BUSINESS TAX PROCEDURES AND MANAGEMENT

DSE 5.8 | DSE 5.7

UNIVERSITY OF DELHI

MOCK QUESTION PAPER — SET II

with Full Solutions

B.Com (Hons.) DSE-5.8 | B.Com (Prog.) DSE-5.7 — Third Year, Semester V

Three hours · Ninety marks · Five questions, each with an internal choice

Governed by the INCOME-TAX ACT, 2025

(Act No. 30 of 2025, as amended by the Finance Act, 2026)

read with the INCOME-TAX RULES, 2026

TAX YEAR 2026-27

1 April 2026 to 31 March 2027

Academic Year 2026-27

Compiled by

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HOW THIS PAPER IS BUILT

This is a practice paper. It is not a University question paper and has no official status.

It follows the pattern of the papers actually set by the University in December 2024 (Sr. No. 844) and December 2025 (Sr. No. 7367): **three hours, ninety marks, five questions, all compulsory, every question carrying an internal choice, and all questions carrying equal marks of eighteen**. The five questions take the Units in the order those papers took them —

Question	Unit	What it draws on	Marks
Q. 1	Unit 1	Advance payment of tax, and the interest payable by the assessee and by the Government	9 + 9
Q. 2	Unit 1	Deduction and collection at source; deposit, statements and certificates; collection and recovery	9 + 6 + 3
Q. 3	Units 2 and 5	Income-tax authorities and the return of income; securities transaction tax and TAN	6 + 6 + 6
Q. 4	Unit 3	Assessment, re-assessment and rectification; appeals and revisions	6 + 6 + 6
Q. 5	Unit 4	Penalties and prosecutions; undisclosed income; search, seizure and survey	9 + 9

Every section number in this paper is a section of the Income-tax Act, 2025. The December 2024 and December 2025 papers were set on the Income-tax Act, 1961, which stood repealed with effect from 1 April 2026; their section numbers — 210, 234B, 194B, 194C, 200, 220, 116, 139, 132, 133A — have no application to Tax Year 2026-27. The questions here put the same points in the numbering now in force.

Set I is a second paper on the same pattern. The two together work the whole syllabus twice.

QUESTION PAPER

Mock Question Paper — Set II

Sr. No. of Question Paper : **M-102**   *Mock — II of 2*

Unique Paper Code : 2413090018

Name of the Paper : Business Tax Procedures and Management

Type of the Paper : DSE

Semester : V

Programme : B.Com. (Hons.) — DSE-5.8 | B.Com. (Prog.) — DSE-5.7

Duration : **3 Hours**   Maximum Marks : **90**

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Attempt **all** questions. Parts of a question are to be attempted together.
3. All questions carry equal marks.
4. Use of a simple calculator is allowed.
5. Answers may be written either in English or in Hindi, but the same medium must be used throughout.
6. All references are to the **Income-tax Act, 2025**, and the tax year is **2026-27**, unless the question says otherwise.

Q. 1.

(a) Shri Mahesh, resident, aged 45, carries on a retail business and is assessed on a presumptive basis under **section 58(2)**. His advance tax for Tax Year 2026-27 works out to **₹1,20,000**. State the due date or dates on which he must pay it and the amount on each. How would your answer differ if he were not a presumptive assessee? **(9)**

(b) Shri Vinod's assessed tax for Tax Year 2026-27 is **₹3,00,000**. He paid advance tax of **₹2,40,000** during the year and the balance as self-assessment tax on 20 September 2027, the return having been furnished on that day. Is he liable to interest under **section 424**? Explain the provision and compute the interest. **(9)**

OR

(a) Distinguish between payment of advance tax by the assessee **on his own accord** and payment **in pursuance of an order** of the Assessing Officer, and state what the assessee may do if he does not accept the order. **(9)**

(b) Explain the provisions of **section 423** — interest for default in furnishing the return of income. State the rate, the period and the amount on which it is charged. **(9)**

Q. 2.

(a) Shri Bharat, an individual not carrying on any business, pays rent of **₹75,000 a month** for his residence to Smt. Leela throughout Tax Year 2026-27. Advise him on the deduction of tax at source — the entry, the rate, the threshold, the month in which the deduction is made, and his obligations. Would the answer change if the tenant were a company? **(9)**

(b) Explain the collection of tax at source on the **sale of scrap** — the rate for Tax Year 2026-27, the buyers from whom no collection is made, and the declaration by which a buyer may take himself out of the charge. **(6)**

(c) State any **three** modes of recovery available under **section 416**, apart from the certificate proceedings before the Tax Recovery Officer. **(3)**

O R

(a) Modern Traders, whose turnover in the preceding year was ₹14 crore, purchases goods worth **₹80,00,000** from Shri Nathu during Tax Year 2026-27. Discuss the deduction of tax at source on the purchase of goods, the amount to be deducted, and the position if Shri Nathu does not furnish his PAN. **(9)**

(b) State the certificates of deduction and collection of tax at source — the form for each and the date by which each must be issued. **(6)**

(c) State three circumstances in which an assessee is **not** treated as being in default although a demand is outstanding. **(3)**

Q. 3.

(a) Explain the provisions relating to the **Permanent Account Number** — who is required to obtain one, and any four transactions in which it must be quoted. **(6)**

