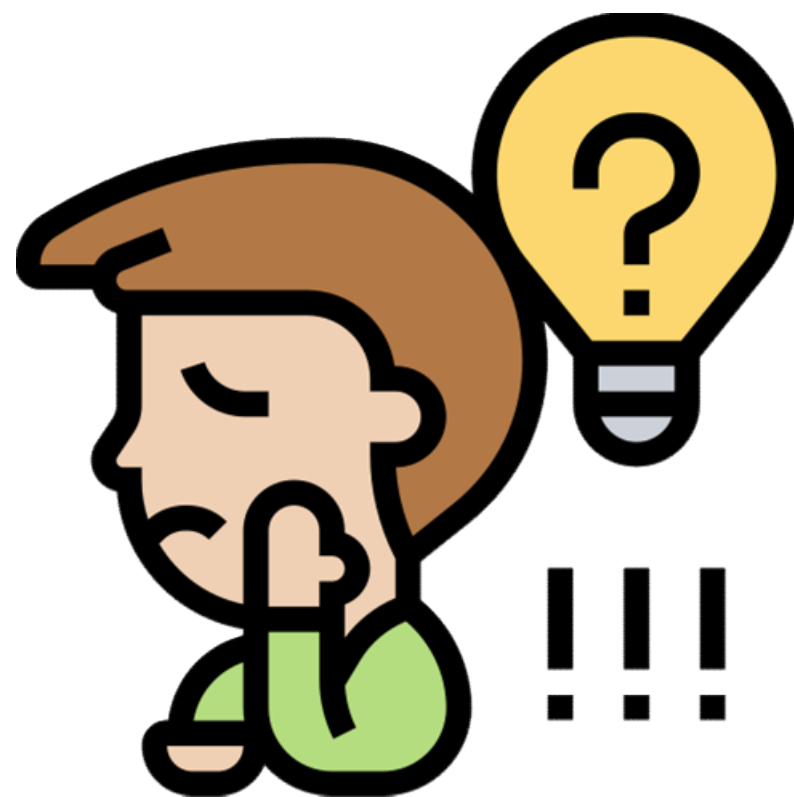


JB NAGAR CPE STUDY CIRCLE
OF WIRC OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

