

MOCK TEST PAPER - 2
INTERMEDIATE (NEW) COURSE
PAPER – 4: TAXATION

Time Allowed – 3 Hours

Maximum Marks – 100

SECTION – A: INCOME TAX LAW (60 MARKS)

Question No. 1 is compulsory

Attempt any **five** questions from the remaining **six** questions

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note.

Your answers should be based on the provisions of Income-tax law as amended by the Finance Act, 2017. The relevant assessment year is A.Y.2018-19.

1. Dr. K.P. Singh, a resident individual aged 45 years, furnishes you the following information:

Income and Expenditure Account for the year ended 31st March 2018

Particulars	Rs.	Particulars	Rs.
To Medicines consumed	42,42,000	By Fee receipts	59,47,500
To Staff salary	11,65,000	By Rent	27,000
To Hospital consumables	47,500	By Dividend from Indian companies	9,000
To Rent paid	60,000		
To Administrative expenses	1,23,000		
To Net Income	3,46,000		
	59,83,500		59,83,500

- (i) Rent paid includes rent for his residential accommodation of Rs. 40,000 (paid by cheque) at Bangalore.
- (ii) Hospital equipments (eligible for depreciation @15%)
 01.04.2017 Opening WDV Rs.5,00,000
 07.12.2017 Acquire by A/c payee cheque (Cost) Rs.2,00,000
- (iii) Medicines consumed include medicines (cost) Rs. 10,000 used for Dr. K.P. Singh's family.
- (iv) Rent received – relates to a property situated at Mumbai (Gross Annual Value). The municipal tax of Rs. 2,000 paid in November, 2017 has been included in the "administrative expenses".
- (v) He received Rs. 5,000 per month as salary from Full Cure Hospital. This has not been included in the "fee receipts" credited to income and expenditure account.
- (vi) He sold a vacant site in July, 2017 for Rs.7,50,000. It was inherited by him from his father in July, 2004. The site was acquired by his father in December, 1990 for Rs.1,50,000. Fair market value of vacant site on 01.04.2001 is Rs. 2,50,000

(Cost inflation index for F.Y 2001-02: 100; 2004-05: 113 and 2017-18:272)

You are required to compute the total income and tax payable by Dr. K.P. Singh for the Assessment Year 2018-19. **(10 Marks)**

2. (a) For the Assessment year 2018-19, the Gross Total Income of Mr. Manas, a resident in India aged 65 years, was Rs.8,18,240 which includes long-term capital gain of Rs.2,45,000 and Short-term capital gain of Rs. 98,000. The Gross Total Income also includes interest income of Rs. 15,000 from savings bank deposits with banks. Mr. Manas has invested in PPF Rs.1,40,000 and also paid a medical insurance premium Rs. 31,000. Mr. Manas also contributed Rs. 40,000 to Public Charitable Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Manas. **(7 Marks)**
- (b) State any three instances where the income of the previous year is assessable in the previous year itself instead of the assessment year. **(3 Marks)**
3. From the following details furnished by Mrs. Heena, a finance manager of AB Ltd., Delhi, compute the gross total income for the Assessment Year 2018-19.

Particulars	Amount (Rs.)
Salary including Dearness Allowance (Dearness Allowance forms part of salary for retirement benefits)	6,50,000
Conveyance allowance of Rs.900 p.m.	10,800
Children education allowance	Rs.500 p.m. for two children
Bonus	50,000
Salary of servant provided by the employer	48,000
Bills paid by the employer for gas, electricity and water provided free of cost at the residence of Mrs. Heena	82,000
Computer (cost Rs.35,000) kept by the employer in the residence of Mrs. Heena from 01.07.2017	
Contribution to recognized provident fund	15 % of salary including D.A.

