



DEVANG H. DIVECHA
[B. Com (Hons), FCA.]
Partner
BDMV & Co.
Chartered Accountants

CHANGES IN TAX AUDIT REPORT

The Central Board of Direct Taxes (CBDT) has mandate the changes in the Tax Audit Report which needs to be contemplated while finalizing the tax audit report from financial year 2016-17 corresponding to relevant assessment year 2017-18 onwards, as enumerated below:

- I. ICDS reporting adjustments and disclosure requirements, in clause no.13 (d), (e), (f) of the Tax Audit Report.

- II. Amount of deduction inadmissible in terms of Section 14A r.w. Rule 8D in respect of the expenditure incurred in relation to exempt income which does not form part of the total income, in clause no. 21(h) of the Tax Audit Report.

- III. Particulars and reporting requirements for acceptance and repayment of loans or advances or specified sum, as per the provisions of Section 269SS and 269T of the Income Tax Act, 1961, in clause no.31 of the Tax Audit Report.

I. ICDS reporting adjustments and disclosure requirements in clause no.13 (d), (e), (f) of the Tax Audit Report.

CBDT Notification No.88/2016 dated 29th September 2016 – ICDS Rules 2016

It may also be noted that on 25th July 2014, the Tax Audit Report Forms 3CA, 3CB and 3CD were substantially amended w.e.f. 25th July 2014 expanding scope of reporting/ verification.

The CBDT notified on 29th September 2016, Income-tax (23rd Amendment) Rules, 2016, Notification No. 88/2016, the revision in Tax Audit Report Form 3CD for ICDS reporting adjustments in clause no. 31 which is applicable from 1st April 2017 (i.e. AY 2017-18), followed with amendment on 3rd July 2017 w.e.f. 19th July 2017 which is applicable from Financial Year 2016-17 corresponding to Assessment Year 2017-18 to facilitate changes relating to ICDS reporting adjustments.

CBDT has amended Form 3CD w.e.f. 1st April 2017 by substituting clause 13(d) with new clauses 13(d), (e) and (f) requiring reporting of the adjustments and disclosures mandated by the ICDS.

- Amended clause 13(d) requires reporting by tax auditor regarding whether any adjustment is required to be made to the profits or loss for complying with the provisions of income computation and disclosure standards notified under section 145(2) of the Act.
- New clause 13(e) requires ICDS-wise reporting of the adjustments made in profit or loss for ICDS compliance, showing clearly increase / decrease in profits as well as the overall net effect of such adjustments in following manner:

Sub-clause (e):

If answer to (d) above is in the affirmative, give details of such adjustments:

Income Computation Disclosure Standards [ICDS]		Increase in profit (Rs.)	Decrease in profit (Rs.)	Net effect (Rs.)
ICDS I	Accounting Policies	xx	xx	xx
ICDS II	Valuation of Inventories	xx	xx	xx
ICDS III	Construction Contracts	xx	xx	xx
ICDS IV	Revenue Recognition	xx	xx	xx
ICDS V	Tangible Fixed Assets	xx	xx	xx

ICDS VI	Changes in Foreign Exchange Rates	xx	xx	xx
ICDS VII	Governments Grants	xx	xx	xx
ICDS VIII	Securities	xx	xx	xx
ICDS IX	Borrowing Costs	xx	xx	xx
ICDS X	Provisions, Contingent Liabilities and Contingent Assets	xx	xx	xx
	Total	Xx	xx	xx

- New clause 13(f) requires reporting of the ICDS-wise disclosures:

Sub-clause (f):

Disclosure as per ICDS:

(i)	ICDS I - Accounting Policies
(ii)	ICDS II - Valuation of Inventories
(iii)	ICDS III - Construction Contracts
(iv)	ICDS IV - Revenue Recognition
(v)	ICDS V - Tangible Fixed Assets
(vi)	ICDS VII - Governments Grants
(vii)	ICDS IX - Borrowing Costs
(viii)	ICDS X - Provisions, Contingent Liabilities and Contingent Assets.

II. Amount of deduction inadmissible in terms of Section 14A r.w. Rule 8D in respect of the expenditure incurred in relation to exempt income which does not form part of the total income, in clause no. 21(h) of the Tax Audit Report.