**PRACTICAL ISSUES /
CHALLENGES FACED IN
TAX AUDIT**

- CA Yogesh Amal
GBCA & Associates LLP,
Chartered Accountants

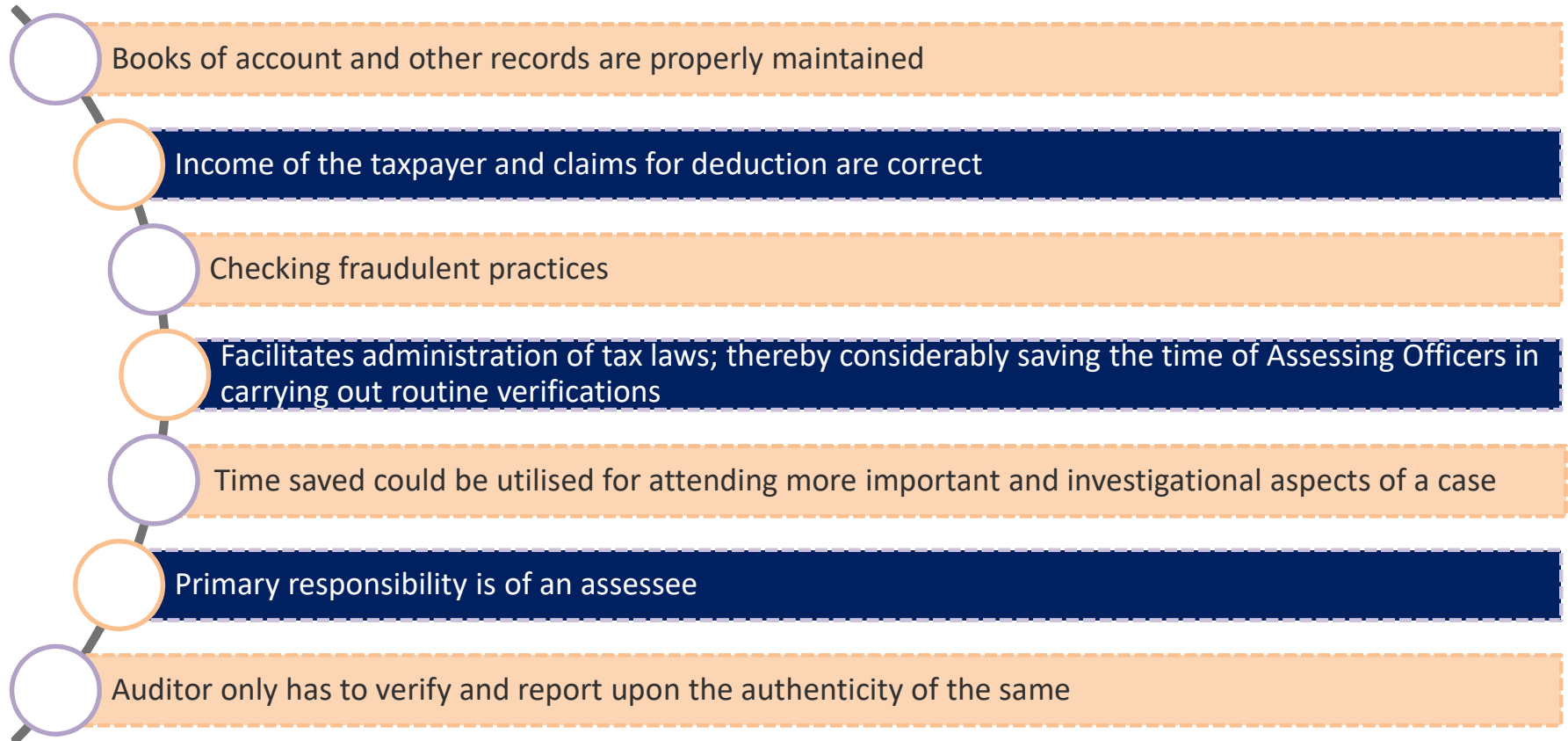


20th August, 2022

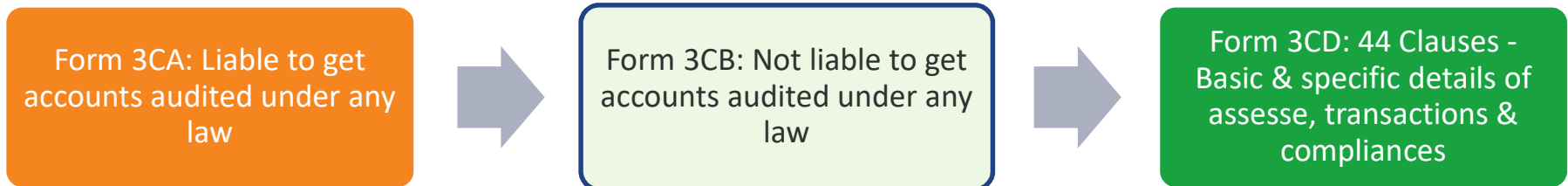


SCOPE & OBJECTIVE OF TAX AUDIT

SCOPE AND EFFECT OF SECTION 44AB : CBDT circular No. 387, dated 6th July, 1984 - Para 17.2.



