations were made, even writ petitions were filed in various High Courts, but there was no change in this section 44AB, and there were no amendments till 31st March 2010.

By Finance Act 2010, with effect from 1st April 2011 limit of gross turnover increase to rupees Sixty Lakhs for business and for professional limit increase to rupees Fifteen Lakhs.

By Finance Act 2016, with effect from 1st April 2017 limit of gross turnover increase to rupees One Crore for business and for professional limit increase to rupees Twenty Five LaHS.

Proviso to section 44AB(a), with effect from 1st April, 2020, i.e. Assessment Year 2020-21 and onwards, provides that in the case of person whose:

1. aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, **in cash**, does not exceed 5% of the said payment; and
2. aggregate of all amounts made including amount incurred for expenses, in cash, during the previous year does not exceed 5% of the said payment,

then such person is not required to get audit of accounts, in respect of business carried on, where the total sales, turnover or gross receipts does not exceed Rs. **5 crore**, as against Rs. 1 crore.

Likewise, a person carrying on profession will also have to get his accounts audited, if his gross receipts in profession exceed Rs. 50,00,000 in any previous year [Section 44AB(b)]. From the above, we find that the limit specified for getting books of accounts audited are different in case of business and profession. Presume that, there are certain persons engaged in carrying on both business as well as profession at the same time in one previous year. Now a question may arise in the case of an Assessee carrying on business and at the same time engaged in a profession, what is the limit applicable to him under section 44AB for getting books of accounts audited.

It is better to discuss the limits specified in case of a Business and then Profession.

Business Turnover u/s 44AB / 44AD:

Turnover, sales or Gross receipts is Less than Rs. 1,00,00,000 section 44AB does not applied but he may opt for section 44AD and declares income as per books of account. This option is to be opted for next subsequent 5 year. If income exceeds maximum amount chargeable to tax, section 44AB will apply.

If turnover, sales or gross receipts is more than Rs. 1,00,00,000, between 1crore to 2crore option is open to opt for section 44AB or section 44AD. If it is between 1crore to 10crores these sections does not apply, in case when cash receipt and payment made during the previous year does not exceed 5% of total sales, turnover or gross receipts and payments made for expenditure during the previous year as the case may be.

Professional gross receipts u/s 44AB / 44ADA

Section 44ADA provides for computing profit and gain on profession on presumptive basis in relation to assessment year 2017-18 and on words. In the case of an assessee , being a resident in India, who is engaged a profession referred to in section 44AA(1) and whose total gross receipt do not exceed Rs. 50,00,000 in a previous year, a sum equal to 50% of the total gross receipt of an assessee in the previous year on account of such profession, or as the case may by, a sum higher than afore said sum claiming to have been earned by the assessee shall be deemed to be the profit and gain of such profession chargeable to tax under the head” *Profit and Gains of Business or Profession*”. An assessee whose gross professions is more than Rs. 50,00,000, Section 44AB will apply and have to get theirs books of accounts are to be audited. It may be noted that an assessee opting the scheme u/s 44ADA(1) is required to pay advance tax on or before 15th March of every year.

Please remember that if the professional receipts of an assessee is Rs. 60,00,000 and the total sales, turnover or gross receipts in business are say Rs. 35,00,000, it will be necessary for him to gets his books of accounts are to be audited for profession as well as for business, because the gross receipts from the profession exceed the limit of Rs. 50,00,000.

If however, the professional receipts are, say, Rs. 27,00,000 and total sales turnover or gross receipts from business are say Rs. 95,00,000 it will not be necessary for him to get his books of accounts audited under the above section, because his gross professional receipts as well as total sales, turnover or gross receipts from the above business are below prescribed limit i.e. Rs. 1,00,00,000.

There are different categories of Profession, which are connected with business. i.e.

- A Doctor carrying on his medical practice as well as selling medicines ;
- An Architect engaged in providing designs of building and selling building material;
- A Teacher doing tuitions and also publishing books and selling books

Source : Taxguru