

Form 3CD: The Clauses That Trip Up the FY 2025-26 Tax Audit

The FY 2025-26 audit report is due 30 September 2026, or 31 October 2026 in transfer pricing cases. Six clauses cause most of the disputes. This year's audit stays under the Income-tax Act 1961; Form No. 26 under the Income-tax Act 2025 applies from tax year 2026-27.

TAX AUDIT 2026

SECTION 44AB

FORM 3CD



Who Needs a Tax Audit for FY 2025-26?

The requirement sits in Section 44AB of the Income-tax Act 1961.

1

Business

Total sales, turnover or gross receipts above Rs 1 crore. The limit rises to Rs 10 crore where cash receipts and cash payments each stay within 5 percent of the total.

2

Profession

Gross receipts above Rs 50 lakh.

3

Presumptive Cases

A professional who claims income below the Section 44ADA presumptive profit (Section 44AB(d)), or a business to which Section 44AD(4) applies (Section 44AB(e)), where income exceeds the maximum amount not chargeable to tax.

The report is filed in Form 3CA (entities audited under another law, such as companies) or Form 3CB, with the particulars in Form 3CD.

Due date for the audit report (non transfer pricing cases): 30 September 2026. Transfer pricing (Section 92E) cases: 31 October 2026.

Clause 26: Section 43B Dues, Especially MSME

Clause 26 reports the Section 43B sums: statutory dues, bank and financial institution interest, bonus, leave encashment, and since Assessment Year 2024-25, amounts payable to a micro or small enterprise under Section 43B(h).

- ⊗ For MSME dues, the pay before return rescue does NOT apply. Clause (h) is excluded, so an MSME payable outstanding at 31 March is disallowed for the year even if you clear it in July.

Most Section 43B Items

Paying before the return due date preserves the deduction.

MSME Dues

For MSME dues it does not. An MSME payable outstanding at 31 March is disallowed for the year even if you clear it in July.

Action: reconcile your micro and small vendor ageing before finalising this clause.

Clause 20(b): Employee PF and ESI, the Quiet Cost

Employee Share	Employer Share
Section 36(1)(va) applies. Late deposit means permanent disallowance. No rescue.	Section 43B applies. Pay before the return due date to preserve the deduction.

The employee share of provident fund and ESI, once deducted from salary, must be deposited by the due date under the PF or ESI law. Under Section 36(1)(va), a deposit even one day late is disallowed permanently, not merely deferred.

The Supreme Court settled this in *Checkmate Services P. Ltd. v Commissioner of Income Tax-1* (Supreme Court, Civil Appeal No. 2833 of 2016, decided 12 October 2022, 2022 INSC 1069): the Section 43B rescue for employer contributions does not extend to the employee share.

Clause 21(b) and 21(d): TDS Defaults and Cash Payments

Section 40(a): TDS Defaults

Expenditure on which TDS was not deducted, or was deducted but paid late, is disallowed at 30 percent for residents under Section 40(a)(ia), and at the full 100 percent for non residents under Section 40(a)(i).

The common miss is professional fees, rent, contractor charges and commission booked without the deduction.

Section 40A(3): Cash Payments

A cash payment above Rs 10,000 to a single person in a single day is disallowed in full, subject to the Rule 6DD exceptions. The limit is Rs 35,000 for a payment to a transporter. The whole payment is lost, not just the excess.



Clause 34 and Clause 44: Reconcile and Complete

Clause 34: TDS and TCS Reconciliation

Reconcile the tax deducted and collected with what was deposited and reported. Mismatches between the books, Form 26Q or 24Q, and the challans surface here, along with interest and fee exposure under Sections 201 and 234E.

Clause 44: GST Expenditure Break Up

A break up of total expenditure between registered and unregistered GST suppliers, and within the registered head, the split across exempt, composition and other suppliers. Clause 44 must be completed. Extract it from the GST purchase data early.

Form 3CD Error Map: The Six Most Common Errors

Clause	Common Error	Provision	Result
Clause 26	Using the pay before return rescue for MSME dues	Section 43B(h)	Deduction deferred to the year of payment
Clause 20(b)	Depositing employee PF or ESI late	Section 36(1)(va)	Permanent disallowance, no rescue
Clause 21(b)	Booking a TDS liable expense without deducting	Section 40(a)	30 percent resident or 100 percent non resident disallowed
Clause 21(d)	Cash payment above Rs 10,000 to one person in a day	Section 40A(3)	Whole payment disallowed
Clause 34	Book versus statement versus challan mismatch	Sections 201 and 234E	Interest and fee exposure
Clause 44	Leaving the GST break up blank	Form 3CD	Incomplete report and query risk



What Changes From Tax Year 2026-27: Section 63 and Form No. 26

The Income-tax Act 2025 takes effect from 1 April 2026 and governs tax year 2026-27 onward.



Tax Audit Requirement Moves

The tax audit requirement moves from Section 44AB to Section 63.



New Form No. 26

The Income-tax Rules, 2026 prescribe Form No. 26 under Rule 47 as the audit report for tax years commencing on or after 1 April 2026.



Current Forms Continue for FY 2025-26

Forms 3CA, 3CB and 3CD continue for audits of years up to Assessment Year 2026-27, so the FY 2025-26 audit you are finalising now stays on those forms.

Source: Form No. 26 FAQs, Income Tax Department, incometaxindia.gov.in.

Pre-Audit Checklist Before You Sign

01	02	03
Confirm Applicability Confirm applicability against the Rs 1 crore, Rs 10 crore and Rs 50 lakh thresholds.	MSME Balances (Clause 26) List MSME supplier balances unpaid beyond their limit at 31 March 2026.	PF and ESI Deposits (Clause 20(b)) Reconcile deposit dates and flag every late deposit.
04	05	06
TDS Reconciliation (Clauses 21(b) and 34) Identify expenses booked without TDS and reconcile the TDS statements.	Cash Payments (Clause 21(d)) Scan for aggregated cash payments above Rs 10,000 to one person in a day.	GST Break Up (Clause 44) Build the registered versus unregistered break up.
07		
Final Computation Total the add backs, recompute taxable income, and estimate advance tax and interest before signing.		



The Bottom Line

The clauses that cause the most grief are not the obscure ones. They are Clause 26, Clause 20(b), Clause 21 and Clause 44, and they turn on discipline in dates and documentation, not clever positions.

Reconcile MSME ageing, PF and ESI deposit dates, TDS, cash payments and the GST break up before the auditor arrives, and the 30 September signing is a formality, not a fight.

📅 Book a call with A S Banka Advisors Private Limited to pressure test your Form 3CD before you sign.