(b) State the **due dates** for furnishing the return of income for Tax Year 2026-27 for the different classes of assessee. **(6)**

(c) Write a short note on **TIN — the Tax Information Network**. **(6)**

O R

(a) Explain the **Taxpayer's Charter**, and the power of the Board to issue instructions to subordinate authorities. What are the two limits on that power? **(6)**

(b) Explain **self-assessment**, and the order in which a part payment is adjusted against the fee, the interest and the tax. **(6)**

(c) Write a short note on the **general anti-avoidance rule** — when an arrangement is an impermissible avoidance arrangement. **(6)**

Q. 4.

(a) State the circumstances in which an Assessing Officer must make a **best judgment assessment**, and the safeguard available to the assessee. **(6)**

(b) State the time limit for the completion of an assessment under section 270(10) or 271, and for an assessment or re-assessment under section 279. **(6)**

(c) Distinguish between **revision prejudicial to the revenue** and **revision in favour of the assessee**. **(6)**

O R

(a) Explain the procedure of a **scrutiny assessment** from the notice to the order. **(6)**

(b) Explain **block assessment** on a search — the block period, and the abatement of pending proceedings. **(6)**

(c) Explain the provisions relating to an appeal to the **High Court** — against what orders, on what question, the time, and by whom it is heard. **(6)**

Q. 5.

(a) Shri Praful returned an income of ₹8,00,000. In assessment his income was determined at ₹14,00,000, of which ₹6,00,000 was found to be receipts suppressed by a false entry in the books. Explain **under-reporting** and **misreporting**, state the two rates, and compute the penalty. Assume the tax on the additional income is ₹1,80,000. **(9)**

(b) Explain the provisions relating to **cash credits and unexplained investments**, and the rate at which such income is charged. **(9)**

O R

(a) Explain the **immunity** from penalty and prosecution, and the defence of **reasonable cause**. **(9)**

(b) Explain the power to make a **requisition** of books of account and assets, and the manner in which assets seized or requisitioned are applied. **(9)**

SOLUTIONS

Solutions — Set II

Every section is a section of the Income-tax Act, 2025; every rule a rule of the Income-tax Rules, 2026. Rates are those in force for Tax Year 2026-27 under the Finance Act, 2026.

Q. 1 (a) — The presumptive assessee [section 408(2)]

The rule. An assessee who declares profits and gains in accordance with the presumptive provisions of **section 58(2)** pays the whole of his advance tax in a **single instalment**, on or before the **15th March** of the financial year. The four-instalment scheme of section 408(1) does not apply to him.

Due date	Amount payable ₹
On or before **15 March 2027**	**1,20,000** — the whole of the advance tax

Any amount paid by way of advance tax on or before **31 March** is also treated as advance tax paid during the financial year [section 408(3)], so a payment made between 16 and 31 March is still advance tax, though it is late for the purposes of interest.

If he were not a presumptive assessee, section 408(1) would apply and the ₹1,20,000 would be payable in four instalments —

Due date	Percentage	Cumulative ₹	Payable ₹
15 June 2026	15%	18,000	**18,000**
15 September 2026	45%	54,000	**36,000**
15 December 2026	75%	90,000	**36,000**
15 March 2027	100%	1,20,000	**30,000**
Total			**1,20,000**

Q. 1 (b) — Interest for default in payment of advance tax [section 424]

The charge. Interest under section 424 is attracted where the assessee has failed to pay advance tax, or where the advance tax paid is **less than 90%** of the **assessed tax**. It is charged at **1% for every month or part of a month**, on the amount by which the advance tax paid falls short of the assessed tax, from **1 April** of the year following the tax year to the date of determination of income under section 270(1) or the date of regular assessment.

Step 1 — is the section attracted?

Particulars	₹
Assessed tax	3,00,000
90% of the assessed tax	2,70,000
Advance tax paid	2,40,000

₹2,40,000 is **less than** ₹2,70,000, so section 424 is attracted. Note that the test is 90%; had he paid ₹2,70,000 or more there would be no interest at all.

Step 2 — the shortfall. The interest runs on the whole shortfall against the assessed tax, not on the shortfall against 90% —

Particulars	₹
Assessed tax	3,00,000

Particulars	₹
Less: advance tax paid	2,40,000
Shortfall on which interest is charged	**60,000**

Step 3 — the period. From **1 April 2027** to the date of determination. The return was furnished on 20 September 2027 and the tax paid that day; where tax is paid under section 266 before the determination, section 424(4)(a) directs that the interest be calculated up to the **date of that payment**. April, May, June, July, August and September — **six months**, a part of a month counting as a whole.

Computation	₹
₹60,000 × 1% × 6 months	**3,600**

Interest payable under section 424 — ₹3,600. Interest under section 423 for the late return and under section 425 for deferment, if any, are separate and cumulative.

Q. 1 OR (a) — Section 406 and section 407 compared

Point	On his own accord — section 406	On an order of the Assessing Officer — section 407
Who acts first	The **assessee**. No notice, no order, no intimation	The **Assessing Officer**, by an order in writing
Who may be subjected	Every person liable under section 404	Only a person who has **already been assessed** by way of regular assessment
Basis of the figure	The assessee's **own estimate** of his current income	The **higher** of the total income of the latest tax year assessed, and the total income returned for any later year
When	During the financial year, on the four due dates	At any time during the financial year, but **not later than the last day of February**
Form	No form. The tax is simply paid	A notice of demand in **Form No. 151** [section 289, Rules 179(2) and 222]
Revision	The assessee may **revise his own estimate** and pay accordingly [section 406(2)]	The Assessing Officer may **amend the order** [section 407(4) to (6)]

What the assessee may do if he does not accept the order.