For the purposes of computing the total income, no deduction shall be allowed in respect of expenditure incurred by the Assessee in relation to income which does not form part of the total income under the Act.

The Assessing Officer shall determine the amount of expenditure incurred in relation to such income which does not form part of the total income under the Act in accordance with such method as may be prescribed, if the Assessing Officer, having regard to the accounts of the Assessee, is not satisfied with the correctness of the claim of the Assessee in respect of such expenditure in relation to income which does not form part of the total income under the Act.

In terms of the existing provisions of Rule 8D(2), an amount to be disallowed shall be the aggregate of following:

- (i) The amount of expenditure directly relating to income which does not form part of total income;
- (ii) In a case where the Assessee has incurred expenditure by way of interest during the previous year which is not directly attributable to any particular income or receipt, an amount computed in accordance with the prescribed formula;
- (iii) An amount equal to one-half per cent of the average of the value of investment, income from which does not or shall not form part of the total income, as appearing in the balance sheet of the Assessee, on the first day and the last day of the previous year.

There has been widespread of disputes on the application of this Rule. In order to rationalize the formula in Rule 8D, a new Rule 8D providing for a revised method for determining the amount of disallowance of expenditure on earning exempt income has been notified by CBDT vide notification dated 02nd June 2016. Accordingly, new sub rule (2) for computing the disallowance under rule 8D is as follows:

Sub Rule (2), the expenditure in relation to income which does not form part of the total income shall be the aggregate of following amounts, namely:

- (i) The amount of expenditure directly relating to income which does not form part of total income; and

- (ii) An amount equal to one per cent of the annual average of the monthly average of the opening and closing balances of the value of investment, income from which does not or shall not form part of total income.

Provided that the amount referred to in clause (i) and clause (ii) shall not exceed the total expenditure claimed by the Assessee.

The key comparison and summary of this new Rule with the existing Rule is as under:

Sr. No.	Existing Rule	New Rule	Impact of Change
1	The amount of expenditure directly relating to income which does not form part of total income. [Rule 8D(2)(i)]	The amount of expenditure directly relating to income which does not form part of total income. [Rule 8D(2)(i)]	<i>No change</i>
2	In a case where the Assessee has incurred expenditure by way of interest during the previous year which is not directly attributable to any particular income or receipt, an amount computed in accordance with the prescribed formula i.e. Interest amount in the proportion of average of value of investment, income from which does not or shall not form part of the total income, as appearing in the balance sheet of the Assessee, on the first day and the last day of the previous year, to the average of total assets as appearing in the balance sheet of the Assessee, on the first day and the last day of the previous year.	No such rule.	<i>The formula specified in relation to interest expenditure which is not directly attributable to any particular income or receipt has been deleted. Accordingly, such interest expenses will not be disallowed.</i>

	[Rule 8D(2)(ii)]		
3	An amount equal to one-half per cent of the average of the value of investment, income from which does not or shall not form part of the total income, as appearing in the balance sheet of the Assessee, on the first day and the last day of the previous year. [Rule 8D(2)(iii)]	An amount equal to one per cent of the annual average of the monthly average of the opening and closing balances of the value of investment, income from which does not or shall not form part of total income. [Rule 8D(2)(ii)]	<i>Change in rate of presumptive expenditure has been increased to 1% from 0.5%. The existing rule prescribes considering the annual average value of investment, whereas the new rule prescribes for the annual average of the monthly averages of value of investments.</i>
4	No such rule.	The disallowance amount as computed under Rule 8D shall not exceed total expenditure claimed by the Assessee. [Proviso to Rule 8D(2)]	<i>The new rule provides for upper limit cap on the disallowance at total expenditure claimed by Assessee.</i>

III. Particulars and reporting requirements for acceptance and repayment of loans or advances or specified sum, as per the provisions of Section 269SS and 269T of the Income Tax Act, 1961 in clause no. 31 of the Tax Audit Report.

