

Maintenance Of Accounts Under Income Tax Act

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To gain a better understanding of the maintenance of accounts under the Income Tax Act, it would be worth the while to go over certain terms, such as :

Specified profession: For this purpose would mean legal, medical, engineering, architectural, accountancy, technical consultancy, interior decoration or any other notified professions authorised representative, film artist, company secretary and information technology).

Non-specified profession:

A profession other than a 'specified profession'.

For maintenance of books of accounts, different tax-payers may be grouped as follows:

Category A: Persons carrying on 'specified professions', if their gross receipts in the profession do not exceed Rs 1,50,000 in any of the three years immediately preceding the previous year (or where the professionals been newly setup in the previous year, gross total receipts in the profession for that year are not likely to exceed the said amount).

Requirement

To maintain such 'books of account and other documents' as may enable the assessing officer to compute their taxable income under the Income-Tax Act. The Board has not prescribed books of account to be maintained for persons falling under this category.

Category B: Persons carrying on 'specified professions', if their gross receipts in the profession exceed Rs 1,50,000 in all the three years immediately preceding the previous year (or where the profession has been newly set-up in the previous year, gross total receipt in the profession for that year are likely to exceed the said amount).

Requirement

To maintain such books of account as are prescribed by Rule 6E (read all lead)

Category C: Persons carrying on a business or a 'non-specified profession', if their income from such business/profession do not exceed Rs 1,20,000 and the total sales, turnover or gross receipts thereof are not in excess of Rs 10,00,000, in all of the three years immediately preceding the previous year (or when the business or profession his newly set up income/total sales, turnover or gross receipts, are not likely to exceed the said amount).

Requirement

Are not required to maintain any books of account.

Category D: Persons carrying on a business or a 'non-specified profession', if their income from such business/profession exceeds Rs 1,20,000 or the total sales, turnover or gross receipts thereof are in excess of Rs 10,00,000 in all of the three years immediately preceding the previous year (or when the business or profession is newly set-up income/total sales, etc. are likely to exceed the said amount).

Requirement

To maintain such 'books of account and other documents' as may enable the assessing officer to compute their taxable income under the Income-Tax Act. However, the Board has not prescribed the account books to be maintained for this category.

In brief it can be said that all tax-payers having income from business or profession (except those falling under category C supra) are required to maintain books of account for computation of taxable income by the Income-Tax Department, though the Board has prescribed a specific account book only for those who come under B category.

Specified books of account for persons filling under category B

- (i) A cash book.
- (ii) A journal.
- (iii) A ledger.
- (iv) Carbon copies of bills (whether machine numbered or otherwise serially numbered) exceeding Rs 25, issued by the person.
- (v) Original bills wherever issued to the person and receipts in respect of expenditure incurred by the person or where such bills and receipts are not issued and the expenditure incurred does not exceed Rs 50, payment vouchers prepared and signed by the person.

Apart from the aforesaid books and documents, a person carrying on medical profession (a practitioner of any system of medicine physicians, surgeons, dentists, pathologists, radiologists, vaid, hakims, etc.) is required to keep the following additional books/documents:

- (i) A daily case register in Form No. 3C showing date, patient's name, nature of professional services rendered (general consultation, surgery, injection, visit, etc.) fees received and date of receipt.
- (ii) An inventory under broad heads as on the first and the last days of the previous year, of the stock of drugs, medicines and other consumables accessories used for the purpose of his profession.

When can books of accounts be rejected by the assessing officer?

To warrant rejection of books :

(i) The method of accounting of the assessee should be such that the true state of affairs and correct income cannot be deduced from the books so maintained by the assessee. [CIT v. British Paints India Ltd .(1991) 188 ITR 44 (SC)].

(ii) Insignificant mistakes found in the assessee's books cannot prompt the assessing officer to simply reject the book results. [CIT v. Padamchand Ramgopal (1970) 76 ITR 719 (SC)].

(iii) Absence of stock registers and vouchers for expenses and disclosure of low margin of profits are relevant factors to rely or reject the books of accounts of the assessee. [S N Namasivayam Chettiar v. CIT (1960) 38 ITR 579 (SC)].

(iv) The assessing officer cannot intervene and substitute a different system of accounting from the one followed by the assessee merely on the ground that the system substituted is viewed by the assessing officer as a better one. CIT v. Margadarsi Chit RInds (P) Ltd. (1985) 155 ITR 442 (AP).

Where should the books of account and documents be kept?

The aforesaid books of account and documents (other than those relating to a previous year, which, has come to an end) should be kept and maintained by the person at the place where he is carrying on the profession or where the profession is carried on in more places than one, at the principal place of his profession, If however, the person keeps and maintains separate books of account in respect of each place

where the profession is carried on, such books of account and other documents may be kept and maintained at the respective places at which the profession is carried on.

For how long should such *records* be maintained/preserved?

The aforesaid books of account and documents should be kept and maintained for a period of 6 years from the end of the relevant assessment year.

Where, however, the assessment in relation to any assessment year has been reopened under Section 147, all the books of account and other documents which were kept and maintained at the time of reopening of the assessment should continue to be so kept and maintained till the assessment so reopened has been completed.