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**PAPER 7: DIRECT TAXES**  
**NOVEMBER 2001**

Answer all questions.

**Question 1**

The accounts of a public company have been prepared in accordance with provisions of Parts II and III of Schedule VI to the Companies Act and its Profit and Loss Account laid before the Annual General Meeting for the previous year ending 31<sup>st</sup> March, 2001 shows a net profit of Rs. 15 lakhs. The following information relevant for the purpose of computing its assessable income has been extracted from a scrutiny of the Profit and Loss Account:

**(12 marks)**

<b>Credits in Profit and Loss A/c</b>	Rs.
1. Profit from a new industrial undertaking qualifying for deduction U/s. 80-IA (Net)	17,00,000
2. Profits from a new industrial undertaking qualifying for deduction U/s. 10A (Gross)	10,00,000
3. Long-term Capital Gains	3,00,000
<b>Debits in Profit and Loss A/c</b>	
1. Expenditure relating to industrial undertaking qualifying for deduction U/s.10A	7,00,000
2. Depreciation relating to 1999-2000 brought forward	10,00,000
3. Business loss relating to 1999-2000 brought forward	12,00,000
4. Current year's depreciation	10,00,000
5. Penalty for infraction of Law	1,00,000
6. Provision for Sales-tax	3,00,000
7. Dividend proposed	2,00,000

Depreciation admissible under the Income-tax Act and Rules for the previous year is Rs.19,50,000. The capital gain has been invested in specified assets U/s.54 E.C. Sales tax provided in the accounts has been remitted before the due date. There is no loss or unabsorbed depreciation to be carried forward and adjusted as per I.T. assessment.

You are required to compute the total tax liability of the company for the A.Y 2001-2002.

**Question 2**

A search was conducted in the premises of M/s. Blackwell & co., a partnership firm on 1.7.2001 and as a result of the scrutiny of the books of account and other documents and after further inquiries, the Assessing Officer arrived at the following income of the block period:

**(12 marks)**

A.Yrs.	Amount of Undisclosed Income Rs. (in lacs)
1994-1995	2
1995-1996	2
1996-1997	2
1997-1998	2
1998-1999	2
1999-2000	2
2000-2001	2
2001-2002 (upto 1.7.2001)	1.5

He sent a notice to the firm proposing to assess the aggregate of the above sums with the following further additions:

(1) Estimate of income for low gross profit for A.Y. 2000-01.	Rs. 1,00,000
(2) Interest paid to partners on their capital A.Y. 2000-01	Rs. 75,000

Debited to the Profit and Loss A/c.

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The assessee has furnished you with the following data:

- (1) Assessments have been reopened U/s.147 for Assessment year 1996-97 and 1997-98 and the assessee had already filed returns of income in response to notices issued U/s.148, disclosing the undisclosed income, but re-assessments have yet to be made.
- (2) Loss of Rs.1 lac had been determined in the assessment made U/s.143(3) for Assessment Year 1999-2000, which is eligible to be carried forward and set off.
- (3) Regular Assessment U/s.143 (3) had been completed upto Assessment Year 2000-2001.

Your advice is sought on what would be the undisclosed income for the block period. What will be your advice? Calculate the tax and interest payable thereon.

### Question 3

- (a) Becker, a tennis professional and a non-Indian citizen participated in India in a Tennis Tournament and won the prize money of Rs. 1.50 lacs. He contributed articles on the tournament in a local newspaper for which he was paid Rs.10, 000. He was also paid Rs.50,000 by a Soft Drink Company for appearance in a T.V.advertisement.Although his expenses in India were met by the sponsors, he had to incur Rs.30,000 toward his travel costs to India. He was a non-resident for tax purposes in India. What would be his tax liability in India for Assessment Year 2001-2002? Is he required to file his return of income U/s.139(1)? **(6 marks)**
- (b) The provisions of chapter XX-C, relating to purchase of property by Central Government, do not apply to cases of transfers of immovable property, consequenton amalgamation of companies. Discuss. **(4marks)**
- (c) In the assessment of a firm, the Assessing Officer made two additions –
  - i. Unexplained cash credits Rs. 1 lac.
  - ii. Disallowance U/s.43B.

The firm filed an appeal before the C.I.T. and being unsuccessful before the Appellate Tribunal only on the addition of unexplained cash credits. It was not successful in either forum. With regard to the disallowance U/s.43B, it did not file any appeal, but preferred a revision petition before the C.I.T. U/s.264, who dismissed it on the ground that the assessment was the subject matter of an appeal to the Appellate Tribunal. The assessee relies on the Board's circular under which the C.I.T. is empowered to accept such a petition. Is the petition maintainable? **(4 marks)**

### Question 4

You are engaged to carry out the tax audit of a firm U/s.44AB and in carrying out this assignment, you are required to tackle the following issues. Indicate, how you will deal with them: **(3×5=15 marks)**

- (i) Duty of the auditor to report on a penalty or fine imposed on the firm.
- (ii) Expenditure incurred in respect on which payment has been made in a sum exceeding Rs.20, 000, otherwise than by crossed cheque or crossed bank draft.
- (iii) Sum payable as an employer by way of contribution to a Provident Fund.
- (iv) Particulars of loans or deposits exceeding the limit specified in Sec. 269SS taken during the year.
- (v) Accounting ratios in a trading concern.