WHAT CONSTITUTES AN AUDIT REPORT





APPLICABILITY OF TAX AUDIT

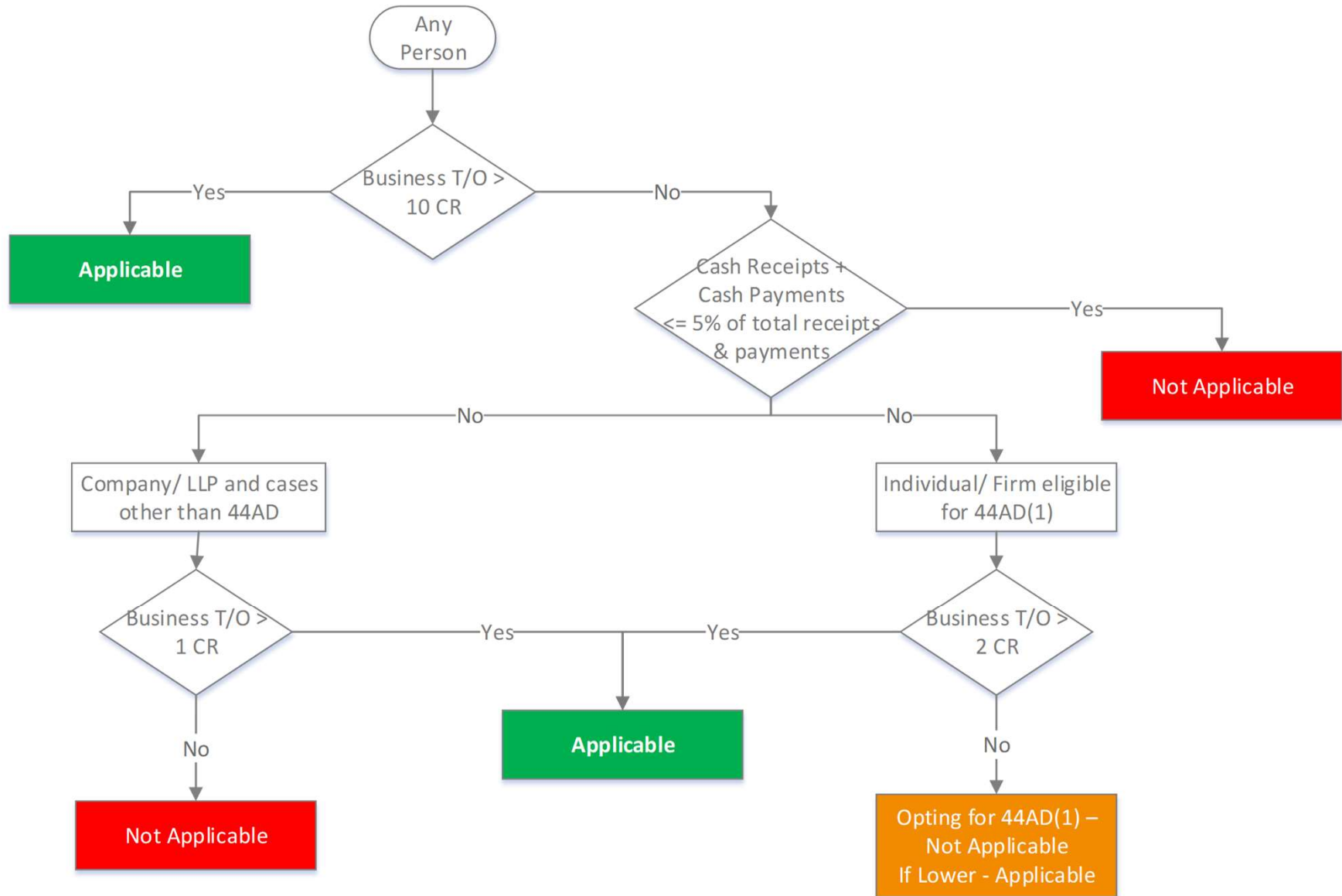
APPLICABILITY

- **Business:** Gross Turnover, Receipts Or Total Sales > **Rs. 1 Crores**
 - Whereas if Cash Transactions (Receipts & Payments) does not exceed 5% of the total transactions (i.e. **at least 95 per cent transactions are made on digital medium**) threshold limit of turnover is increased to **Rs. 10 Crores.**
- **Profession:** Gross Receipts > **Rs. 50 Lakhs**
- An assessee who declares profit for any previous year in accordance with **section 44AD** and he decreases profit for any of one 5 assessment year relevant to the previous year succeeding such previous year lower than the profit computed as per section 44AD and his income exceeds the amount which is not chargeable to tax.
- If an eligible assessee opts out of the presumptive taxation scheme, within the aforesaid period, he cannot choose to revert back to the presumptive taxation scheme for a period of five assessment years thereafter.
- Where profits & gains from business are taxable on presumptive basis u/s. **44ADA** (where total income exceeds basic exemption limit), **44AE, 44BB or 44BBB** & such person claims his income to be lower than profits & gains so estimated.

NON APPLICABILITY: Those who opt for presumptive taxation scheme under section 44AD and total sales or turnover does not exceed Rs. 2 crores.



APPLICABILITY OF TAX AUDIT - SIMPLIFIED





44AB VS 44AD & PRESUMPTIVE TAXATION

SECTION 44AD(4):

- If the person opts out of section 44AD and offers his income to tax under regular provisions at any time during 5 assessment years relevant to previous years immediately succeeding the previous year in which he has opted for 44AD(1)- income cannot be declared as per presumptive provisions of 44AD(1) for a period of 5 years after the year of opting out. Whether tax audit mandatory if the income exceeds maximum amount not chargeable to tax irrespective of turnover? Refer 44AB(e)
 - Example 1: Turnover for AY 2022-23 of INR 75,00,000/-; Profit proposed to be declared is @ 6% i.e. INR 4,50,000 (also total income). Exemption was claimed under section 44AD(1) for AY 2019-20, AY 2020-21 and AY 2021-22. Whether audit under section 44AB applicable? - **Not applicable as per clause (a) but applicable as per clause (e)**
 - Example 2: If all facts remain the same as in Example 1; except for total income which is INR 2,50,000/. Whether audit under section 44AB applicable? - **Not applicable as per clause (a) or clause (e)**
 - Example 3: Turnover for AY 2022-23 of INR 1,10,00,000/-; Profit proposed to be declared @ 2% i.e. INR 2,20,000 (also total income). Exemption was claimed under section 44AD(1) for AY 2019-20, AY 2020-21 and AY 2021-22. Whether audit under section 44AB applicable? - **Not applicable as per clause (e)**



44AB VS 44AD & PRESUMPTIVE TAXATION

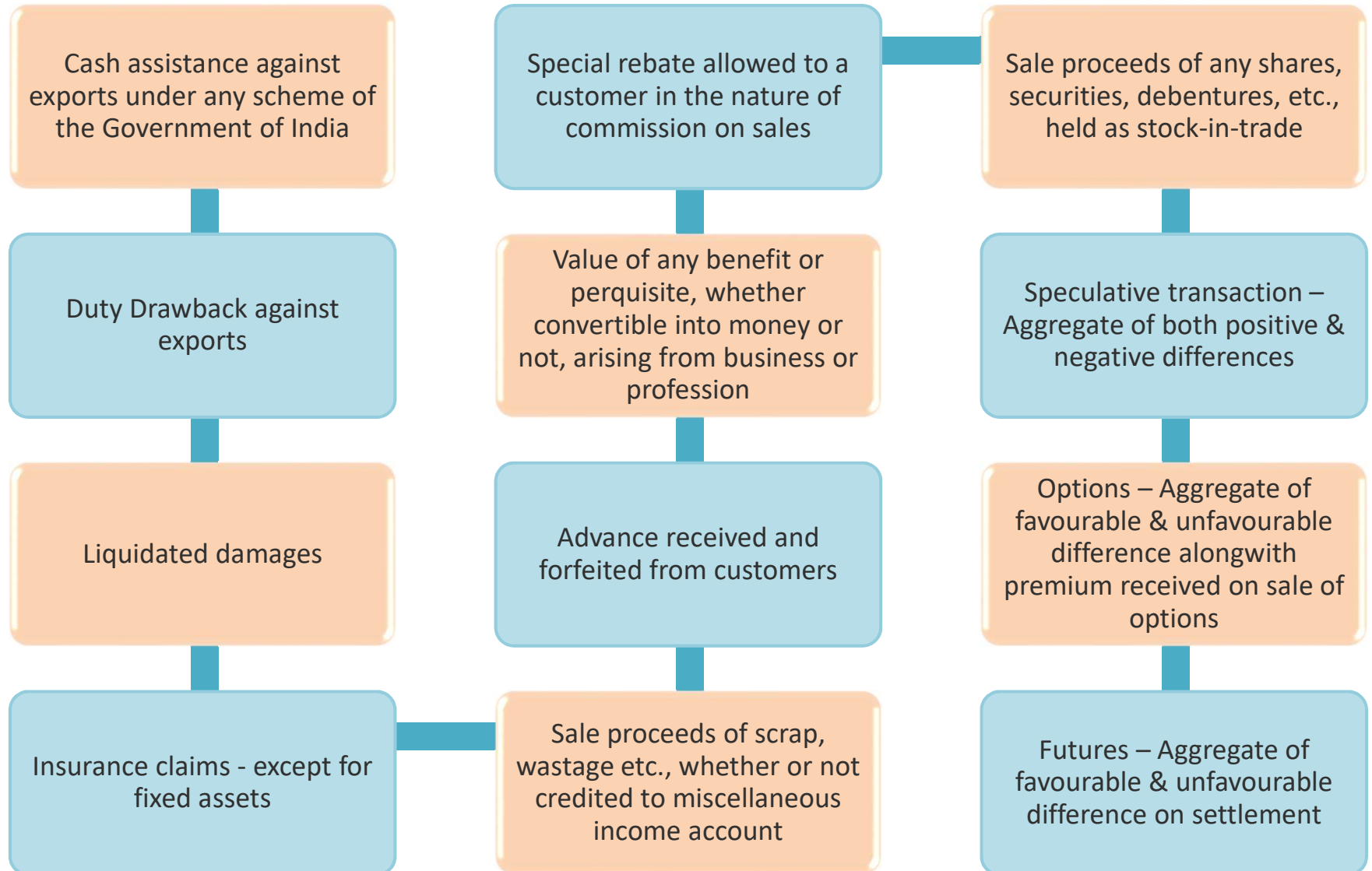
SECTION 44AD(6):

