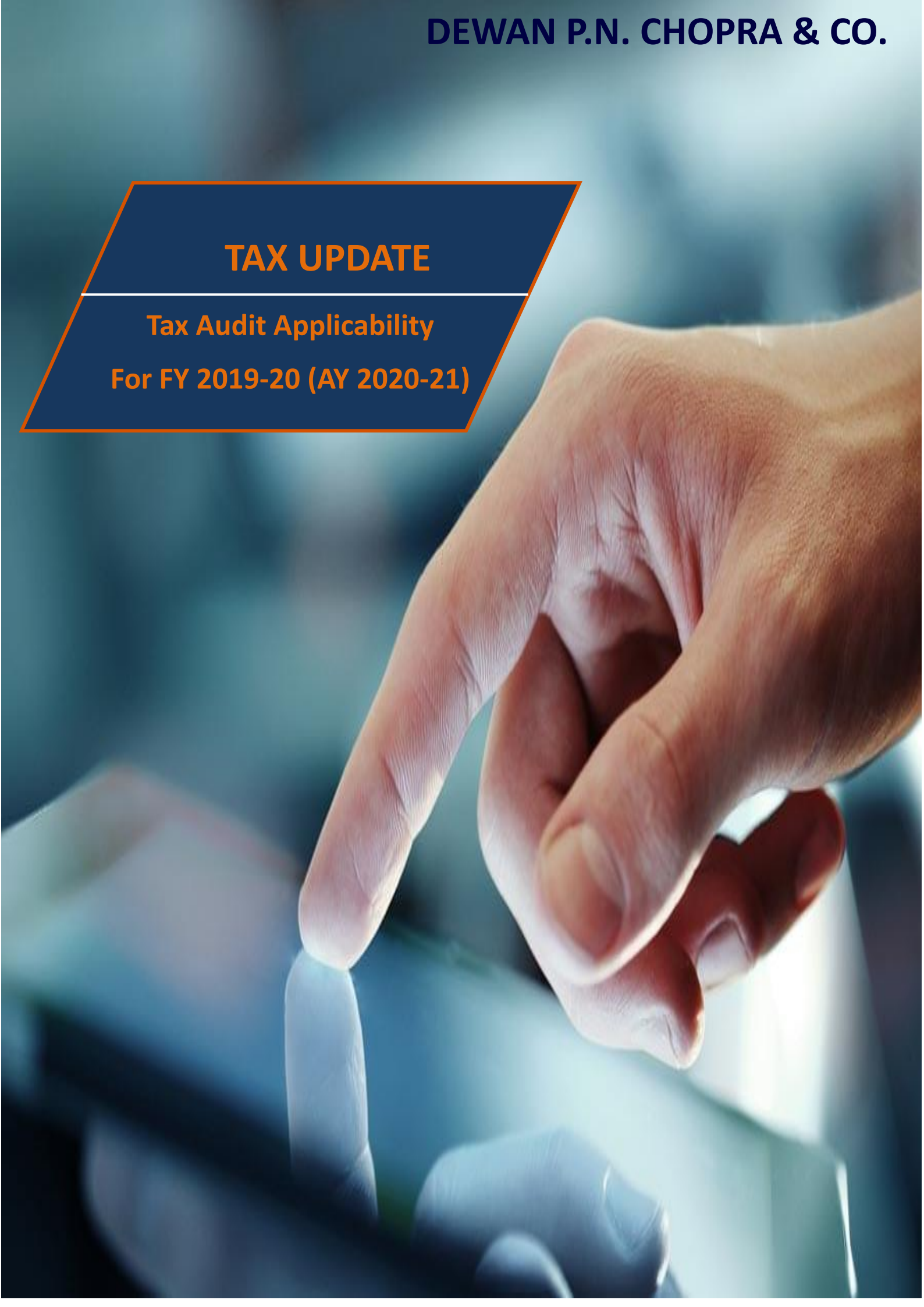


**TAX UPDATE**

**Tax Audit Applicability  
For FY 2019-20 (AY 2020-21)**



**TAX AUDIT APPLICABILITY FOR FINANCIAL YEAR 2019-20**  
**(ASSESSMENT YEAR 2020-21)**

In order to reduce compliance burden on small and medium enterprises, Finance Act 2020 has brought major amendment to Income Tax Act, 1961 related to applicability of Tax Audit. It has increase the threshold limit for applicability of Tax Audit for a person carrying on business from one crore rupees to five crore rupees in cases where,-

- (i) aggregate of all receipts in cash during the previous year does not exceed five per cent of such receipt; and
- (ii) aggregate of all payments in cash during the previous year does not exceed five per cent of such payment.