- **A lower estimate [section 407(8)].** If he considers that his current income will be less than the figure on which the order is based, he may pay advance tax on his **own estimate**, and must send an intimation in **Form No. 152** to the Assessing Officer [Rule 223]. He does not need permission.
- **A higher estimate [section 407(9)].** If his current income will be **greater** than the figure in the order, he must pay on his own higher estimate — here there is no option; the duty is his, and no intimation is required.
- Where the order is served **after any of the due dates**, the instalments falling due before service are payable on the next due date [section 407(7)].

Q. 1 OR (b) — Interest for default in furnishing the return [section 423]

The charge. Where the return of income is furnished after the due date under section 263(1), or is not furnished at all, the assessee is liable to simple interest at **1% for every month or part of a month**.

Circumstance	Period	Amount on which charged
The return is furnished **after** the due date	From the day **immediately following the due date** to the **date of furnishing** the return	The tax on the total income as determined, less advance tax, tax deducted or collected at source, and reliefs
The return is **not furnished** at all	From the day following the due date to the date of **completion of the assessment**	The same

Two points that decide the arithmetic. First, a **part of a month is a whole month** — a delay of one day into a new month costs a full month's interest. Second, the interest runs on the tax **after** deducting advance tax and tax deducted at source; it is charged on what remained unpaid, not on the whole tax.

Where self-assessment tax is paid before the return is furnished, that payment reduces the amount on which the interest runs from the date of payment [section 423(4)]. Interest under section 423 is in addition to the **fee under section 428** for a late return, which is a flat charge requiring no proceeding.

Q. 2 (a) — Rent paid by an individual [section 393(1), Table, Sl. No. 2(i)]

Question	Answer
Which entry?	**Sl. No. 2(i)** — rent, where the payer is a person **other than** a specified person. For this entry alone "rent" means only land, a building, and land appurtenant to a building [section 402(29)]
Rate	**2%**
Threshold	**₹50,000 for a month or part of a month.** ₹75,000 a month crosses it
When is the deduction made?	**Once in the year** — at credit or payment, whichever is earlier, **for the last month of the tax year or the last month of the tenancy**. Not every month

Particulars	₹
Rent for the year — ₹75,000 × 12	9,00,000
Tax to be deducted at 2% of ₹9,00,000, in **March 2027**	**18,000**

His obligations. He needs **no TAN** [section 397(1)(c)(i)] and uses his PAN. He deposits the tax with a **challan-cum-statement in Form No. 141** within **thirty days** from the end of March 2027 [Rules 218(3) and 219(5)], and issues the certificate in **Form No. 132** within fifteen days of that due date [Rule 215].

A protection [section 397(2)(e)]. If Smt. Leela does not furnish a valid PAN the higher rate applies, but the deduction under Sl. No. 2(i) **may not exceed the rent payable for the last month** — here ₹75,000.

If the tenant were a company. A company is a **specified person**, so the entry would be **Sl. No. 2(ii)**. The rate would be **10%** for a building, the deduction would be made at credit or payment **every month**, a **TAN would be required**, the tax would be deposited within seven days of the end of each month, the statement would be Form No. 140 and the certificate Form No. 131.

Q. 2 (b) — Collection at source on the sale of scrap [section 394(1), Sl. No. 4]

Question	Answer
Rate for Tax Year 2026-27	**2%**. The Finance Act, 2026 raised it from 1%, as part of a rationalisation of the collection rates
Who collects	The **seller**
Threshold	**Nil** — collection is on the whole of the sale value

Question	Answer
Time	At the **debit** of the amount payable to the buyer's account, or its **receipt**, whichever is earlier

Buyers from whom no collection is made. A **public sector company**; the Central or a State Government; an **embassy, High Commission, legation, consulate or trade representation** of a foreign State; a **club**; and a person buying **in retail for his own consumption**. These are excluded from the definition of "buyer".

The manufacturer's declaration [section 394(2) and (3)]. A buyer **resident in India** who furnishes a written declaration in duplicate that the goods are to be utilised for **manufacturing, processing or producing articles or things, or for generating power**, and **not for trading purposes**, is not charged at all. The declaration is in **Form No. 127** [Rule 212], and the collector delivers one copy to the Commissioner on or before the **7th day** of the month following the month of receipt.

The seller files the quarterly statement in **Form No. 143** and issues the certificate in **Form No. 133**. A buyer may apply under **section 395(3)** in Form No. 128 for collection at a **lower** rate; a nil certificate is not available on the collection side.