- Provisions of 44AD are not applicable to: a person carrying on profession as referred to in sub-section (1) of section 44AA; a person earning income in the nature of commission or brokerage; or a person carrying on any agency business
 - Example 1: Where the assessee who has opted for presumptive taxation under section 44AB in AY 2019-20, AY 2020-21 and AY 2021-22 but had non-eligible activity mentioned in 44AD(6) and therefore could not opt for section 44AD(1). In AY 2022-23, the turnover is less than IN 1 crore (or between 1 crore to 2 crore) and the assessee is willing to declare profits as per section 44AD(1). Whether permissible? Whether required to have accounts audited under section 44AB?
 - Example 2: Where the assessee who has opted for deduction under section 44AB in AY 2019-20, AY 2020- 21. In AY 2021-22 - the turnover exceeded IN 2 crore and therefore the business was not considered as eligible for deduction under section 44AD? In AY 2022-23, the turnover is less than IN 1 crore (or between 1 crore to 2crore) and the assessee is willing to declare profits as per section 44AD(1). Whether permissible? Whether required to have accounts audited under section 44AB?



UNDERSTANDING THE MEANING OF TURNOVER

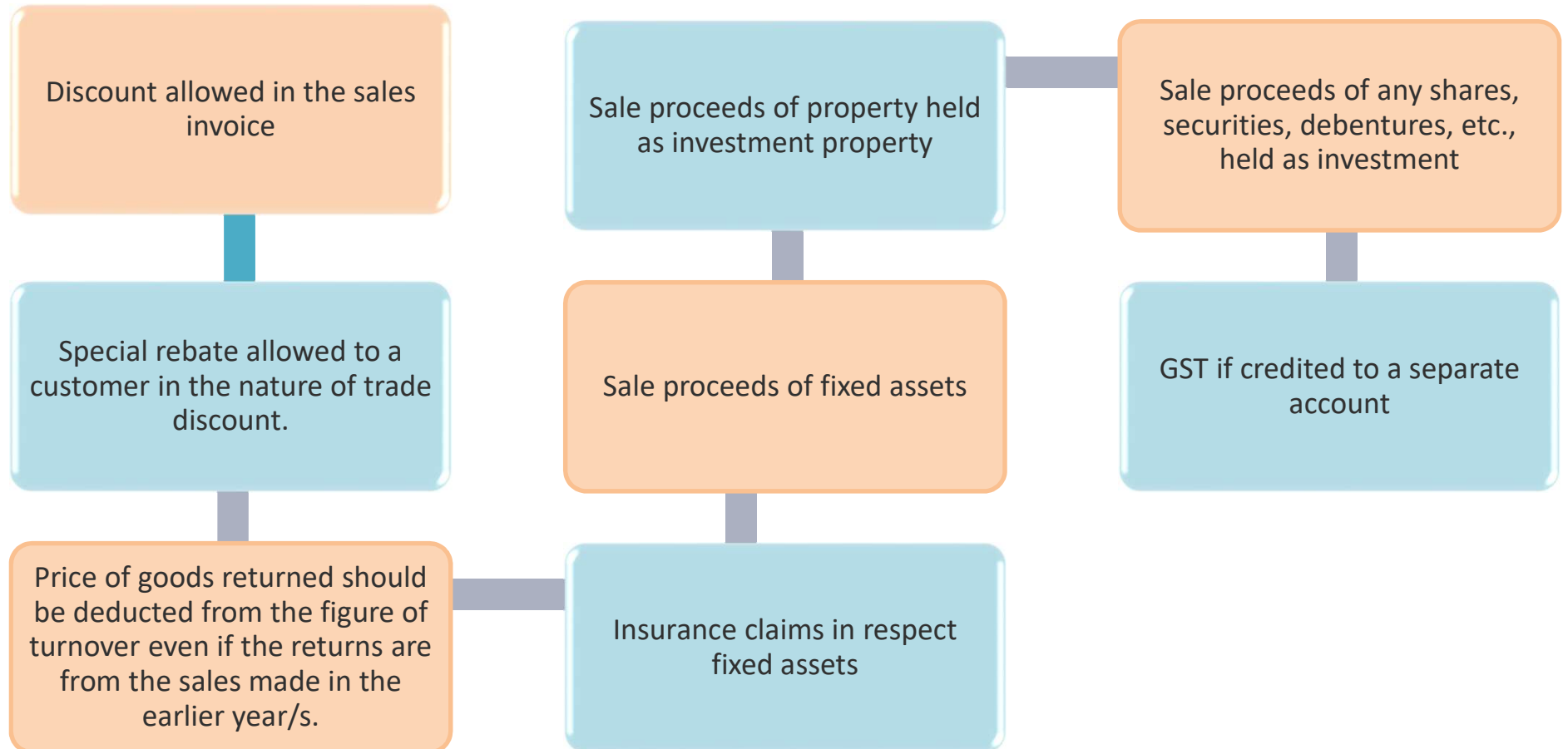
TURNOVER INCLUDES:





