
PAPER 7: DIRECT TAXES
MAY 2003

Answer all Questions.

Question 1

Balance Sheet of "X" Ltd., a shipping company shows the following details as at 31.3.2002: **(12 Marks)**

– Balance in reserve created U/s. 33 AC of I.T. Act	Rs. 1000 lacs
– Paid up capital	Rs. 500 lacs
– Balance in general reserve	Rs. 100 lacs
– Share premium account	Rs. 50 lacs
– W.D.V of ships	Rs. 3,000 lacs

Net profit for the year ended on 31.03.03 is Rs.400 lacs. Following information is further collected from records:

- (a) Amount of Rs.60 lacs being the deficit of W.D.V of a ship retired from the business and sold on 13.6.02 for Rs.150 lacs, was charged in P & L Account.
- (b) Payments charged in miscellaneous expense include an amount of Rs.10 lacs paid to a DON who abducted one of its ship while it was in red sea.
- (c) Depreciation for the year, Rs.800 lacs was charged on straight light method basis.
- (d) A ship added in its fleet during the year costed Rs.920 lacs sailed for her first journey from JNPT on 10.10.2002.
- (e) A ship was added in 1999-200 with the financial assistance of a foreign Bank. The last installments of loan of US \$ 50,000 was paid on 18.9.2002. The value of one US \$ at the time when loan was taken was Rs.44 but at the time of repayment it was Rs.48. The exchange difference was charged in misc. expenses in profit and loss account.

Compute the taxable income of X Ltd., for A.Y.2003-04, with reasons for adjustments made.

Question 2

- (a) Calculate the value of perquisite, if any chargeable to tax in respect of free accommodation provided by the employer in a hotel to an employee, the previous year being 31.3.2003: **(4 Marks)**
 - i. For 10 days when he was transferred from Delhi to Mumbai.
 - ii. Throughout the year as per contract of employment.
- (b) "X" an American national is a resident in India during the previous year ended on 31.3.2003. He was owner of a building located in New York. The same was on rent @ US \$12,500 p.m. The municipal Corporation of New York was paid taxes on such building of US \$ 10,000 on 12.2.2003. Besides the above property he purchased a piece of land at Delhi for construction of a house. The said land was given on rent for running of a dairy @ Rs.3,000 p.m. w.e.f.1.10.2002. the value of one US \$ in Indian rupee throughout the year remained at Rs.46.50. "X" wants to know his taxable income for assessment year 2003-2004. **(5 Marks)**
- (c) "X", purchased on 18.6.1982, house property for Rs.2,25,000 which was sold to A on 18.10.2002 for Rs.8,75,000. Sub – registrar at the time of registration of sale deed charged stamp duty on Rs.12,50,000 which was paid by the buyer. The A.O. while assessing for capital gain referred the matter to valuation officer who determined the value of property at Rs.15,00,000 on the date of transfer. X seeks your advice on the following :
 - i. Is the A.O. correct to charge capital gain on the value of Rs.15,00,000 as determined by valuation officer?
 - ii. The amount of capital gain on which "X" is required to pay capital gain tax. (The CII for 82-83 is 109 and of 2002-03 is 447). **(5 Marks)**

Question 3

- (i) A public charitable trust registered U/s. 12A of I.T.Act, for the previous year ending 31.3.2003, derived gross income of Rs.16 lakhs, which consists of the following: **(4 Marks)**

	(Rs. in lakhs)
(a) Income from properties held by trust (net)	5
(b) Income (net) from business (incidental to main objects)	4
(c) Voluntary contributions from public	7

The trust applied a sum of Rs.11.60 lakhs towards charitable purposes during the year which includes repayment of loan taken for construction of orphan home Rs.3.60 lakhs.

Determine the taxable income of the trust for the assessment year 2003-04.

- (ii) On whom and when section 139(4C) casts responsibility to file a return of income. What will be the effect on failure to comply with the provisions of this section? **(5 Marks)**
- (iii) Amit, a captain in Indian army was killed at Kargil border during a war. The widow of Amit was paid an ex-gratia payment of Rs.50,000 in March, 2003, besides the family pension during the year of Rs.90,000. She wants to know about the taxability of both the receipts. **(4 Marks)**

Question 4

- (a) Discuss the liability for tax deduction at source in the following cases for the assessment year 2003-04:
- (i) Mr. Anand has been running a sold proprietary business whose accounts are audited under 44AB of Income Tax Act, 1961. He pays a monthly rent of Rs.15,000 for the office premises to Mr.R, the owner of building and an individual. Besides, he also pays service charges of Rs.10,000 per month to Mr.R towards the use of furniture, fixtures and vacant of land appurtenant thereto. **(3 Marks)**
- (ii) By virtue of an agreement with Nationalized Bank, a catering organization receives a sum of Rs. 50,000 per month towards supply of food, water, snacks etc., during office hours to the employees of Bank. **(2 Marks)**
- (iii) An Indian company pays gross salary including allowances and monetary perquisites amounting to Rs.4,80,000 to its General Manager on which the tax liability works out to Rs.1,17,600 for the accounting year 2002-03. Besides, the company provides non-monetary perquisites to him in the same period whose value is estimated at Rs.1,20,000. **(3 Marks)**
- (iv) A foreign company which has made prescribed arrangements for the declaration and payment of dividends within India, pays a sum of Rs.10,000 towards dividends on equity shares to a shareholder and Rs.2,200 towards dividends on preference shares held by another shareholder. **(2 Marks)**
- (b) During the course of survey operations U/s. 133A, carried on 5th March, 2003, the Income –tax authority, impounded the books of account and other documents inspected by him, relating to the assessee and retained in his custody. Is the action of the officer justified under law? **(4 Marks)**

