



**GOVERNMENT OF INDIA
MINISTRY OF FINANCE
INCOME TAX DEPARTMENT
OFFICE OF THE INCOME TAX OFFICER
WARD 10(3),HYDERABAD**

To,
SILVER OAK REALTY
5-4-187/3&4 II FLOOR 5-4-187/3&4 II FLOOR
,SOHAM MANSION M G ROAD
RANIGUNJ 500003 ,Telangana
India

PAN: ACXFS3783R	AY: 2016-17	Notice No: ITBA/AST/F/143(3)(SCN)/20 18-19/1014381642(1)	Dated: 18/12/2018	Hearing Date and Time: 20/12/2018 05:30 PM
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SHOW CAUSE NOTICE

Refer to the submissions made on 13-12-2018. You are requested to furnish the following information as under:

1. You have stated that the payments were made by M/s.MPPL as the Bank account of the firm got attached vide notices u/s.226(3) of the I.T.Act. wef 22-09-2015. However it is noticed that M/s.MPPL has made payments on behalf of the firm from 01-04-2015 itself. Furnish the reasons for the same.
2. As seen from the bills and vouchers furnished, the material/goods were received by M/s.MPPL as per their Inward seal attested on all the bills. In this connection explain why the material is being received by MPPL and why the same should not be disallowed as the partner M/s.MPPL is also in the same field of business and the material might have utilized by MPPL and bills paid accordingly.
3. The ledger account copy of M/s.Religare loan CC-1 & 2 is not legible as some amounts were not visible. Furnish the ledger account once again.
4. On perusal of the ledger account of M/s.Religare Finance loan accounts some prior period payments were made. The same shall be disallowed as prior period expenditure.
5. You are requested to confirm whether the companies M/s.Modi Properties Pvt Ltd and M/s. Modi Properties & Investments Pvt. Ltd are one and the same as you have furnished the bank account statement in case of your partner in the

name of M/s.Modi Properties Pvt Ltd instead of M/s.Modi Properties & Investment Pvt. Ltd. In the previous notices also the discrepancy in the name of the partner in the bank account was pointed out. If the payments are made by M/s.MPPL how the same are being credited to the capital account of M/s.MPIPL ?

6. The bill payments that are shown to be paid on behalf of the firm are not appearing in the bank account of the partner. You are requested to furnish the mode of payment and the date of payment of the bills by your partner in a statement form. As there is no evidence of payment by the partner, the bill payments shall be disallowed.
7. What is source of income of the partner M/s.Modi Properties & Investment Pvt Ltd. and furnish the copy of the ITR filed by the above partner for the AY 2016-17 alongwith financial statements.
8. With reference to the sale of 16.5 Guntas land, the following discrepancies are noticed.
 1. You have replied earlier that the land admeasuring 16.5 Guntas has been shown in the Asst. year 2006-07 under Inventories of Rs. 8,35,69,900/-. However as seen from the financials of AY 2006-07, purchases of phase –III the land at cherlapally was quantified at Rs.1,23,60,055/-. As per the document furnished the land at cherlapally purchased on 27-01-2006 vide document no.1759/2006 is registered at Rs.25,71,850/- inclusive of all expenses. You are therefore requested to bifurcate the purchases of Rs.1,23,60,055/- alongwith the copy of the deeds that are included in the amount of Rs.1,23,60,055/-.
 2. As verified with the information available on record for the previous years, the stock of land under inventories(At cost) is as under:

	Asst.Year 2013-14	Asst.Year 2014-15	Asst.Year 2015-16	Asst.Year 2016-17
PHASE –II	9,28,007	6,74,307	4,62,000	4,62,000
PHASE-III	63,41,231	41,31,848	31,59,115	14,03,389
Land 16.5 guntas			8,16,100	
PHASE-IV	36,17,585,	36,17,585	-	-

PHASE-VII	3,14,280	3,14,280	-	-
PHASE-IX	9,10,60,300	9,16,60,300	9,16,60,300	9,16,60,300

1. It is pertinent to note that upto Asst. Year 2015-16, the firm has never shown the land of 16.5 guntas in its inventories. Actually the land that was available in the Phase-III got exhausted by the financial year 2014-15 relevant to the Asst. year 2015-16. In order to cover up the discrepancy in the stock of land, the firm has transferred the land held in the phase-IV to the phase-III during the year 2014-15. The reason for transferring the land from phase-IV to Phase-III was not disclosed in its accounts. The actual position of land in phase-III as on 31-03-2015 is as under:

Opening balance as on 01-04-2014 : Rs.41,31,848

Less: Land value of sales declared flats tr. to construction account : Rs. 37,74,218