Q. 2 (c) — Other modes of recovery [section 416]

Apart from drawing up a certificate and proceeding under section 413, the Assessing Officer or the Tax Recovery Officer may recover by the modes in section 416. Any three of —

Mode	How it operates
Deduction from salary	The Officer may require the employer to deduct the arrears from any salary payable to the assessee, and the employer must comply
Garnishee — notice to a debtor	A notice in writing to any person from whom money is due, or may become due, to the assessee, or who holds money for or on account of him, requiring him to pay it to the Officer. A person who fails is himself deemed an assessee in default
Application to the court	Where the assessee's property is under the control of a court, the Officer may apply to the court for payment out of the property
Distraint and sale	The Assessing Officer or the Tax Recovery Officer may distrain and sell the movable property of the assessee himself, in the manner laid down [section 416(7) and Rule 225]

Q. 2 OR (a) — Purchase of goods [section 393(1), Table, Sl. No. 8(ii)]

Question	Answer
Who must deduct?	A **buyer** whose total sales, gross receipts or turnover from business exceeded **₹10 crore** in the preceding tax year [section 402(6)]. Modern Traders, at ₹14 crore, qualifies
Rate	**0.1%**
On what amount?	Only on the sum **exceeding ₹50,00,000** — this is one of the two entries where the Act charges the excess and not the whole [Note 1(b)]
Time	At credit or payment, whichever is earlier

Particulars	₹
Purchases during the year	80,00,000
Less: the threshold	50,00,000
Amount on which tax is deducted	30,00,000
Tax deducted at 0.1%	**3,000**

No deduction is made if tax is deductible or collectible under any **other** provision on the same sum [Note 1(a)] — the entry is residuary.

If Shri Nathu does not furnish his PAN. The general rule in section 397(2)(b)(i) is the highest of the rate in the provision, the rates in force, and 20%. But for this entry — and for e-commerce under Sl. No. 8(v) — the Act names **5%** instead of 20%. The deduction would therefore be at **5% of ₹30,00,000 = ₹1,50,000**. Without a valid PAN, any declaration is invalid and no certificate under section 395(1) can be granted.

Q. 2 OR (b) — The certificates [section 395(4), Rule 215]

Deduction, payment or collection under	Form	Due date
Section 392, other than sub-section (7), and section 393(1) Sl. No. 8(iii) — **salary**	**130**	By **15 June** of the financial year immediately following the tax year — 15 June 2027
Sections 392(7), 393(1) other than Sl. Nos. 2(i), 3(i), 6(ii) and 8(vi), and 393(2) and (3)	**131**	Within **fifteen days** from the due date for the quarterly statement — 15 August 2026, 15 November 2026, 15 February 2027 and 15 June 2027
Section 393(1) Sl. Nos. 2(i), 3(i), 6(ii) and 8(vi) — the four Form 141 deductions	**132**	Within **fifteen days** from the due date for the challan-cum-statement in Form No. 141
Collection under section 394(1)	**133**	Within **fifteen days** from the due date for the quarterly statement of collection

The certificate is generated and downloaded from the web portal specified by the Director General of Income-tax (Systems). Where a person is employed by more than one employer during the year, each issues Parts A and B of Form No. 130 for his own period, and Part C may be issued by each or by the last employer at the employee's option. A **duplicate** may be issued if the original is lost. Failure to issue the certificate attracts a penalty of **₹500 for every day** under section 465(2)(g), capped at the tax deductible or collectible.

Q. 2 OR (c) — When the assessee is not treated as in default

#	Circumstance	Provision
1	An **appeal is pending** against the order giving rise to the demand, and the Assessing Officer so directs on such conditions as he thinks fit. The direction may be made at any time so long as the appeal remains undisposed of	**411(12)**
2	**Time has been extended**, or payment by **instalments** allowed, on an application made before the expiry of the thirty days — the assessee is not in default so long as he keeps to the extended time	**411(5)**
3	The income cannot be **remitted to India** — where the assessee has income in a country whose laws prohibit or restrict remittance, that portion is excluded in computing the demand until it can be remitted	**411(13) and (14)**

A fourth situation, though not strictly a case of not being in default, is the **waiver or reduction of interest** under section 411(7) to (9), where payment would cause genuine hardship, the default was due to circumstances beyond the assessee's control, and he has co-operated in the assessment and recovery.

Q. 3 (a) — Permanent Account Number [section 262]

Who must obtain one.

- Every person whose **total income exceeds the maximum amount not chargeable to tax**;
- every person carrying on a **business or profession** whose total sales, turnover or gross receipts exceed the prescribed limit;
- every person required to **furnish a return**, whether on his own behalf or on behalf of another;

- a **resident other than an individual** entering into a financial transaction of ₹2,50,000 or more in a tax year, and the persons who manage it — the director, partner, trustee, principal officer or office-bearer;
- any person who **intends to enter** into a prescribed transaction; and any other person notified by the Central Government.

The application is made to the Assessing Officer within the prescribed time. A person who has an **Aadhaar number** and no PAN may quote the Aadhaar in place of a PAN, and one is then allotted to him in the prescribed manner.

Four transactions in which the number must be quoted [section 262(9) and Rule 159]. Any four of —

#	Transaction
1	In all **returns, correspondence and challans** furnished to any income-tax authority
2	In all documents relating to the transactions prescribed by the Board in the interests of revenue
3	Opening a **bank account** or a demat account
4	Sale or purchase of **immovable property** above the prescribed value
5	Payment in cash above the prescribed amount to a hotel or restaurant, or for travel to a foreign country
6	Sale or purchase of a **motor vehicle** other than a two-wheeler

A person receiving a document relating to such a transaction must **ensure that the number has been duly quoted**. Failure to comply attracts a penalty of **₹10,000** under section 467.