UNDERSTANDING THE MEANING OF TURNOVER

TURNOVER EXCLUDES:





TAX AUDIT PROCEDURES

TAX AUDIT PROCEDURES

- Tax Auditor has follow principles of 'Materiality', 'Prudence' & 'Substance Over Form'
- Reliance to be placed on various publications issued by ICAI
- What if there are two or three businesses, does the auditor prepare separate Form 3CD or is it that one need to combine the details of all the businesses?
- What if tax auditor does not agree with the interpretation/ view taken by the auditee? – Auditor must report the views as observations



CLAUSE 1: NAME OF ASSESSEE

- Change in the name of the assessee between the last day of the previous year and the date of tax audit report: Name as on the last date of the previous year and also on the tax audit report date be stated
- In case of proprietor, name of business which is being audited along with name [i.e. ABC Jewels (Prop PQR)]
- If audit of only branch is carried out, then name of assessee along with Branch Name to be disclosed

CLAUSE 2: ADDRESS

- Change in address after the end of the financial year and before the date of tax audit, the fact may be brought on form 3CD
- In case of a company - Address of the registered office be stated along with the principle place of business, if any



PRACTICAL ISSUES / CHALLENGES FACED IN TAX AUDIT

CLAUSE 4: DETAILS OF REGISTRATION NO. UNDER INDIRECT TAX LAW

- If the assessee is liable to be registered under various laws but is not registered- The auditor will report the same. Reference must also be drawn to SA 250 – Consideration of laws and regulations in an Audit of Financial Statements
- Whether Profession tax and Import Export Code are to be disclosed? **YES**

CLAUSE 5: STATUS

- In case of demise of assessee, whether authorised representative or legal heir is duly added?

CLAUSE 8A: EXERCISE OF OPTION FOR CONCESSIONAL RATE OF TAXATION

- Ensure accurate disclosure/ selection of option exercised: Sections 115BA, 115BAA, 115BAB, 115BAC, 115BAD
- What if relevant forms relevant form being 10-IB, 10-IC, 10-ID, 10-IE and 10-IF are not submitted? – Obtain Written representation from assessee and based on written representation, report under this . Where reporting is made solely on the basis of assessee's representation, the fact should be stated



PRACTICAL ISSUES / CHALLENGES FACED IN TAX AUDIT

CLAUSE 9: NAMES OF MEMBERS/PARTNERS IN CASE OF AOP/ FIRM

- Whether firm includes a LLP? – Yes. However, LLP's registered outside India are not Firms or AOP **YES**
- If the loss sharing ratio is different of PSR, which ratios should also be stated – Both **Both**
- Will change in remuneration paid to partners without change in profit-sharing ratio require any disclosure in tax audit report? - No need to state the change in remuneration and interest to partners or members. **NO**
- When partner in representative capacity retires & admitted as partner in individual capacity, will it amount to change in partnership?
- Whether all the changes occurring during the entire previous year of members/ partners/ PSR to be disclosed? **YES**

CLAUSE 10: NATURE OF BUSINESS/PROFESSION & CHANGES IF ANY


- Whether a new line of activity initiated by the assessee to be included here? **YES**
- If assessee starts another business whose gross receipts are not material compared to existing business, would it still amount to change in business? **YES**
- Expansion of business such as exports during the previous year vis a vis local sales to be disclosed here? **NO**



CLAUSE 11: DETAILS OF BOOKS OF ACCOUNTS

- Considering maintenance of accounts on web - Does location mean the location from which data entry is made or where the accounts are accessible?
- Books of accounts full access shall be available in full. Eg Sales depot

CLAUSE 13: METHOD OF ACCOUNTING

- Effect of change on the profit or loss due to change in method of accounting: Concept of materiality is the basic governing factor. If it is not possible to quantify the effect of the change in the method of accounting, appropriate disclosure should be made under this clause
- Does change in accounting policy amount to change in 'method of accounting'? 



CLAUSE 14: CLOSING STOCK

- Valuation of stock under Section 145A – Effect of profit under inclusive or exclusive method?

SAME

CLAUSE 15: PARTICULARS OF CAPITAL ASSET CONVERTED INTO STOCK IN TRADE


- Reporting only if conversion has taken place during the year under audit
- Cost of acquisition as per books of account is to be mentioned. Principles in AS 10 to be adhered
- Amount recorded in the books of account at which asset is converted into stock-in-trade should be stated.

Principles in AS 2 to be adhered

- Non-compliance of AS 10 or AS 2 to be suitably reported in main audit report



CLAUSE 16: AMOUNTS NOT CREDITED TO PROFIT & LOSS ACCOUNT

- Sub-clause (b)
 - The words 'admitted by the concerned authorities' would mean 'admitted within the relevant previous year'. However, if the assessee follows cash basis of accounting the admittance of claim without actual receipt will have no significance
- Sub-clause (c)
 - Where assessee follows cash basis of accounting, whether details of escalation claims accepted without actual receipt is to be reported? – Mention as not received
 - Whether the following escalation claims constitute claims accepted?

 - Claims merely made by the assessee
 - Claims under negotiations
 - Claims which are sub-judice
- Sub-clause (d)
 - Does 'any other income' include even 'income from other sources'?
 - In case of incomes exempt for individuals, should the same be disclosed under 'any other income'?



CLAUSE 16: AMOUNTS NOT CREDITED TO PROFIT & LOSS ACCOUNT....CONTD

- Sub-clause (e)
 - Does the phrase 'Capital Receipts, if any' includes capital contribution like gifts, share capital etc.?
 - Should interest on Fixed Deposits or Other Incomes (like rentals) which are reduced from cost of fixed assets / Capital WIP be mentioned?