Heena purchased a flat in a co-operative housing society in Rohini, Delhi for self occupation for Rs.35,00,000 in April 2014, which was financed by a loan from State Bank of India of Rs.20,00,000 @11% interest and her own savings of Rs.5,00,000 and a deposit of Rs.10,00,000 from Bank of Baroda, to whom she let out her another house in Dwarka, Delhi on lease for ten years. The rent payable by Bank of Baroda is Rs. 35,000 per month. Other relevant particulars are given below:

- (i) Municipal taxes paid by Heena for her flat in Rohini are Rs. 15,000 per annum and for her house in Dwarka are Rs. 12,000 per annum.
- (ii) Principal loan amount outstanding as on 01-04-2017 was Rs.18,50,000.
- (iii) She also paid Rs. 7,000 towards insurance of both the houses.
- (iv) Mrs. Heena's son is studying in a school run by the employer company throughout the financial year 2017-18. The education facility was provided free of cost. The cost of such education in similar school is Rs.2,500 per month.
- (v) Heena also received gifts of Rs.45,000 each from her two friends during the financial year 2017-18. **(10 Marks)**
4. Mrs. Bhawna and Mrs. Prerna are sisters and they earned the following income during the Financial Year 2017-18. Mrs. Bhawna is settled in Malaysia since 1986 and visits India for a month every year. Mrs. Prerna is settled in Indore since her marriage in 1994. Compute the Gross total income of Mrs. Bhawna and Mrs. Prerna for the assessment year 2018-19:

Sl. No.	Particulars	Mrs. Bhawna (Rs.)	Mrs. Prerna (Rs.)
(i)	Income from Profession in Malaysia, (set up in India) received there	15,000	

(ii)	Profit from business in Delhi, but managed directly from Malaysia	40,000	-
(iii)	Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels.	1,20,000	-
(iv)	Dividend from PQR Ltd., an Indian Company	5,000	9,000
(v)	Agricultural income from land in Maharashtra	7,500	4,000
(vi)	Past foreign untaxed income brought to India	5,000	-
(vii)	Fees for technical services rendered in India received in Malaysia	25,000	-
(viii)	Income from a business in Pune (Mrs. Bhawna receives 50% of the income in India)	12,000	15,000

(10 Marks)

5. (a) Compute the total income of Mr. Prince (aged 48), a resident Indian, from the following information relating to the financial year ended 31.3.2018. Also, show the items eligible for carry forward to the A.Y. 2019-20.

Particulars	Rs.
Income from salaries	2,20,000
Loss from house property	1,90,000
Loss from toy business	2,40,000
Income from speculation business	30,000
Loss from specified business covered under section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid both at the time of acquisition and sale)	1,10,000
Income from betting (Gross)	45,000

(6 Marks)

- (b) Mr. Raju gifted a sum of Rs.10 lacs to his brother's minor daughter on 07-04-2017. On 16-04-2017, his brother gifted debentures worth Rs.12 lacs to the wife of Mr. Raju. Daughter of Mr. Raju's brother invested the amount in fixed deposit with Bank of India @ 9% p.a. interest and Mrs. Raju received interest of Rs. 90,000 on debentures received by her.

Examine the implications under the provisions of the Income-tax Act, 1961

(4 Marks)

6. (a) Examine with brief reasons whether the following statements are true or false with reference to the provisions of the Income-tax Act, 1961:
- (i) Mr. Qureshi, a shareholder of a closely held company, holding 15% shares, received advances from that company which is to be deemed as dividend from an Indian Company, hence exempted under section 10(34).
- (ii) Rent of Rs. 72,000 received by Mr. X for letting out agricultural land for a movie shooting is an agricultural income and hence exempt under section 10(1). **(4 Marks)**
- (b) Mr. Akash, a property dealer, sold a building in the course of his business to his friend Varun, who is a share broker, for Rs.85 lakh on 12.12.2017, when the stamp duty value was Rs.130 lakh. The agreement was, however, entered into on 10.6.2017 when the stamp duty value was Rs.120 lakh. Mr. Akash had received a down payment of Rs.15 lakh by a crossed cheque from Varun on the date of agreement. Discuss the tax implications in the hands of Akash and

Varun, assuming that Mr. Akash has purchased the building for Rs.65 lakh on 29th August, 2016. **(6 Marks)**

7. (a) Specify the persons who are authorized to verify under section 140, the return of income filed under section 139 of the Income-tax Act, 1961 in the case of:
- (i) Political party;
 - (ii) Local authority;
 - (iii) Association of persons, and
 - (iv) Limited Liability Partnership (LLP).