Q. 3 (b) — Due dates for the return of income [section 263(1)]

Sl.	Assessee	Due date
1	A **company**; and any person, other than a company, whose accounts are required to be **audited** under the Act or any other law	**31 October 2027**
2	A **partner of a firm** whose accounts are required to be audited, and the spouse of such a partner where section 101 applies	**31 October 2027**
3	An assessee having **business or professional income which is not subject to audit**	**31 August 2027**
4	**Any other assessee** — a salaried person, a pensioner, a person with income from house property or other sources	**31 July 2027**
5	An assessee required to furnish a **report under section 172** — transfer pricing	**30 November 2027**

A **belated** return may be furnished under section 263(4), and a **revised** return under section 263(5), in either case before three months before the end of the tax year or before the completion of the assessment, whichever is earlier. A late return attracts the **fee under section 428** and **interest under section 423**, and a business loss or capital loss cannot be carried forward.

Q. 3 (c) — Tax Information Network

TIN is not a statutory expression. It appears nowhere in the Income-tax Act, 2025 as a defined term. It is the name of the **administrative infrastructure** through which the Department receives, stores and matches the information on which the whole scheme of pre-paid taxes depends.

What passes through it.

- **Challans** — the tax deposited by every deductor and collector, and the advance tax and self-assessment tax paid by every assessee, reported by the banks;

- **Statements** — the quarterly statements in Forms No. 138, 140, 143 and 144, and the challan-cum-statements in Form No. 141;
- **PAN and TAN** — allotment and the maintenance of the database;
- **Annual Information Statement** — the matching of what a deductor says he deducted against what the assessee claims, presented to the assessee in **Form No. 168** under Rule 245.

Why it matters to the assessee. Credit for tax deducted or collected is given on the basis of the information furnished by the deductor and processed through this network [section 390(5) and (6), Rule 203]. If the deductor has not filed his statement, or has quoted the wrong PAN, the credit does not appear, and the assessee must take the matter up with the deductor — the remedy lies against him, because **section 401** bars a direct demand on the assessee for tax that has already been deducted.

Q. 3 OR (a) — The Taxpayer's Charter and the Board's instructions

The Taxpayer's Charter [section 240]. The Board shall adopt and declare a Charter, and issue such orders, instructions, directions and guidelines to the income-tax authorities as it thinks fit for its administration. The Charter states what the Department undertakes to do — to provide **fair, courteous and reasonable treatment**, to treat the taxpayer as **honest** unless there is reason to believe otherwise, to provide a mechanism for **appeal and review**, to provide **complete and accurate information**, to decide within **time limits**, to collect the **correct amount** of tax, to respect **privacy** and maintain **confidentiality**, and to hold its officers **accountable** — and what it expects of the taxpayer in return.

Instructions to subordinate authorities [section 239]. The Board may issue such orders, instructions and directions as it thinks fit for the proper administration of the Act, and all such authorities and other persons employed in the execution of the Act **shall observe and follow** them.

The two limits. No such order, instruction or direction may be issued —

- so as to **require any income-tax authority to make a particular assessment or to dispose of a particular case in a particular manner**; or
- so as to **interfere with the discretion of the Commissioner (Appeals) or the Joint Commissioner (Appeals)** in the exercise of his appellate functions.

The Board may, however, relax the rigour of a provision in a class of cases for proper and efficient management, and may relax time limits for claiming a refund or carrying forward a loss where genuine hardship is shown [section 239(2) and (3)].

Q. 3 OR (b) — Self-assessment [section 266]

The obligation. Before furnishing a return the assessee must pay the tax due on the income declared, together with the interest and the fee payable. The return is not to be regarded as a valid return unless it is accompanied by **proof of that payment**.

Step	What is done
1	Compute the tax on the total income declared in the return
2	*Less:* advance tax paid, tax deducted or collected at source, and any relief claimed
3	*Add:* the interest under sections 423, 424 and 425, and the fee under section 428
4	The balance is the **self-assessment tax**, payable before the return is furnished

The order of adjustment. Where the amount paid falls short of the aggregate of the fee, the interest and the tax, the payment is adjusted **first towards the fee**, then towards the **interest**, and only the **balance towards the tax**. The order is fixed by the section and cannot be varied at the assessee's option. Its practical effect is that a part payment does not reduce the tax as much as the assessee expects, and interest continues to run on the unpaid tax.

After the assessment is made, the self-assessment tax is treated as paid towards the assessment, and any excess is refunded [section 266].

Q. 3 OR (c) — The general anti-avoidance rule [sections 178 to 180]

What the rule is for. A specific anti-avoidance provision strikes at a device the Act has already identified. A general rule strikes at a device that has not been specifically anticipated. Under **section 178**, an arrangement entered into by an assessee may be declared an **impermissible avoidance arrangement**, and the consequences determined accordingly.