CLAUSE 17: TRANSFER OF LAND & BUILDING AT A VALUE LESSER THAN STAMP DUTY VALUE

- Relief (120% instead of 110%) u/s.43CA for 1st allotment of residential units for consideration \leq ₹ 2 crores between 12/11/2020 to 30/06/2021.
- Transfer for Section 43CA vis-à-vis Sec 50C
- Where the property is not registered, the auditor may have to rely on third party experts like lawyer or solicitor representation. In such cases, compliance with SA 620 – Using the Work of an Auditor's Expert needs to be kept in mind.
- Whether the comparison of Stamp duty Value with Actual consideration for revenue recognition based on percentage completion method should be at each stage and for each year as on date of transfer or any other date ? Difference to be taxed at the time of final transfer



PRACTICAL ISSUES / CHALLENGES FACED IN TAX AUDIT

CLAUSE 17: TRANSFER OF LAND & BUILDING AT A VALUE LESSER THAN STAMP DUTY VALUE....CONTD

- Whether leasehold right / development rights / TDR / FSI etc. would be covered under this clause? – Based on facts and circumstances
- Value as on date of agreement to be taken where there is difference in date of agreement and date of registration

CLAUSE 18: FIXED ASSETS

- Adjustment relating to foreign borrowings – section 43A
- In case of disputes (which are under litigation) regarding depreciation claim in earlier years – to clearly mention the same
- In cases where depreciation is not provided for & same is not claimed in return of income, should tax auditor state particulars of depreciation under this clause? – Yes, claim for depreciation is mandatory
- How should tax auditor ascertain date of asset being put to use? Is an expert's opinion necessary or is certificate from assessee enough in this regard?
- Removal of goodwill from the block of assets as on 01.04.2021 (AY 2021-22)

YES

YES



PRACTICAL ISSUES / CHALLENGES FACED IN TAX AUDIT

CLAUSE 20: EMPLOYEE BENEFITS

- Commission paid to Directors – covered as sum paid to employee as bonus or commission, where same was payable as profits or dividend u/s. 36(1)(ii) [Dalal Broacha Stock Broking (P.) Ltd. 11 taxmann.com 426 (Mumbai) (SB)]
- Is it mandatory to disclose that employers have not deducted/ collected Provident Funds from Employees? **YES**
- Whether delayed remittance of employee's contribution beyond due date prescribed in section 36(1)(va) remitted before due date of filing of return is deductible? **NO**



CLAUSE 21: ADMISSIBILITY OF CERTAIN DEDUCTIONS

- Whether to report only those fines which are penal in nature? **YES** Should reporting be for fines / penalties which are compensatory in nature? **NO**
- Is compounding fee paid to various departments considered as penalty or fine? **NO**
- TDS deposited and Interest on late payment of TDS
- Disallowances due to non-deduction of TDS
- Cross Referencing of non-deduction of TDS with clause 34
- Mismatch in data between Tax Audit Report and ITR for club expenses, penalty/ fine, Section 14A disallowance

CLAUSE 22: AMOUNTS INADMISSIBLE UNDER SECTION 23

- What would be the disallowance in case the auditee is liable to pay any interest under MSME Act but has not provided the interest in his accounts? – Qualification in Main Audit report needs to be considered
- What would be the situation when the auditee actually pays and claims such interest?
- Where the auditor has relied on the auditee for classifying and identifying the suppliers covered under the MSME Act, 2006 whether a note explaining the reliance placed on auditee is enough to discharge the onus?



PRACTICAL ISSUES / CHALLENGES FACED IN TAX AUDIT

CLAUSE 23: PAYMENTS TO RELATED PARTIES

- Whether payments made to related parties of capital nature are covered in reporting?

YES

CLAUSE 26: DISALLOWANCE UNDER SECTION 43B

- Is Profession tax liability required to be reported under section 43B?
- Where taxes, duties etc. referred to in Section 43B are paid after tax audit is completed but before due date of filing returns, how should the same be dealt with by a Tax Auditor?

YES

CLAUSE 27(a): AMOUNT OF CENTRAL VALUE ADDED TAX CREDITS AVAILED OF OR UTILISED DURING THE PREVIOUS YEAR

- Whether reporting is to be continued under GST regime as the Form states CENVAT credit whereas utility is changed to include input tax credit? Can utility override the rule?



CLAUSE 27(a): AMOUNT OF CENTRAL VALUE ADDED TAX CREDITS AVAILED OF OR UTILISED DURING THE PREVIOUS YEAR....CONTD

- Both views are prevalent. However, if the GST credit is to be mentioned in this clause the auditor must reconcile GSTR 2A and credit as per books along with GSTR 3B return. The credit as per books is to be disclosed, whereas the difference between GSTR 2A and 3B return is to be mentioned as contingent liability

CLAUSE 27(b): PRIOR PERIOD ITEMS

- Where particular item is considered as prior period item by tax auditor; but not by statutory auditor, what is tax auditor's duty in this respect? - Information thereof shall be reported in Form 3CD



CLAUSE 29: ISSUE OF SHARES AT A PRICE HIGHER THAN THE FMV

- What would be the consequences if the company has issued shares to residents and non-residents under private placement at a price which is higher than the FMV of the shares? – IFOS
- Valuation under Rule 11UA

CLAUSE 29A: FORFEITURE OF ANY MONEYS RECEIVED AS ADVANCE OR OTHERWISE IN THE COURSE OF TRANSFER OF ANY CAPITAL ASSET – SECTION 56(2)(ix)

- How to detect that an amount has been forfeited in absence of accounting entry?
- Whether reporting required for forfeiture of amount in respect of stock in trade - No, will get covered u/s. 28(i)
- Reporting has to be in which year i.e. : Year of receipt/ forfeiture/ failure of negotiations? – Year of forfeiture
- What if the terms of contract contain a right to forfeit on some conditions and such conditions have occurred, but assessee has not yet forfeited the advance?



