Tax Audit Series 8 – S. Nos. 18-20

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In series - 8 we would discuss the Particulars of Form 3CD – Part B – S. Nos. 18 to 20.

S. No.18: DEPRECIATION

The auditor should examine the following:

(a) Description of asset/block of assets.

- 'BLOCK OF ASSETS', means a group of assets falling within a class of assets comprising –Both Tangible and Intangible assets.
- It is very important to identify the block to which the assets of the assessee pertains and the tax auditor needs to review the nature and usage of the asset to ascertain the correct depreciation rate.
- In case the tax auditor doesn't agree with the classification of block or rate adopted by assessee, then he needs to disclose such fact in his report and draw the attention.

(b) Rate of depreciation.

- Once the classification has been ascertained and checked properly, check the rates of depreciation applicable to each block as per the Income-tax Rules, 1962.

(c) Actual cost or written down value, as the case may be.

- Actual cost of assets should be determined as per the provisions of section 43(1) of the Act and also ensure the compliance of AS – 10.
- For determining actual costs any expenditure incurred for acquisition of any asset or part thereof in respect of which a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account, exceeds Rs. 10000/- should be ignored / adjusted in terms of 2nd Proviso to section 43(1) inserted w.e.f. AY 2018-19.
- Obtain the copy of Income Tax Return for preceding previous year from the management to ensure the opening WDV of Block of Assets is same as closing WDV of previous year. The same should also be verified from previous year tax audit report, if audit was conducted in previous year.

d) Additions/deductions during the year with dates

- Obtain list of fixed assets purchased during the previous year along with dates of addition as certified by the management and verify the same. Where any addition was made, the date on which the asset was put to use is to be reported.

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- Obtain list of deductions during the year to assets along with their dates as certified by the management. In respect of deductions, the sale value of the assets disposed of along with dates should be mentioned.
- Borrowing cost of specific borrowing for qualifying asset should also be adjusted to the cost in terms of ICDS IX (Borrowing Costs).

(e) Depreciation allowable.

- It means depreciation allowable under the Income Tax Act, 1961 and the rules framed thereunder.
- Depreciation is allowed to the assessee whether or not he has claimed the deduction of the same. The Tax Auditor is required to verify the amount of depreciation claimed by the assessee.
- Section 32(1) of the Act allows depreciation. However, in order to be eligible for depreciation following conditions are necessary:
  - The Asset should be wholly or partly owned by the Assessee.
  - The Asset should be used for the purpose of business or profession.

(f) Check whether there is any adjustment on account of Exchange Fluctuation / Subsidy / Grant or Other Reimbursements.

S. No. 19 - Amounts admissible under sections:

32AC,	**32AD**	**33AB**	**33A**
35(1)(i)	**35(1)(ii)**	**35(1)(iia)**	**35(1**
35(1)(iv)	**35(2AA)**	**35(2AB)**	**35A**
35AC	**35AD**	**35CCA**	**35C**
35CCC	**35CCD**	**35D**	**35D**
35DDA	**35E**		

S. No. 19 is applicable on the assessee who claims deduction under the above sections. This clause requires the tax auditor to report the amount of deduction admissible to the assessee under certain sections as mentioned therein. The details of amount debited to the P&L A/c and amount admissible as deduction under each section are required to be given.

The amount covered by theses sections are generally debited to P&L A/C. However, deduction under certain sections is based on the capital expenditure on assets/deposits maintained with designated accounts for specified purposes. These are treated as assets & not debited to P&L A/C .In such case, the Tax Auditor will have to state either NIL/NA under the second column of the table in which amount admissible is to be mentioned.

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While reporting under S. No. 19 & certifying various deductions, the Tax Auditor should verify the documentary records in support of the various deductions claimed and also conditions of allowability of various deductions.

Following are the requirement that respective Auditor need to go through:

- Verify the payments/contributions made under above sections with the supportings
- Verify the admissibility of deduction with reference to compliance of the conditions mentioned in the respective sections.
- Verify the amount claimed as deduction and amount debited/not debited to P&L A/c
- Check whether the necessary approval from the prescribed Authorities have been obtained, wherever required
- In case of expenditure on fixed Asset, whether the same has been claimed as deduction under any section. If deduction is claimed on such assets, then depreciation on the same cannot be claimed again.
- Check in case the condition under relevant sections are not fulfilled, then they are treated as deemed profits & gains of business and are taxable in certain cases. In such case, report the same under S. No. 24 of Form 3CD.

S. No.20

S. No. 20(a) - Any sum paid to an employee as bonus or commission for services rendered, where such sum was otherwise payable to him as profits or dividend. [Section 36(1)(ii)].

- Bonus and commission to employees as per their employment terms is deductible expenditure as these are contractual payments but indirect distribution of dividend/profits in the name of bonus/commission is not deductible expense as the assessee claims expenditure to reduce his income and income tax and avoid Dividend distribution tax . Hence disallowed.
- Auditor should carefully examine the bonus and commission paid to employees with their terms of contract of those employees/ directors and need not to check of those who are independent directors.

Clause 20(b) - Details of contributions received from employees for various funds as referred to in section 36(1)(va)

- Section 36(i)(va) of the Act permits deduction of any sum received by the assessee from any of his employees (like contributions to any provident fund or superannuation fund or ESI Fund or any other Fund for employees’ welfare), if it is credited by the

assessee to the account of the employees in the relevant statutory fund on or before the due date.

- The ESIC for a month must be deposited upto 21st of the next month. The PF must be deposited upto 15th of the next month.
- The tax auditor should get a list from the assessee where all the contributions received from employees are deposited.
- He should take challans of deposition of contribution as the date and amount on challan is the actual date and actual amount for deposition of the contribution
- Generally contribution received from employees are treated as liability and credited to that liability account, so auditor should scrutinize these accounts and compare this with actual contribution deposited.

I hope this document is of use to you. I thank *Ms. Alisha, Ms. Priyanka wadhwa & Ms. Ria Agarwal* in assisting me to compile this part of the series. Your suggestions and comments would be highly appreciated

Best Regards

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