When an arrangement is impermissible [section 179]. The arrangement must satisfy **both** of the following —

Limb	Test
The **main purpose** test	The main purpose of the arrangement is to **obtain a tax benefit**
The **tainted element** test	And it has at least one of four features

The four tainted elements are —

Clause	The element
(a)	It creates **rights or obligations not ordinarily created** between persons dealing at arm's length
(b)	It results, directly or indirectly, in the **misuse or abuse** of the provisions of the Act
(c)	It **lacks commercial substance**, in whole or in part [section 180]
(d)	It is entered into, or carried out, by means or in a manner **not ordinarily employed** for bona fide purposes

The presumption. An arrangement is presumed to have been entered into with the main purpose of obtaining a tax benefit unless the assessee proves otherwise — but the presumption goes only to purpose; the tainted element must still be established. The consequences under **section 181** include disregarding the arrangement, treating parties as one, reallocating income, and denying a treaty benefit; and the procedure under **section 274** requires a reference to the Principal Commissioner and, on his reference, to an Approving Panel.

Q. 4 (a) — Best judgment assessment [section 271]

The circumstances. The Assessing Officer, after taking into account all relevant material which he has gathered, is **bound** to make an assessment to the best of his judgment and determine the sum payable, where the assessee —

Clause	The default
(a)	**Fails to furnish the return** required under section 263(1), or a belated or updated return
(b)	**Fails to comply with a notice** or a direction issued under section 268(1) — production of accounts, or furnishing of information
(c)	**Fails to comply with a notice** under section 270(8) — the scrutiny notice
(d)	Having furnished the return, **fails to comply with the terms of a direction** for a special audit under section 268(5)

The safeguard. The assessment may not be made without giving the assessee an **opportunity of being heard**, by serving a notice calling upon him to show cause why the assessment should not be completed to the best of the Officer's judgment. The opportunity is not required where a notice under section 270(8) has already been issued and not complied with.

What "best judgment" means. The estimate must be **honest and fair**, made on such material as is available and on the Officer's knowledge of the circumstances — the past history of the case, the comparable cases, the nature of the business. It is not a punishment. An estimate having **no rational nexus to any material** would be set aside or substantially reduced on appeal. The default is separately visited with interest, fee and penalty; the assessment is not the place to punish it.

Q. 4 (b) — Time limit for the completion of assessment [sections 286 and 282]

Proceeding	Period runs from	Period
Assessment order under **section 270(10) or 271** — scrutiny or best judgment	End of the **financial year succeeding** the relevant tax year	**One year**
Assessment where an **updated return** is furnished under section 263(6)	End of the financial year in which the updated return is furnished	**One year**
Assessment, reassessment or recomputation under section 279 — escaped income	End of the financial year in which the **notice under section 280** was served	**One year**
Fresh assessment in pursuance of an order under section 359, 363, 377 or 378 setting aside or cancelling an assessment	End of the financial year in which the order is received or passed	**One year**

The exclusions [section 286(3)]. Certain periods are left out in computing the limitation — the time taken in a special audit under section 268(5), the period during which the assessment is **stayed by an order or injunction of a court**, the time taken in obtaining information from a foreign authority, the period of a reference to the Approving Panel under section 274, and the time allowed to the assessee to reply to a show-cause notice.

The sixty-day floor [section 286(4) to (7)]. Where, after excluding those periods, the limitation available to the Assessing Officer is **less than sixty days**, the period is **extended to sixty days**. The rule prevents an exclusion from leaving the Officer with no usable time at all.

Section 282 separately limits the **issue of the notice** under section 280 — the ordinary period, and the extended period where the escaped income represented in the form of an asset crosses the prescribed figure. Limitation for the notice and limitation for the assessment are two different questions.

Q. 4 (c) — The two revisions compared [sections 377 and 378]

Point	Section 377 — prejudicial to the revenue	Section 378 — in favour of the assessee
Who exercises it	The **Principal Commissioner or Commissioner**	The same authority
Whose interest	The **revenue's**	The **assessee's**
The condition	The order is **erroneous** *and* **prejudicial to the interests of the revenue**. Both must be satisfied; an order merely erroneous, or merely unfavourable to the revenue, is not enough	The order is not prejudicial to the assessee. Any relief within the order may be given
How it is set in motion	On the authority's **own motion**	On the authority's own motion, or on an **application by the assessee**
Time limit	**Two years** from the end of the financial year in which the order sought to be revised was passed	The application must be made within **one year** from the date on which the order was communicated; the authority may condone delay. The order must be passed within **one year** from the end of the financial year in which the application is made

Point	Section 377 — prejudicial to the revenue	Section 378 — in favour of the assessee
Opportunity	The assessee must be given an **opportunity of being heard**	Not required to be given, since the order cannot prejudice him
Appeal against the order	Lies to the **Appellate Tribunal** under section 362	**No appeal** lies; the order is final, subject to writ

An order is **deemed** to be erroneous and prejudicial to the revenue in the stated cases — where it is passed without making inquiries or verification which should have been made, or allowing relief without inquiring into the claim, or not in accordance with an order, direction or instruction of the Board.