### Question 5

- (a) A trust set up wholly for charitable purposed furnishes its return of income in respect of Assessment Year 1998-99 on 15.11.99, declaring an income of Rs. 1 lakh. The Assessing Officer on scrutiny of the return finds that the income of the trust is exempt from tax. Are there any penal consequences for the trusts failure to furnish the return of income within the prescribed time? **(3 marks)**

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- (b) In respect of the taxes due from a Private Limited Company, which could not be recovered from it, the Tax Recovery Officer attached the properties of an erstwhile director for recovery thereof. It was contended by the director that a notice U/s.156 had not been served on him and therefore, the proceeding for recovery were not valid. What is the correct legal position? **(3 marks)**
- (c) Dalal entered into an agreement with Shroff for the sale of his property and received earnest money of Rs. 1, 00,000 on 1.4.2000. The balance of Rs. 4, 00,000 was to be paid within 3 months, failing which Dalal was entitled to a compensation of Rs.50,000. The earnest money was also liable to be forfeited. Shroff defaulted in the payment of the balance within the time specified and therefore the earnest money was forfeited. A suit was also filed for breach of contract and Rs. 50,000 was awarded, which was received on 28.3.2001. Discuss the nature of the two receipts from the point of view of liability to tax. **(4 marks)**

### Question 6

- (a) What do you understand by the expression Protective Assessment? Illustrate your answer with an example. **(4marks)**
- (b) When does the Assessing Officer resort to a provisional attachment? **(2 marks)**
- (c) An assessee incurs expenditure of a capital nature on scientific research related to the business carried on by him. Such expenditure, which is allowable U/s.35, remains unabsorbed in the business in which it was incurred. How will the unabsorbed portion be dealt with? **(4 marks)**

### Question 7

The following issues arise in connection with the deduction of tax at source under Chapter XVII-B. Discuss the liability for tax deduction in these cases: **(6×2=12)**

- (a) An employee of the Central Government receives arrears of Salary for the earlier 3years.He enquires whether he is liable for deduction of tax on the entire amount during the current year.
- (b) A T.V. Channel pays Rs. 10 lakhs on 1.7.2001 as prize money to the winner of a Quiz Programme. “Who will be a Millionaire”?
- (c) State Bank of India pays Rs. 50,000 per month as rent to the Central Government for a building in which one of its branches is situated.
- (d) A Television Company pays Rs.50,000 to a cameraman for shooting of a documentary film.
- (e) A State Government pays Rs. 20,000 as Commission to one of its agent on sale of Lottery Tickets.
- (f) A Turf Club awards a jack-pot of Rs. 5 lacs to the winner of one of its races.

### Question 8

- (a) Amar Co-operative Housing Society Ltd. owns a building in Mumbai, which stands on freehold land. There is no unbuilt area. It has 10 members, each of whom has contributed Rs.10 lacs towards the shares in the Co-operative Society. The building was completed and occupied exclusively for residential purposes by its members, before 31.03.2001. It was financed partly by the shares contributed by members and partly by bank finance. The annual value fixed by the Municipality for the building is Rs. 20 lakhs, the taxes amount to Rs. 1 lakh. ‘X’ is a member of the society owing one of the flats. The cost of the flat to ‘X’ has been fixed by the society at Rs. 20 lakhs and the amount outstanding by way of installment loan payable to the society by ‘X’ is Rs. 2 lakhs. You are required to determine the net wealth of ‘X’ as on 31.3.2001. **(6marks)**
- (b) How is the value of the interest of a person in a firm of which he is a partner determined under the Wealth Tax Act? **(3 marks)**
- (c) The concept of a partial partition is alien to the W.T. Act. Discuss. **(3marks)**
- (d) Mr. Jogi is aged 45 years. His father settled a property in trust giving whole life interest therein to Jogi. The income from the property for the years 1997-98 to 2000-01 was Rs. 60,000, Rs.64, 000, Rs.70, 000 and Rs. 76,000 respectively. The expenses incurred each year were Rs. 2,000, Rs.4, 000, Rs. 5,000 and Rs.

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6,000 respectively. Calculate the value of life interest of Mr. Jogi in the property so settled on the valuation date 31.03.2001, with the help of the factor of 9.267. **(3marks)**