(4 Marks)

OR

- (a) Explain the term "return of loss" under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required? **(4 Marks)**
- (b) Examine the applicability of TDS provisions, if any, to be deducted in the following cases:
- (i) ABC Ltd. paid Rs.19,000 to one of its Directors as sitting fees on 1-01-2018.
 - (ii) Payment made by a firm to a sub-contractor, Mr. Y, Rs.3,00,000 with outstanding balance of Rs.1,20,000 shown in the books as on 31-03-2018.
 - (iii) Fee paid to Dr. Khanna by Mr. A (HUF) Rs.40,000 for surgery performed on a member of the family. **(6 Marks)**

SECTION B - INDIRECT TAXES (40 MARKS)

QUESTIONS

Question no. 1 is compulsory. Attempt any three questions out of the remaining four questions.

- (i) Working Notes should form part of the answers.
- (ii) Wherever necessary, suitable assumptions may be made by the candidates, and disclosed by way of note.
- (iii) All questions should be answered on the basis of the position of GST law as amended up to 30th April, 2018.
- (iv) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. Further, GST compensation cess should be ignored in all the questions, wherever applicable.

1. (a) Mr. Kanhaiya, a supplier of goods, pays GST under regular scheme. He is not eligible for any threshold exemption. He has made the following outward taxable supplies in the month of January, 2018 :-

	Rs.
Intra state supplies of goods	6,00,000
Inter state supplies of goods	2,00,000

He has also furnished following information in respect of purchases made by him from registered dealers during January, 2018 :-

	Rs.
Intra state purchase of goods	4,00,000
Inter state purchase of goods	50,000

Balance of ITC available at the beginning of the January 2018 :-

	Rs.
CGST	15,000
SGST	35,000
IGST	20,000

Note:

- (i) Rate of CGST, SGST and IGST to be 9%, 9% and 18% respectively, on both inward and outward supplies.
- (ii) Both inward and outward supplies given above are exclusive of taxes, wherever applicable.
- (iii) All the conditions necessary for availing the ITC have been fulfilled.

Compute the net GST payable by Mr. Kanhaiya for the month of January, 2018. **(6 Marks)**

- (b) Radiance Soap Factory, a registered supplier, is engaged in manufacturing beauty soaps – 'Glow 24x7' in Mumbai. It has provided the following information pertaining to purchases made/services availed in the month of January, 2018:

Particulars	GST paid (Rs.)
Soap making machine	50,000
Motor vehicles for transportation of inputs	70,000

Membership of "Amaze" health and fitness centre for its employees	25,000
Inputs purchased, but stolen from the factory	40,000

You are required to compute the input tax credit (ITC) available with Radiance Soap Factory for the month of January, 2018 assuming that all the other conditions for availing ITC, wherever applicable, have been fulfilled. **(4 Marks)**

2. (a) Euphoria Ltd., Delhi, a registered supplier, is manufacturing taxable goods. It provides the following details in relation to inter-State supply of Product A made by it for the month of March, 2018.

Particulars	Amount in (Rs.)
List price of product A supplied inter-state (exclusive of taxes)	15,00,000
Subsidy received from Central Government for supply of product A to Government School.	2,10,000
Subsidy received from a NGO for supply of product A to an old age home	50,000
Tax levied by Municipal Authority	20,000
Packing charges	15,000
Late fee received in March, 2018 from the recipient of product A for delayed payment of invoice	6,000

The list price of the goods takes into account the two subsidies received. However, the other charges/taxes/fee are charged to the customers over and above the list price. Calculate the value of taxable supply made by M/s Euphoria Ltd. and GST payable for the month of March, 2018. Rate of IGST is 18%. **(5 Marks)**

- (b) Explain the meaning of the term "recipient of supply of goods and/or services" under the CGST Act, 2017. **(5 Marks)**
3. (a) M/s. Modish and Stylish Company is a partnership firm of interior decorators and also running a readymade garment showroom. Turnover of the showroom was Rs. 80 lakh and receipts of the interior decorators service was Rs. 22 Lakh in the preceding financial year.

