

Method to compute 5% Cash Limit of Receipts & Payments in terms of Section 44AB

Finance Act, 2020 sought to amend the applicability of clause (a) of Section 44AB. As per amendment to section 44AB, Tax Audit is not applicable in case of a person carrying on business with turnover up to Rs. 5 crores and maximum cash receipts aggregating to 5% of all the amounts received plus the maximum cash payments limit aggregating to 5% of all the payments during the year.

The amended section 44AB w.e.f. FY 2019-2020 is as under:

44AB. Every person,—

(a) carrying on business shall, if his total sales, turnover or gross receipts, as the case may be, in business exceed or exceeds one crore rupees in any previous year

Provided that in the case of a person whose—

(a) aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, in cash, does not exceed five per cent of the said amount; and

(b) aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed five per cent of the said payment,

this clause shall have effect as if for the words “one crore rupees”, the words “five crore rupees” had been substituted; or

Hence, in order that for clause (a) of Tax Audit does not apply during the year, a person has to fulfil all the following 4 conditions:

1. Person should be carrying on **business**
2. The maximum **Turnover** during the year should be Rs. 5 crores
3. The maximum cash receipts should be 5% of aggregate of all the amounts received during the year i.e. **Total Receipts**
4. The maximum cash payments should be 5% of aggregate of all the payments during the year i.e. **Total Payments**

The question arises as to how should one calculate the limits of 5% of all receipts and payments. In order to understand the same, let us consider the following:

Business:

The term "business" is defined in section 2(13) of the Act which includes any trade, commerce, or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.

Turnover:

In the "Guidance Note on Terms Used in Financial Statements" published by the ICAI, the expression "Sales Turnover" (Item 15.01) has been defined as

"The aggregate amount for which sales are effected or services rendered by an enterprise. The term 'gross turnover' and 'net turnover' (or 'gross sales' and 'net sales') are sometimes used to distinguish the sales aggregate before and after deduction of returns and trade discounts".

Total Receipts: (whether in cash or bank)

Total receipts for any business would consist of all receipts by way of:

1. Cash Sales
2. Debtors' realisation
3. Loans/borrowings during the year
4. Advances from customers during the year
5. Realisation from sales of fixed assets
6. Reimbursements or as Pure Agents
7. Output Tax (i.e. GST received along with sales)
8. Contributions by Partners/shareholders (not by a proprietor)

Total Payment (whether in cash or bank)

Total payment for any business would consist of all payments to or for:

1. Cash purchases or cash expenses
2. Creditors
3. Repayments of loans /borrowings during the year
4. Advances to suppliers during the year
5. Purchase of fixed assets
6. Re-imburements or to Pure Agents
7. Input Tax (i.e. GST paid along with expenses and purchases)
8. Withdrawal by Partners (not proprietor)

What to check in order to derive at the figure of Total receipts and Total payments?

For receipts:

- a. Total of the receipt side of the Cash Register excluding opening balance and contra entries
- b. Total of the receipt side of the Bank Register excluding opening balance and contra entries

For payments:

- i. Total of payment side of the Cash Register excluding contra entries
- ii. Total of payment side of the Bank Register excluding contra entries

Other adjustments like cheques bounced, RTGS returns or any other adjustments must also be considered.

One can keep a control from the software package itself if it allows the analysis of Receipts and Payments account.

The following information needs to be provided in ITR -3 Form regarding section 44AB:

(a1)	Are you liable to maintain accounts as per section 44AA? (Tick) <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(a2)	Whether assessee is declaring income only under section 44AE/44B/44BB/44AD/44ADA/44BBA/44BBB <input type="checkbox"/> Yes <input type="checkbox"/> No
a2i	If No, Whether during the year Total sales/turnover/gross receipts of business exceeds Rs. 1 crores but does not exceed Rs. 5 crores? <input type="checkbox"/> Yes <input type="checkbox"/> No
a2ii	If Yes is selected at a2i, whether aggregate of all amounts received including amount received for sales, turnover or gross receipts or on capital account like capital contributions, loans etc. during the previous year, in cash, does not exceed five per cent of said amount? <input type="checkbox"/> Yes <input type="checkbox"/> No
a2iii	If Yes is selected at a2i, whether aggregate of all payments made including amount incurred for expenditure or on capital account such as asset acquisition, repayment of loans etc., in cash, during the previous year does not exceed five per cent of the said payment? <input type="checkbox"/> Yes <input type="checkbox"/> No
(b)	Are you liable for audit under section 44AB? (Tick) <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(c)	If (b) is Yes, whether the accounts have been audited by an accountant? (Tick) <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If Yes, furnish the following information below

A question arises whether this computation of 5% of cash receipts / payments is compulsory? Can anyone simply opt for Tax Audit, without this computation?

On going through Form 3CD, a Chartered Accountant has to mention the specific clause of applicability of section 44AB under which the assessee is being audited. The same clause has to be mentioned while creating the UDIN. Hence, without any computation, it would not be possible to determine if the Assessee is liable

for Tax Audit under any of the clauses of Section 44AB or not due to benefit available under this clause.

As regards GST audit, whether GST audit (GSTR 9C) would be applicable in case Section 44AB audit is not applicable for Turnover up to 5 crores?

Under the laws, there is no such exemption.

Example of computation of Total Receipts (Amounts in Rs. '000)

Particulars	Total Receipt for the year	Cash Receipts	Bank Receipts
Opening Cash in Hand Rs. 1,000	—	—	—
Opening Bank Balance Rs. 1,500	—	—	—
Bank payments received during the FY from Debtors Rs. 2,000	2,000	—	2,000
Cash sales during the FY Rs. 2,500 (including GST of Rs.250)	2,500	2,500	—
Credit sales during the FY Rs. 3,000 (including GST of Rs.300)	—	—	—
Cash received out of Credit Sales of Rs.3,000 during the FY Rs. 2,700 (including GST of Rs.270)	2,700	2,700	—
Advance received from customers during the FY for sales to be made in future FY Rs.3,500 (100 Cash + 3,400 Bank)	3,500	100	3,400
Customs Duty collected from our customers (to be deposited in his behalf as a Pure Agent) - Rs. 4,000	4,000	—	4,000
Term Loan Sanctioned Rs. 5,000. However, disbursed Rs. 4,500 during the FY	4,500	—	4,500
Unsecured Loans taken during the FY Rs. 5,500 (out of which, repaid Rs. 500 in the same year)	5,500	—	5,500
Cash Credit Limit — New/Renewal/Enhanced/Utilized /Disbursed — Rs. 6,000	—	—	—
Cash deposited in Bank/ Cash withdrawal from Bank- Rs. 6,500 (contras)	—	—	—
Funds transferred from own one Bank Account to another Bank Account — Rs. 7,000 (contras)	—	—	—
Sales of Fixed Assets - Rs. 7,500	7,500	—	7,500
Total Receipts Rs.	32,200	5,300	26,900

For non-applicability of Tax Audit, cash receipts can be a maximum of 5% of Total Receipts i.e. 5% of Rs.32,200 (i.e. Rs. 1,610). However, in the instant, cash receipts are Rs.5,300. Hence, Tax Audit would be applicable.