The CBDT has vide notification no. 58/2017 dated 03rd July, 2017 and corrigendum to said notification, another notification no. 60/2017 dated 06th July, 2017 were issued in order to amend clause 31 relating to particulars and reporting requirements under section 269SS and under section 269T of the Income Tax Act, 1961 in the Tax Audit Report w.e.f. 19th July 2017.

The key comparison and summary of this new clause with the existing clause is as under:

Sr. No.	Erstwhile clause 31	New clause 31	Changes in new clause 31
1	(a) Particulars of each loan or deposit in an amount exceeding the limit specified in Section 269SS taken or accepted during the previous year.	<p>(a) Particulars of each loan or deposit in an amount exceeding the limit specified in section 269SS taken or accepted during the previous year.</p> <p>(b) Particulars of each specified sum in an amount exceeding the limit specified in section 269SS taken or accepted during the previous year.</p> <p>(Particulars at (a) and (b) need not be given in the case of a Government company, a banking company or a corporation established by the Central, State or Provincial Act.)</p>	<p><i>Sub clause (a) of erstwhile clause 31 directly required reporting of whether loan or deposit was taken or accepted otherwise than by account payee cheque or bank draft, whereas.</i></p> <p><i>sub-clause (a) of new clause 31 requires reporting on whether such loan or deposit is taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account.</i></p> <p><i>Thereafter, if the same was taken or accepted by cheque or bank draft, whether the same was taken or accepted by way of account payee cheque or account payee bank draft.</i></p> <p><i>Consequent to substitution of section 269SS by the Finance Act 2015 including within its scope specified sum receivable in</i></p>

			<p><i>relation to transfer of an immovable property, sub-clause (b) of new clause 31 requires reporting of particulars of each specified sum in an amount exceeding the limit specified in section 269SS taken or accepted during the previous year.</i></p>
2	<p>(b) Particulars of each repayment of loan or deposit in an amount exceeding the limit specified in section 269T made during the previous year.</p>	<p>(c) Particulars of each repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T made during the previous year.</p>	<p><i>Sub-clause (b) of erstwhile clause 31 directly required reporting of whether repayment was made otherwise than by account payee cheque or account payee bank draft, <u>whereas</u></i></p> <p><i>Sub-clause (c) of new clause 31 requires reporting on whether repayment is made by cheque or bank draft or use of electronic clearing system through a bank account. Thereafter, if the repayment was made by cheque or bank draft, then, whether the same was taken or accepted by an account payee cheque or an account payee bank draft.</i></p>

3	(c) Whether the taking or accepting loan or deposit, or repayment of the same through an account payee cheque or an account payee bank draft based on the examination of books of accounts and other relevant documents.	-----	<i>There is no separate sub-clause in new clause 31 in line with sub-clause (c) of erstwhile clause 31.</i>
4	-----	(d) Particulars of repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year: (i) name, address and Permanent Account Number (if available with the Assessee) of the payer, (ii) amount of loan or deposit or any specified advance received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the	<i>The reporting requirement in respect of section 269T was earlier required only in case of the person making the repayment of loan or deposit or any specified advance. Under the new clause 31, reporting is also to be done by the recipient. The recipient has to furnish the name, address and PAN (if available with the Assessee) of the payer and the amount of loan or deposit or any specified advance received: (1) under sub clause (d), in case the repayment is received otherwise than by a cheque or bank draft or use of electronic clearing system through a</i>

		previous year.	<i>bank account;</i>
5		<p>(e) Particulars of repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T received by a cheque or bank draft which is not an account payee cheque or account payee bank draft during the previous year:</p> <p>(i) name, address and Permanent Account Number (if available with the Assessee) of the payer;</p> <p>(ii) amount of loan or deposit or any specified advance received by a cheque or a bank draft which is not an account payee cheque or account payee bank draft during the previous year.</p> <p>(Particulars at (c), (d) and (e) need not be given in the case of a repayment of any loan or deposit or any specified advance taken or accepted from the</p>	<p><i>(2) under sub clause (e), in case repayment is received by a cheque or bank draft, which is not an account payee cheque or account payee bank draft.</i></p>

		Government, Government company, banking company or a corporation established by the Central, State or Provincial Act).	
--	--	---	--