
PAPER 7 : DIRECT TAXES
MAY 2002

Answer All the Questions

Question 1

Babu joined a company on 1.6.01 and was paid the following emoluments and allowed perquisites as under:

Emoluments	Basic pay Rs.25,000 per month DA Rs. 10,000 per month Bonus Rs. 50,000 per month
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Perquisites:

- i Furnished accommodation owned by the employer and provided free of cost
- ii Value of furniture therein Rs.3, 00,000.
- iii Motor-car owned by the company(with engine CC. less than 1.6 litres) along with chauffeur. For official and personal use.
- iv Sweeper salary paid by company Rs.1,500 per month
- v Watchman salary paid by the company Rs.1500 per month.
- vi Educational facility for 2 children provided free of cost. The school is owned and maintained by the company.
- vii Interest free loan of Rs.5, 00,000 given on 1.10.2001 for purchase of a house. No repayment was made during the year.
- viii Interest free loan for purchase of computer Rs.50,000 given on 14.1.2002.No repayment was made during the year.
- ix Corporate membership of a club. The initial fee of Rs.1,00,000 was paid by the company. Babu paid the bills for his use of Club facilities.

You are required to compute the income of Babu under the head “Salaries” in respect of assessment year 2002-03.Suitable assumptions may be made, wherever necessary. **(12 Marks)**

Question 2

A company is engaged in the development and sale of computer software applications. It has started a new undertaking for which approval as a hundred per cent export-oriented undertaking has been obtained from the Central Board of Direct Taxes. It furnishes the following data and request you

- (a) To compute the deduction allowable to it under section 10B in respect of assessment year 2002-03:

	Rs. In lakhs
Total profit of the company for the previous year	50
Total turnover, ie. Export, Sales and Domestic Sales for the previous year	500
Consideration received in respect of export of software received in convertible foreign exchange within 6months of the end of the previous year	250
Sale proceeds credited to a separate account in a bank outside India with the approval of R.B.I	50
Telecom and Insurance charges attributable to export of software	10
Staff costs and travel expenses incurred in foreign exchange to provide technical assistance outside India to a client	40

- (b) State the conditions to be fulfilled for the undertaking to qualify for the deduction.

- (c) How long will the deduction be admissible?

(12 Marks)

Question 3

- (a) The Settlement commission does not have the power under section 245-D to reduce or waive the interest payable by an assessee under the provisions of section 234A, 234B or 234C.Discuss. **(6 Marks)**

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- (b) An assessee is aggrieved by the order of the Assessing Officer and requests you to contest the same by filing an appeal before the Commissioner of Income tax (Appeals) as well as by filing a revision petition before the Commissioner under section 264 of the Act. Can the assessee invoke both the remedies against the order of the Assessing Officer simultaneously? **(4 Marks)**
- (c) An assessee had credited a sum of Rs.50, 000 in cash in the account of Madan, said to represent a loan obtained from him. The Assessing Officer, having gone into the geniuses of the transaction, disbelieved the story of loan and treated the sum of Rs.50, 000 as the income of the assessee from undisclosed sources. He also started proceedings under 271 D and levied a penalty of Rs.60, 000 on the assessee for having accepted the loan in contravention of section 269 SS. Examine the correctness of the levy. **(4 Marks)**

Question 4

- (a) Discuss the provisions relating to the taxation of Educational Institutions and the conditions in the general required to be fulfilled by them for securing exemption from Income-tax. **(5 Marks)**
- (b) An Income-tax authority in the course of exercising powers of survey under section 133A serves a summon on the assessee and impounds the books of account and other documents found in the premises visited. Discuss the legality of its action. **(4 Marks)**
- (c) A foreign company has entered into an agreement with Indian company on 1st June, 2001 under which Industrial equipment belonging to the firms has been leased to the latter on an annual lump sum payment of \$50,000. How will the lease rent be taxed in the hands of foreign company in respect of assessment year 2002-03? **(3 Marks)**
- (d) An Indian company is engaged in the manufacture and sale of /coffee grown by it in its own estates. Will it liable to tax under the IT Act. If so, how will its income be determined in respect of assessment year 2002-03? **(3 Marks)**

Question 5

- (a) What are the methods under which the arm's length price, relating to an international transaction, is determined under section 92-C? **(4 Marks)**
- (b) (i) A Ltd is an Indian company which is a 100 percent subsidiary of B Ltd, a Foreign Company. B Ltd sells its products to A Ltd at 15 dollars per unit. At the same time, it sells its products to an unrelated party at \$20 per unit. How will the arm's length price be determined in this transaction? **(2 Marks)**
- (ii) In the above example, If A Ltd is the sole selling agent of the products of B Ltd and if A Ltd. Resold the goods at 20 dollars, how will the arm's length price be determined? **(4 Marks)**

Question 6

- (a) An appeal shall lie to the High Court from every order passed in appeal by the Appellate Tribunal if the High Court is satisfied that the case involves a substantial question of law? **(3 Marks)**
- (b) An assessment made by the Assessing Officer, resulting in a demand of Rs.10 lakhs, was upheld in an appeal and the assessee filed a second appeal before the Appellate Tribunal on 10.6.2001. This appeal is pending. The application of the assessee for stay of the demand was accepted by the Appellate Tribunal by its order dated 30th June, 2001. Ignoring the stay granted, The Assessing Officer attached the bank account of the assessee on 15.3.2002 and collected the demand outstanding. Discuss the correctness of A.O's action **(3 Marks)**

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- (c) A firm consisting of four partners was dissolved consequent to the death of one of the partners. The remaining partners reconstituted the firm immediately, without discontinuance of the business, and carried on the business as before. The inventory of stocks on the date of dissolution was valued at cost, which was lower than the market value and all other assets were valued at book value, for the purpose of transfer to the reconstituted firm. The Assessing Officer, while arriving at the total income of the firm as constituted prior to dissolution, valued the stocks as well as the other assets at market value. You are required to comment on the correctness of the Assessing Officer's action **(4 Marks)**

Question 7

Write short notes on the following:

1. Employee's stock option scheme
2. Deduction in respect of loan taken for higher education
3. Global depository receipts and their impact on non-residents **(3×4=12 marks)**

Question 8

- (a) Under the Wealth Tax Act, what is the scope of taxation of an individual who is not residing in India. **(1 Mark)**
- (b) How is the assessment made on such a person and what are the provisions for recovery of tax from him? **(4 Marks)**
- (c) ABC Ltd is a Company engaged in the construction and sale of buildings. It has the following assets as on 31.3.2002. You are required to compute the Net worth of the company, in respect of the Assessment year 2002-03: **(10 Marks)**

	Rs. in lakhs
Flats-residential ready for sale	200
Commercial property ready for sale	500
Guest Houses situated 30kms away from Delhi	25
2 Residential Houses occupied by	
1. An officer having an annual salary of Rs.4 lakhs	10
2. An officer having an annual salary of Rs.5 lakhs	15
Cars used for company's business	20
Aircraft used by the officer's for business purposes	400
Urban land held from 31.3.1990, on which no building could be build due to dispute of title	50
Cash in hand	5