Balance land available : Rs.
3,57,630

Transfer from Phase-IV on account of land 16.5 guntas : Rs. 36,17,585

Closing value as on 31-03-2015 : Rs.
39,75,215

Less: Land value of 16.5 Guntas sy. No.44 & 45 : Rs., 8,16,100

Balance land :
Rs.31,59,115

1. It is also a point to note that the survey number of the land of 16.5Guntas is Sy.No.34 whereas the survey no. 44 and 45 was converted under the disguise of the land of 16.5Guntas. The land in phase-IV was deliberately transferred to phase-III to cover up the above discrepancy.
2. The submissions made by the assessee vide its letter dated 27-12-2017 during the assesment proceedings for the Asst. Year 2015-16 are reproduced as under:

"Details of finished flats/ houses in closing stock: The firm in the course of its real estate business has undertaken housing project situated at

charlapally, Hyderabad. The project is taken in phases. The project under phase-I has been completed during the previous year relevant to the Asst. Year 2009-10. Further land in Sy.no.82/1 have been sold in Asst Year 2010-11.

During the year works only for phase II, Phase III and phase VII are running during the Assessment Year 2015-16. For other phases i.e. phase IV, V , VI and IX have been either not started and /or project have been abandoned/cancelled.

The project is for developing independent houses. There are no finished houses as on 31-03-2015 which are unsold and are forming part of closing stock."

1. The same is also evidenced by a phase wise statement submitted by the firm wherein the land of 16.5 Guntas was first time shown only during the Asst. Year 2015-16 where the land belonging to phase-iv (Rs.36,17,585/-) has been bifurcated as Rs.28,01,485 under phase-III(villas) and the balance of Rs.8,16,100 under land of 16.5 guntas.
2. In view of the above, the intention of the assessee in transferring the land in phase IV where there is no activity is only to cover up the shortfall of land in phase-III.
3. The total land purchased vide document no.1759 of 2006 in Sy.no's 34, 40 & 41 at a cost Rs. 25,71,850/-. As the value of the 16.5 guntas land of Rs.8,16,100/- is transferred to construction expenses the balance amount of Rs.17,55,726/- is also transferred to the construction expenses on account of sales declared flats. As seen from the EC, substantial land of the sy.nos.40 & 41 were already sold relating during the FY's 2011-12 & 2012-13 itself.
4. Further, the firm has consistently shown a Estimated Gross profit/Gross profit margin of 15% in all the projects since its commencement. During the year, the firm has sold the land of 16.5 guntas to its partner for a consideration of Rs.1,20,00,000/- and has offered the same as business income. Vide its reply the firm stated that the total turnover excluding the sale of land is Rs.7,23,87,210/- and the firm offered a gross profit of Rs.20,08,580/- which constitutes about Gross Profit of 2.77%.
5. As seen from the notes to accounts as per schedule "O " annexed to the financial statements for the Asst. Year 2015-16, the firm has estimated its gross profit of RS.13,40,000/- @10% on the installments of Rs.1,34,00,000/- during the year that is credited to the construction account and debited to work in progress account. Therefore the gross profit offered on account of sale of completed houses for the Asst. year 2016-17 is only Rs.6,68,580/- that is highly

illogical to the nature of business carried on by the assessee firm.

6. Further the firm vide its reply dated 10-12-2018 submitted that it has already accounted for the profits on Phase VII on an estimated basis in the earlier years and on the basis of general prudence losses are to be recognized. The contention of the assessee cannot be accepted as the estimates were done year to year basing on the construction costs incurred on a yearly basis. No prudent business would declare higher profits on an estimate basis. There cannot be any loss on a real estate project as a going concern and where still the work is in progress.
7. Further against a gross profit of Rs.20,08,580/-, the firm has claimed an expenditure of Rs.1,23,11,643/- as indirect expenditure which has no reasonableness by any imagination for a business to carry on.
8. In view of the above, the profits on the sale of land were not disclosed fully and it is an after thought submission of the assessee that the profits are shown at Rs.1,11,89,900/-. The assessee has diverted its profits earned on sale of houses towards the profit on land which is not acceptable.

In view of the above, you are requested to show-cause why the book results should not be rejected u/s.145(3) of the I.T.Act and profit should not be re-worked on the sale of land in addition to the profit declared by the assessee @15.65% and complete the assessment u/s.144 of the I.T.Act,1961. You are therefore requested to offer your submissions on the issues discussed above/objections on or before 20-12-2018 failing which it will be presumed that you have no objection for the proposed assessment

SARALA BASAVARAJU
WARD 10(3),HYDERABAD

(In case the document is digitally signed please refer Digital Signature at the bottom of the page)

This document is digitally signed



Signer: SARALA BASAVARAJU
Date: Tuesday, December 18, 2018 4:35 PM
Location: HYDERABAD, India