CLAUSE 30A: TRANSFER PRICING ADJUSTMENT

- Primary adjustment made by AO will be known only at the stage of assessment – How to report at audit stage?

Whether to report for the earlier year's adjustment made?

CLAUSE 30B: THIN CAPITALISATION

- EBITDA refers to book profits or tax profits? – Book profits
- Whether aggregate of all interest paid or payable to all non-resident AEs which is to be considered for the limit of Rs. 1 crore or whether interest paid or payable to each non-resident AE is to be examined? – Aggregate

CLAUSE 30C: IMPERMISSIBLE AVOIDANCE ARRANGEMENTS

- Provisions are complex and before an arrangement can be considered to be an IAA, various conditions have to be satisfied.
- Impermissible Avoidance Arrangements entered into by the assessee during the previous year and quantify the tax benefit arising in the aggregate in the previous year to all the parties to such arrangement



CLAUSE 30C: IMPERMISSIBLE AVOIDANCE ARRANGEMENTS.... CONTD

- Objective of GAAR is to
 - target abusive transactions entered into with the main object of avoiding taxes
 - with the use of sophisticated structures and
 - codify the doctrine of “substance over form” where the real intention of the parties and effect of transactions and purpose of an arrangement is taken into account for determining the tax consequences, irrespective of the legal structure that has been superimposed to camouflage the real intent and purpose

- **Exclusion from GAAR provisions:** Arrangements entered into prior to 1st April 2017

- **Trigger of GAAR provisions:** When an arrangement is declared by the Principal Commissioner or the Commissioner or by an Approving Panel as an Impermissible Avoidance Arrangement (“IAA”) in pursuance of provisions of section 144BA

- **When is an arrangement IAA?** : If its main purpose is to obtain tax benefit and it satisfies any one or more of the four tests specified in Section 96



CLAUSE 30C: IMPERMISSIBLE AVOIDANCE ARRANGEMENTS.... CONTD

- **What are the four tests specified in Section 96** are
 - Arrangement creates rights/ obligations which are not ordinarily created between persons dealing at arm's length or
 - Arrangement results, directly or indirectly, in misuse or abuse of the provisions of the Act or
 - Arrangement lacks commercial substance or is deemed to lack commercial substance, by virtue of fiction created by section 97 or
 - Arrangement entered into or is carried out, by means, or in a manner, which are not ordinarily employed for bonafide purposes

- **While concluding whether an arrangement is an IAA, it is necessary that tax benefit arising, in aggregate, to all the parties should be Rs 3 crore or more.**

CLAUSE 31: LOANS/ DEPOSITS

- Whether disclosure of a standard note in respect of disclaimer on inability to verify whether the monies was taken/ repaid by an account payee cheque/draft/ECS is sufficient?

- Transactions by Journal entries



CLAUSE 31: LOANS/ DEPOSITS....CONTD

- Where in loan account there is no transaction apart from interest to be paid & TDS on such interest due, should same be reported under this clause?
- When there is a mixed account, the transactions relating to loans and deposits should be segregated from other accounts and the transactions relating to loans and deposits should be stated under this clause
- Advance received against agreement of sale of goods or services is not a loan or deposit
- Security deposits against contracts, etc. will be covered by the definition of 'deposit' and therefore, such information will have to be given. However, the amount retained by the contractee against performance of contract will not be covered as loans/deposits for reporting as amount is not received

CLAUSE 32: DETAILS OF BROUGHT FORWARD LOSS OR DEPRECIATION

- Where assessments are in various stages of litigation, is it correct to merely state 'information is not readily available and hence not furnished'?
- Any assessment, rectification, revision or appeal proceedings pending at the time of tax audit have to be disclosed under remarks column under sub-clause (a). If orders are yet to be passed, the same can be disclosed along with impact thereof, if material.



CLAUSE 34: TDS

- TDS compliance vs. non-compliance due to voluminous data
- Mismatch between reporting in Tax Audit Report vs. TRACES website. Interest reporting is for interest liability and not payment
- TDS 194-Q vs TCS 206C(1H):
 - CBDT circular 13/2021 states that if a transaction is both within purview of section 194-Q as well as 206C(1H), tax is required to be deducted u/s 194-Q only
 - However, if TCS has been collected by seller before buyer could deduct tax u/s 194-Q, such transaction would not be subjected to tax again by the buyer.
 - Moot question of disallowance of expenditure u/s 40a(ia):
 - CBDT circular is binding on revenue authorities (Apex court ruling 267 ITR 0272)
 - Section 119(2)(c) empowers the Board to issue a general or special order to relax any requirement contained in any of the provisions of Chapter IV and Sec 40a falls within Chapter IV
 - When CBDT has clarified that if TCS is deducted, then there is no liability to deduct TDS again. Hence, there being no default on part of deductor, there would be no disallowance.



CLAUSE 35: INVENTORY

- How much quantitative details be disclosed in case of retail traders where there are variety of items traded? - Quantitative details of principal items i.e. items which constitute more than 10% of the aggregate value of purchases, consumption or turnover may be classified as principal items
- Will tax auditor be justified in conducting his audit in proper manner if he accepts MRs regarding quantitative details of items, in case there is no mechanism to record stock?
- In case where units of raw materials & closing stock are not same, how should yield & shortage / excess of stock be measured?

