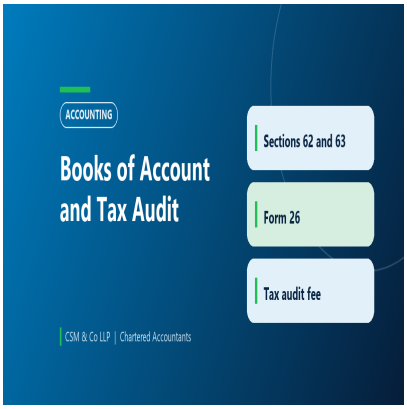

Books of Account and Tax Audit: Sections 62 and 63, Form 26 and the New Fee (Tax Year 2026-27)

Description

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Quick summary

- A business must keep books of account if its income is more than ?1,20,000 or turnover more than ?10 lakh in any of the previous three years (?2,50,000 and ?25 lakh for an individual or HUF); a specified profession must keep prescribed books (section 62).
- A tax audit is needed if business turnover exceeds ?1 crore (?10 crore if cash receipts and cash payments are each 5% or less), if professional receipts exceed ?50 lakh, or if a presumptive taxpayer declares less than the presumptive profit (section 63).
- The audit report goes in Form 26 and is due one month before the return due date; for audited cases that is 30 September.
- The Finance Act, 2026 replaced the penalty for failing to get accounts audited with a fee of ?75,000 for a delay up to one month and ?1,50,000 thereafter (section 428(c)).

Two compliance duties apply to people with business or professional income: keeping books, and, above certain limits, getting the accounts audited by an accountant. They are in sections 62 and 63 of the Income-tax Act, 2025 (earlier 44AA and 44AB). The Finance Act, 2026 also changed the consequence of missing the audit.

Books of account (section 62)

Who must keep books (section 62(1) and (2))

Person	Condition
A person carrying on a **specified profession**	Always (subject to the exception in Rule 46(3) below)

Person	Condition
Any other person carrying on business or profession	Income from the business or profession **exceeds ?1,20,000**, or turnover or gross receipts **exceed ?10 lakh**, in **any one of the three years** before the tax year; or for a new business, the income or receipts are likely to exceed those figures
An **individual or HUF**	The same, but with the limits of income **?2,50,000** and turnover or gross receipts **?25 lakh**
A presumptive taxpayer under section 58 who claims a **lower profit** than the deemed profit	Always

Specified professions (section 62(4)): legal, medical, engineering, architectural, accountancy, technical consultancy, interior decoration, information technology, company secretary, and others the Board notifies.

What books (Rule 46): books that enable the Assessing Officer to compute total income. A person carrying on a legal, medical, engineering or architectural profession, accountancy, technical consultancy, interior decoration, as authorised representative or as a film artist must keep:

- a **cash book**;
- a **journal**, if the accounts are on the mercantile system;
- a **ledger**;
- **copies of bills or receipts** issued for sums of ?250 or more;
- **original bills and receipts** for expenditure of ?250 or more; and
- **payment vouchers** for smaller expenditure, where the cash book lacks adequate particulars.

These specified books are **not required** if gross receipts in the profession did not exceed **?1,50,000** in any of the three preceding years, or, for a new profession, are not likely to exceed that in the year (Rule 46(3)).

Tax audit (section 63)

A person carrying on business or profession must get his accounts audited by an **accountant** as defined in section 515(3)(b) before the **specified date** if:

Case	Condition
Business	Total sales, turnover or gross receipts **exceed ?1 crore** in the tax year
Business, with low cash	The limit is **?10 crore** instead of ?1 crore if (i) cash receipts are **not more than 5%** of total receipts, and (ii) cash payments are **not more than 5%** oftotal payments
Profession	Gross receipts **exceed ?50 lakh** in the tax year
Presumptive taxpayer	A person under section 58 (Table serial 1 or 3) whose profits are **claimed to be lower** than the presumptive profit

For these purposes, **payments and receipts by a cheque or draft that is not an account payee instrument are treated as cash** (section 63(5)(b)).

No audit if the presumptive profit is declared (section 63(2)). A presumptive taxpayer who declares profits as per section 58 does not need an audit.

Audit under another law (section 63(4)). If you must get the accounts audited under another law (a company, an LLP or a co-operative society, for example), it is enough to get it done under that law before the specified date and to furnish that report with the accountant's report in the prescribed form.