Question 5

- (i) On 1.9.2002, Prem & Sons have been searched. During the search, papers belonging to his close friend Mr. Shyam indicating concealed income have been found. How the assessing officer should proceed in such a situation under the Act? **(4 Marks)**
- (ii) (a) When a transaction shall be considered as international transaction? **(2 Marks)**
(b) In what circumstances a transaction entered into with a person other than an associated enterprise shall be deemed to be a transaction between two associated enterprises? **(4 Marks)**
- (iii) M/s.Shiv Traders, a partnership firm sustained business loss of Rs.2 lakhs, inclusive of admissible depreciation of Rs.1.15 lakhs (U/s. 32 of I.T.Act) for the year ended 31.3.202. The firm did not file its return, for that year. The assessing officer issued a notice U/s. 142(1) on 1st March, 2003, in compliance to which the firm filed its return for the said year declaring the loss of Rs.2 lakhs, and sought forward for next year. Is the firm's claim justified? **(4 Marks)**

Question 6

- (a) The books of account maintained by a National Political Party registered with Election Commission for the year ended on 31.3.2003 disclose the following receipts.: **(5 Marks)**
- | | |
|--|---------------|
| (a) Rent of property let out to a departmental store at Chennai | Rs. 6,00,000 |
| (b) Interest on deposits other than banks | Rs. 5,00,000 |
| (c) Contributions from 100 persons (who have secreted their names) of Rs.11,000 each | Rs. 11,00,000 |
| (d) Contribution @ Rs.11 each from 1,00,000 members in cash | Rs. 11,00,000 |
| (e) Net profit of cafeteria run in the premises at Delhi. | Rs. 3,00,000 |
- Compute the total income of the political party for the year 2003-04, with reasons for inclusion or otherwise.
- (b) In an order of assessment for the asst. year 2002-03 the assessee noticed a mistake for which application U/s. 154 was moved and the order was rectified. Subsequently, the assessee moved further application for rectification U/s. 154 which was rejected by the A.O on the ground that the order once rectified cannot be rectified again. Is the contention of the A.O correct? **(3 Marks)**
- (c) The return for A.Y. 2001-02 was filed in time as per section 139(1). The assessee during the course of assessment proceedings U/s. 143(2), noticed certain omissions and therefore filed a revised return on 18.4.2003. The A.O ignoring the revised return so filed framed the order on 27.4.2003. Is the action of A.O correct? **(3 Marks)**

Question 7

- (a) Does the tax borne by employer on behalf of employee in respect of provision of non-monetary perquisites constitute an income in the hands of employee with reference to the assessment year 03-04? What are the tax implications of such payment in the hands of Employer? **(5 Marks)**
- (b) By virtue of an agreement entered into on 1.9.2002 between X Ltd., and Y Ltd., X Ltd., agrees not to carry on any business relating to computer software in India for next 3 years, for which Y Ltd., agrees to pay a sum of Rs.12,00,000 to X Ltd., The said amount was paid on 1st December, 2002. Indicate treatment of such receipt in the hands of X Ltd., for the asst. year 2003-2004? **(4 Marks)**
- (c) Briefly discuss the concept of accelerated assessment applicable to Association of person / body of individuals for the assessment year 2003-04. **(3 Marks)**

Question 8

- (i) Mr.Raj executed a will during his life time. His uncle Mr.Amitabh was appointed as executor, under the will. Mr.Raj died on 13.6.2002. The executor could complete the distribution of assets after the valuation date 31.3.2003. The wealth tax records of Raj reveal that (a) the return of wealth for the valuation date 31.3.2002 has not been filed. (b) Wealth tax demands for the assessment years 1999-2000 and 2000-2001 are payable. On these facts, Mr.Amitabh approached you to advise him on his obligations under Wealth Tax Act. **(5 Marks)**
- (ii) In respect of defaults committed under Wealth Tax Act penalty proceedings are initiated against the deceased prior to his death. Can the wealth tax officer continue the proceedings and levy penalty on the legal representative? **(3 Marks)**
- (iii) X enters into an agreement on 13.3.2003 to sell the house property for Rs.50 lacs purchased by him for Rs.20 lacs and received an advance of Rs.10 lacs. Further amount Rs.15 lacs was received by him on 22.3.2003 but the sale deed could only be executed on 21.4.2003. Whether the house constitutes an asset on the valuation date 31.3.2003. **(2 Marks)**