CLAUSE 36A: DEEMED DIVIDEND

- Whether trade advances in the ordinary course of business for business exigencies are considered – No, vide Circular No. 18/2017 dated 12.06.2017
- Accumulated profits shall be commercial profits - CIT Vs. P. K. Badiani 105 ITR 642 (SC)
- Capital profits shall not be included – Tea Estate India Pvt. Ltd. Vs. CIT 103 ITR 785 (SC)



CLAUSE 36A: DEEMED DIVIDEND....CONTD

- Profits earned u/s 41(2) shall not be part of accumulated profit – CIT Vs. Urmila Ramesh 230 ITR 422 (SC)
- Practical Issues:
 - Finding accumulated profit of payer company
 - Finding accumulated profit on the date of transaction
 - Accumulated profits which can be distributed and which cannot be distributed
- Who is to be taxed – Registered share holder or beneficial share holder - Appropriate remark where beneficial share holder is not the registered shareholder
- Appropriate remarks in 3CA / 3CB about inability to independently verify the information and reliance on the certificates



CLAUSE 44: BIFURCATION OF EXPENDITURE AS PER GST

- Reporting under this clause was deferred till 31st March, 2022 vide Circular no 5/2021 dated 25/3/21
- Hence, reporting shall be required for all Tax Audit Reports issued after 31st March, 2022
- Reporting Requirement: The information is to be given as per the following details:
 - A. **Total amount of expenditure** incurred during the year
 - B. Expenditure in respect of entities **registered under GST**
 - C. Expenditure related to entities **not registered under GST**
- The reporting in respect of B. above, i.e. the expenditure in respect of entities **registered under GST is further sub-classified** into four categories as follows:
 - Expenditure relating to goods or services **exempt** from GST
 - Expenditure relating to entities falling under **composition scheme**
 - Expenditure relating to **other registered entities**
 - **Total** payment to registered entities



CLAUSE 44: BIFURCATION OF EXPENDITURE AS PER GST... Column 2

- **Identification of Total Expenditure** : This is only an illustrative list

| Particulars | Amount |
|---|--------|
| Purchases as per P&L | |
| Other Expenses and provisions as per P&L | |
| CAPEX | |
| Prepaid Expenditure in current year to be treated as expenditure of subsequent years | |
| Prepaid Expenditure in previous year treated as expenditure of current year | |
| Depreciation | |
| Provision of expenses at year end, provision for bad and doubtful debts, provision for contingencies and losses | |
| Bad debts/ other losses written off | |
| Ind AS adjustments, if any: Notional interest, lease depreciation, lease interest charged to P&L Actual lease payments not debited to P&L – To be included as exp | |



CLAUSE 44: BIFURCATION OF EXPENDITURE AS PER GST... Column 3

- **Expenditure relating to goods or service exempt from GST:**
 - Supply of any goods or services or both which attracts
 - nil rate of tax or
 - May be wholly exempt from tax under the Integrated Goods and Services Tax Act,
 - And includes non-taxable supply
- Supplies not leviable to GST:
 - supply of alcoholic liquor for human consumption
 - supply of petroleum crude, high speed diesel oil, motor spirit, natural gas and aviation turbine fuel
- These transactions can be identified based on document issued by the vendors i.e. bill of supply (without any endorsement for composition).
- Whilst Table 5 of Form GSTR-3B requires the auditee to disclose these details, most of the tax-payers do not fill this data
- Accordingly, these details may not be readily available



CLAUSE 44: BIFURCATION OF EXPENDITURE AS PER GST... Column 4

- **Expenditure relating to entities falling under composition scheme**: Identification of such transactions:
 - A composition dealer cannot charge GST in the invoices
 - A composition dealer cannot make inter-State supply
 - A composition dealer can issue only bill of supply and not a tax invoice
 - The composition dealer should have mentioned the following words at the top of the bill of supply issued by them.
- Whilst Table 5 of Form GSTR-3B requires the auditee to disclose these details, most of the tax-payers do not fill this data
- In case of ineligible input tax credits blocked under section 17(5) of the CGST Act, 2017 or in case of purchases from persons registered under composition levy, it is a normal practice of the small and medium taxpayers not to mention the GSTIN of the said suppliers in their accounting software. Hence, a suitable remark / reference in this regard by the tax auditor may be included in the report
- Master database of GST vendors to be collected from assessee
- Accordingly, these details may not be readily available



CLAUSE 44: BIFURCATION OF EXPENDITURE AS PER GST.. MAJOR ISSUES

- Total amount of expenditure – Whether both revenue as well as capital expenditure to be disclosed? - Yes
- Details to be given for each expenses separately or total expenses?
- In case of purchases on which RCM is applicable, how to report?
- Following items to be reported under which category
 - Interest paid to Banks - Exempt
 - Salaries – Not a supply
 - Depreciation – Not a supply
- Details for reporting may not be easily available. Hence, analysis of software must be done to understand the reports generated
- The data of credit taken available from the GSTR returns and reports 2A/2B may also be taken as base. However, reconciliation of the same with book ledgers will have to be done and then total expenditure from registered dealers to be obtained. This would include capital expenses, expenses on which credit cannot be taken, or ineligible credits etc. If data of GSTR 2A is directly adopted, then unreconciled portion of purchases from registered vendors may be part of column (7)



CLAUSE 44: BIFURCATION OF EXPENDITURE AS PER GST.. Reporting example for no reporting

- Reporting examples:
 - No details as required by clause 44 is separately maintained by the assessee and in absence of this, we are unable to comment
 - Assessee informed that the required information under clause 44 has not been maintained in absence of any disclosure requirements under the GST law. Further, the software of the assessee is not configured to generate reports on information asked for under this clause. In view of above, we are unable to verify and report the desired information under this clause.
 - We have been informed by the assessee that the information required under this clause has not been maintained by it in absence of any disclosure requirements under the GST Act.



OPEN FOR DISCUSSION



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Thank-You!

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