The specified date and the form

- **Specified date** (section 63(5)(a)): **one month before the due date** of the return under section 263(1). For an audited person, the due date is 31 October, so the specified date is **30 September**. Where a transfer pricing report is needed and the due date is 30 November, it is 31 October.
- **Form** (Rule 47): **Form 26**, **Part A** where the person is audited under another law, **Part B** otherwise, with the particulars required under section 63 in **Parts C and D**.
- **Revised report:** the audit report can be revised by getting a revised report from the accountant, to be furnished before the end of the financial year following the tax year, if a payment made after the report requires the disallowance under section 35 or section 37 to be recalculated (Rule 47(3)).

Consequence of default: a fee (section 428(c))

For the **failure to get accounts audited and furnish the report** under section 63, the Finance Act, 2026 provides a **fee**, not a penalty, from 1 April 2026:

Delay	Fee
Up to one month	?75,000
Longer	?1,50,000

Before 1 April 2026, the penalty was the **lower of 0.5% of turnover** and ?1,50,000 (old section 446). The fee on a transfer pricing report (section 172) is ?50,000 and ?1,00,000 on the same pattern (section 428(d)).

Examples

1. Trader. Turnover is ?1,80,00,000, cash receipts are 3% and cash payments are 2%. Because both are within 5%, the limit is ?10 crore, so **no audit** is needed. If cash payments were 8%, the limit is ?1 crore and an audit is required.

2. Doctor. Gross receipts are ?55,00,000. They exceed ?50 lakh, so an **audit** is required, unless the presumptive scheme at 50% is used and the profit declared is the presumptive profit (the limit under section 58 is ?50 lakh, or ?75 lakh with low cash, so he can use it if cash receipts are at most 5%).

3. Small trader on presumptive income with turnover of ?90 lakh declaring 8%/6% profit: no audit and no books. If he declares 4% and his income is above the exemption limit, he needs books and an audit.

Practical points

- **Count turnover carefully.** Include all sales and receipts of the business, not just those in the main ledger, and watch the 5% cash tests when you are close to the limit.
- **Appoint the auditor early.** The report is due on 30 September for most audited persons, one month before the return, and the return depends on it.
- **Penalty and fee are different from interest.** Late filing of the return has its own fee under section 428(a) and interest under section 423.

Frequently asked questions

Who must get a tax audit?

A person with business turnover above ?1 crore in the tax year, or ?10 crore if cash receipts and cash payments are each at most 5%; a professional with gross receipts above ?50 lakh; and a presumptive taxpayer under section 58 who declares profit lower than the presumptive profit (section 63(1)).

What is the ?10 crore condition?

The limit is ?10 crore instead of ?1 crore if the cash received (including for sales) is not more than 5% of the total received, and the cash paid is not more than 5% of total payments. A cheque or draft that is not account payee is treated as cash (section 63(5)(b)).

What is the due date for the audit report?

The specified date: one month before the due date of the return under section 263(1). Since the return of an audited person is due on 31 October, the report is due by 30 September (31 October if a transfer pricing report is needed and the return is due on 30 November).

What is the penalty for not getting accounts audited?

From 1 April 2026 there is a fee, not a penalty: ?75,000 for a delay up to one month and ?1,50,000 after that (section 428(c)). Earlier, the penalty was the lower of 0.5% of turnover and ?1,50,000.

Which form is the audit report?

Form 26 of the Income-tax Rules, 2026: Part A where the person is audited under another law, and Part B otherwise; Parts C and D carry the particulars required under section 63 (Rule 47).

Who must keep books of account?

A person with a business or profession whose income exceeds ?1,20,000 or turnover exceeds ?10 lakh in any of the three preceding years (?2,50,000 and ?25 lakh for an individual or HUF), and every person carrying on a specified profession (section 62).

Official sources

- Income Tax Department: Income-tax Act, 2025 (sections 58, 62, 63, 263, 428)
- Income Tax Department: Income-tax Rules, 2026 (Rules 46 and 47, Form 26)

Related reading

- What is Income Tax? Meaning, Rules, Tax Slabs, Types and Tax Guide for Tax Year 2026-27
- Presumptive Taxation Under Section 58: Businesses, Goods Transporters and Professionals (Tax Year 2026-27)
- Which ITR Form to File: ITR-1 to ITR-7 and ITR-UN Under Rule 164 (Tax Year 2026-27)

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