**Analysis on Applicability of Tax Audit regarding person carrying on Business or Profession:**

<b>Person Carrying on Business eligible for presumptive taxation under section 44AD</b>					
S. no	Type of Assessee	Turnover	Additional Condition	Applicability of Tax Audit	Under Section
A)	Individual/ HUF/ Partnership + Resident	1) Turnover > Rs. 5 crore	-	Yes	44AB(a)
		2) Rs. 2 Crore < Turnover =< Rs. 5 Crore	a) Cash Receipt & Cash Payment is more than 5% of such Receipt & payment	Yes	44AB(a)
			b) Cash Receipt & Cash Payment is less than 5% of such Receipt & payment	No <sup>1</sup>	44AB(a) read with proviso

<sup>1</sup> If income has been declared u/s 44AD in any five assessment year before relevant previous year, then audit will be applicable under Section 44AB(e) read with section 44AD(4).

Person Carrying on Business eligible for presumptive taxation under section 44AD					
S. no	Type of Assessee	Turnover	Additional Condition	Applicability of Tax Audit	Under Section
		3) Turnover =< Rs. 2 crore	a) Net Profit Ratio < 6%/8%	Yes <sup>2</sup>	44AB(e) read with Section 44AD
			b) Net Profit Ratio >= 6%/8%	No	44AD
B)	Other (Company, LLP , etc)	1) Turnover > Rs. 5 crore	-	Yes	44AB(a)
		2) Rs. 1 Crore < Turnover =< Rs. 5 Crore	a) Cash Receipt & Cash Payment is more than 5% of such Receipt & payment	Yes	44AB(a)
			b) Cash Receipt & Cash Payment is less than 5% of such Receipt & payment	No	44AB(a) read with proviso
		3) Turnover =< Rs. 1 crore	-	No	44AB

<sup>2</sup> If turnover is less than 1 crore and total income is less than maximum amount which is not chargeable to tax in any previous year, then audit will not be applicable. (44AB(a) read with Section 44AB(e))

Person Carrying on Profession eligible for presumptive taxation under section 44AD					
S.no	Type of Assessee	Gross Receipt	Additional Condition	Applicability of Tax Audit	Under section
A)	Resident	1) Gross Receipt > 50 Lakhs	-	Yes	44AB(b)
		2) Gross Receipt =< 50 Lakhs	a) Taxable income < 50% of gross receipt	Yes <sup>3</sup>	44AB(d) read with Section 44ADA
			b) Taxable income >= 50% of gross receipt	No	44ADA
B)	Non Resident	1) Gross Receipt > 50 Lakhs	-	Yes	44AB(b)
		2) Gross Receipt =< 50 Lakhs	-	No	44AB(b)

**DISCLAIMER:**

*The information contained herein is in summary form based on Finance Act 2020 & Income Tax Act, 1961. While the information is believed to be accurate to the best of our knowledge, we do not make any representations or warranties, express or implied, as to the accuracy or completeness of this information. Readers should conduct and rely upon their own examination and analysis and are advised to seek their own professional advice. This note is not an offer, invitation, advice or solicitation of any kind. We accept no responsibility for any errors it may contain, whether caused by negligence or otherwise or for any loss, howsoever caused or sustained, by the person who relies upon it.*

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<sup>3</sup> If gross receipt is less than 50 lakhs and total income is less than maximum amount which is not chargeable to tax in any previous year, then audit will not be applicable. (44AB(b) read with Section 44AB(d))