Q. 4 OR (a) — Scrutiny assessment [section 270]

Step	What happens
1 — **Processing** [section 270(1)]	The return is processed: arithmetical errors and incorrect claims apparent from the information in the return are corrected, the tax and interest computed, and an **intimation** sent. It must be sent within **one year** from the end of the financial year in which the return is furnished
2 — **The notice** [section 270(8)]	Where the Assessing Officer considers it necessary to ensure that the assessee has not understated income, computed excessive loss or underpaid tax, he serves a notice requiring the assessee to attend or to produce evidence. It must be served within **three months** from the end of the financial year in which the return is furnished
3 — **The hearing** [section 270(9)]	The assessee produces the evidence on which he relies. The Officer may make such inquiry as he considers necessary
4 — **The order** [section 270(10)]	After hearing the evidence and taking into account all relevant material, the Officer makes an order in writing assessing the total income or loss and determining the sum payable or refundable

The order must be a **speaking order** — it must deal with the assessee's explanations and give reasons. The whole proceeding is now ordinarily conducted in the **faceless** manner under section 273, through the National Faceless Assessment Centre, and a notice under section 270(8) issued otherwise than in accordance with that scheme would be bad.

Q. 4 OR (b) — Block assessment on a search [sections 292 to 294]

When it applies. Where a **search is initiated under section 247** or a **requisition is made under section 248**, the Assessing Officer proceeds to assess or reassess the **total undisclosed income of the block period** under this Part, irrespective of any other provision of the Act.

The block period. It comprises the **six tax years** preceding the tax year in which the search was initiated or the requisition made, **and** the period of the tax year up to the **date of the initiation of the search** or the date of the requisition. The last fragment is not a full year, and it is measured to the date of initiation, not to the end of the search.

Abatement [section 292(2)].

Provision	What abates
292(2)(a)	Any assessment, reassessment or recomputation proceeding under the **ordinary provisions**, for a tax year falling in the block period, **pending on the date of the search or requisition**, abates on that date
292(2)(b)	Any such proceeding for which a notice is issued between the date of the search and the date of the block assessment order abates on the **date of issue of that notice**

If the block assessment is later **annulled** in appeal or revision, the abated proceeding **stands revived**, and section 286(1) Sl. No. 6 gives the Officer one year from the end of the month of revival to complete it. The undisclosed income of the block period is computed under section 293 and the procedure is in section 294; the tax is charged at the rate fixed for a block assessment, and **interest and penalty are not levied** on the block income under section 297, a penalty being leviable only under section 298.

Q. 4 OR (c) — Appeal to the High Court [sections 365 and 366]

Question	Answer
Against what orders?	Every order passed **in appeal by the Appellate Tribunal**
On what question?	Only where the High Court is satisfied that the case involves a **substantial question of law**. The Tribunal is the final authority on **fact**; a finding of fact is not open unless it is perverse or unsupported by evidence
Who may appeal?	The **assessee**, or the **Principal Commissioner or Commissioner**
Time	**One hundred and twenty days** from the date on which the order is received. The High Court may admit an appeal after that period if satisfied that there was sufficient cause
Form	A memorandum of appeal precisely stating the **substantial question of law** involved
Who hears it?	A bench of **not less than two Judges** [section 366], and the appeal is decided in accordance with the opinion of the majority

Where the High Court is satisfied that a substantial question of law is involved it **formulates** the question, and the appeal is heard on the question so formulated; the respondent may argue that the case does not involve it. The Court may also hear the appeal on any other substantial question of law not formulated, for reasons recorded. The High Court delivers judgment stating the grounds, and the **Tribunal gives effect** to it. **Tax is payable notwithstanding the appeal** [section 369]. From the High Court an appeal lies to the **Supreme Court** under section 367 on a certificate that the case is a fit one.

Q. 5 (a) — Under-reporting and misreporting [section 439]

Under-reporting [section 439(2)]. A person is said to have under-reported his income where, among other cases, the income **assessed** is greater than the income **determined under section 270(1)**; or, where no return has been furnished, the income assessed is greater than the maximum amount not chargeable to tax; or the income reassessed is greater than that assessed earlier; or a loss assessed or reassessed is less than that claimed.

Misreporting [section 439(11)]. Under-reporting is **in consequence of misreporting** in seven cases — misrepresentation or suppression of facts; failure to record investments in the books; a claim of expenditure not substantiated by evidence; recording of a **false entry** in the books; failure to record a receipt having a bearing on total income; failure to report an international transaction or a specified domestic transaction; and undisclosed income referred to in section 195.

The two rates [section 439(9) and (10)].

Case	Penalty
Under-reporting	**50%** of the tax payable on the under-reported income
Under-reporting **in consequence of misreporting**	**200%** of that tax

Applying this to Shri Praful. The under-reported income is ₹14,00,000 − ₹8,00,000 = ₹6,00,000. Of this, the whole ₹6,00,000 arises from a **false entry in the books**, which is a case of misreporting. The tax payable on that income is ₹1,80,000.

Particulars	₹
Under-reported income	6,00,000
Tax payable on the under-reported income [section 439(12)]	1,80,000
Penalty at **200%**, the under-reporting being in consequence of misreporting	**3,60,000**

Had the addition been an ordinary one — a disallowance, or an estimate — with no element of misreporting, the penalty would have been 50% of ₹1,80,000, that is **₹90,000**. The distinction between the two rates is the whole of the section.

Two savings. No penalty is imposed on income in respect of which an **updated return** has been furnished and the tax paid [section 439(13A)]; and no penalty is imposed twice on the same amount [section 439(13)]. Section 440 gives **immunity** where the tax and interest are paid and no appeal filed. Section 470 remains available — no penalty if the assessee proves **reasonable cause**.

Q. 5 (b) — Cash credits and unexplained investments [sections 102 to 107 and 195]

Section	What it catches	When it is charged as income
102	**Cash credits** — a sum credited in the books of the assessee	Where the assessee offers **no explanation** about its nature and source, or the explanation is **not satisfactory** in the opinion of the Assessing Officer
103	**Unexplained investments** — investments not recorded in the books, or recorded at a lower figure	Where they are not recorded, or the explanation of the source is unsatisfactory
104	**Unexplained money**, bullion, jewellery, **virtual digital assets** or other valuable article	Where the assessee is found to be the owner and they are not recorded, or the explanation is unsatisfactory
105	**Unexplained expenditure**	Where the assessee offers no explanation of the source, or it is unsatisfactory
106	Amount **borrowed or repaid on a hundi** otherwise than by account payee cheque	The amount is deemed to be income of the year in which it was borrowed or repaid

A special rule for a share premium [section 102]. Where the assessee is a company, not being one in which the public are substantially interested, and the credit is share application money, share capital or share premium, the explanation is not satisfactory unless the **resident in whose name it is recorded** also offers an explanation which is found satisfactory. The burden is thus on two persons.

The charge [sections 107 and 195]. Section 107 provides that income referred to in sections 102 to 106 shall be charged as per section 195; and section 195(1) charges it at **60%**. With a surcharge of **25%** and the health and education cess, the effective rate is about **78%**.

Three consequences follow [section 195(2)].

- **No deduction** in respect of any expenditure or allowance is allowed against such income;
- **no set off of any loss** is allowed against it; and
- the income is taxed at the flat rate however small the assessee's other income — the slab rates, the rebate and the basic exemption have no application to it.

Such income is also **misreporting** within section 439(11), so the penalty is at 200% of the tax; and a wilful attempt to evade may attract prosecution under section 478.

Q. 5 OR (a) — Immunity, and reasonable cause

Immunity from penalty and prosecution [section 440]. An assessee may apply to the Assessing Officer for immunity from the penalty under section 439 and from prosecution, on two conditions —

#	Condition
1	The **tax and interest** payable as per the order of assessment or reassessment have been **paid within the period specified in the notice of demand**
2	**No appeal** has been filed against that order

The application is made within **one month** from the end of the month in which the order was received, in the prescribed form. The Assessing Officer **shall grant** immunity where the conditions are satisfied and the proceeding is not one for misreporting under section 439(11) — immunity is **not available where the under-reporting is in consequence of misreporting**. He must give the assessee an opportunity of being heard before rejecting an application, and must pass the order within one month from the end of the month in which the application is received. The order is **final**, and where immunity is granted no appeal or revision lies against the assessment order on that issue.

Reasonable cause [section 470]. Irrespective of anything in the penalty provisions, no penalty shall be imposable on a person for any failure referred to in the specified sections if he proves that there was **reasonable cause** for the failure.

- The burden is on the **assessee**, and it is a burden of proof, not of assertion.
- The provision applies to the failures listed; it does not extend to the penalty for under-reporting under section 439, which has its own scheme of exclusions in section 439(8).
- What has been accepted as reasonable cause includes the **death or serious illness** of the person in charge, the **seizure of records** in a proceeding, a genuine and reasonable belief founded on advice, and circumstances beyond the assessee's control.

Distinguish **section 469**, under which the Principal Commissioner or Commissioner may **reduce or waive** a penalty already imposable — that is a discretion exercised after the liability exists, whereas section 470 prevents the liability from arising at all.

Q. 5 OR (b) — Requisition, and the application of seized assets [sections 248 and 250]

The power to requisition [section 248]. Books of account, documents or assets are sometimes already in the custody of **another officer or authority** under some other law — the police, an excise authority, a court. A search cannot be made on such a custodian. Section 248 allows the competent authority, in consequence of information in his possession, to have **reason to believe** —

- that a person to whom a summons or notice has been or might be issued **would not produce** the books or documents, and they have been taken into custody by such an officer or authority; or
- that any **assets** so taken into custody represent wholly or partly income or property which has not been, or would not be, disclosed.

He may then **authorise an officer to require** that officer or authority to **deliver** the books, documents or assets to him; and on delivery, the provisions apply **as if they had been seized in a search** under section 247. The requisition is thus a substitute for a search where the material is already in official custody.

The application of assets seized or requisitioned [section 250].

Step	What happens
1	The assets may be **dealt with** in the manner provided — they are not the property of the Department, and are held to be applied against the liability
2	The **existing liability** under the Act, and the liability determined on completion of the block assessment, including any penalty and interest, are **recovered out of the assets**
3	The assessee may make an **application within thirty days** from the end of the month in which the asset was seized, explaining the **nature and source** of its acquisition

Step	What happens
4	Where the Assessing Officer is satisfied, with the prior approval of the specified authority, that the source is explained, the asset or the part of it may be **released** — within **120 days** from the date on which the last of the authorisations was executed
5	Any **surplus** remaining after the liabilities are discharged is **returned** to the person from whom the assets were seized

Money seized may be applied directly. Where the assets are other than money, they may be sold and the proceeds applied. Interest is payable to the assessee on the amount of the surplus, on the prescribed basis, from the date of the order of assessment to the date of the refund.