With reference to the provisions of the CGST Act, 2017, examine whether the firm can opt for the composition scheme?

Will your answer change, if the turnover of the showroom was Rs. 70 lakh and receipts of the interior decorators service was Rs. 22 Lakh in the preceding financial year ?

Also discuss whether it is possible for M/s. Modish and Stylish Company to opt for composition scheme only for showroom? **(6 Marks)**

- (b) Food meal coupons are sold to a company on 9th August for being distributed to the employees of the said company. The coupons are valid for six months and can be used against purchase of food items. The employees use them in various stores for purchases of various edible items on different dates throughout the six months.

What is the date of supply of the coupons? **(4 Marks)**

4. (a) Under what circumstances does the need of issuance of debit note and credit note arise under section 34 of CGST Act, 2017? **(5 Marks)**
- (b) Answer the following with reference to GST Laws :
- (i) What is CIN? **(2 Marks)**
- (ii) How does the new payment system benefit the taxpayer & the Commercial Tax Department? **(3 Marks)**

5. (a) Determine the effective date of registration in the following instances:
- (i) The aggregate turnover of Ganesh Ltd., engaged in taxable supply of services in the state of Punjab, exceeded Rs. 20 lakh on 25th August, 2017. It applies for registration on 19th September, 2017 and is granted registration certificate on 29th September, 2017.
 - (ii) What will be your answer, if in the above scenario, Ganesh Ltd. submits the application for registration on 27th September, 2017 and is granted registration on 5th October, 2017?
(4 Marks)
- (b) Determine with reason whether the following statements are true or false:
- (i) A registered person shall issue separate invoices for taxable and exempted goods when supplying both taxable as well as exempted goods to an unregistered person.
 - (ii) A Non-banking financial company can issue a consolidated tax invoice at the end of every month for the supply made during that month.
(4 Marks)
- (c) List any four state levies, which are subsumed in GST.
(2 Marks)

MOCK TEST PAPER - 2
INTERMEDIATE (NEW) COURSE
PAPER – 4: TAXATION
SECTION – A: INCOME TAX LAW
SOLUTIONS

1. **Computation of total income of Dr. K.P. Singh for the previous year ended 31.03.2018**

Particulars	Rs.	Rs.
Income from Salaries		
Salary received @ Rs.5,000 per month		60,000
Income from house property		
Gross Annual Value (Rent is taken as GAV in the absence of any other information)	27,000	
Less: Municipal tax	2,000	
Net Annual Value	25,000	
Less: Deduction under section 24 @30%	7,500	17,500
Income from business or profession		
Net income as per Income & Expenditure Account	3,46,000	
Add: Rent paid for residence	40,000	
Medicines consumed – personal use	10,000	
Municipal tax relating to let out property included in administrative expenses – disallowed	2,000	
	3,98,000	
Less: Depreciation (Note 2)	90,000	
Rent credited to income & expenditure account	27,000	
Dividend from Indian companies	9,000	2,72,000
Capital Gains (Long term capital gains since held form more than 24 months)		
Sale consideration	7,50,000	
Less: Indexed cost acquisition (Rs.2,50,000 x 272/113) (Note 3)	6,01,770	1,48,230
Income from other sources		
Dividend from Indian companies	9,000	
Less: Exempt under section 10(34)	9,000	Nil
Gross Total income		4,97,730
Less: Deduction under Chapter VIA		
Under section 80GG, rent paid would be allowable as a deduction to the extent of the least of the following		
(i) 25% of total income = 25% of Rs.3,49,500 (See Note 1)	87,375	
(ii) Excess of rent paid over 10% of total income (Rs.40,000 – Rs.34,950)	5,050	
(iii) Rs.5,000 per month	60,000	
Least of the above		5,050
Total Income		4,92,680

Computation of tax liability of Dr. K.P. Singh for the Assessment Year 2018-19

Particulars	Rs.
Tax on long term capital gains 20% of Rs.1,48,230	29,646
Tax on other income of Rs.3,44,450 [Rs. 4,92,680 – Rs. 1,48,230]	4,723
	34,369
Add: Education cess@2% and secondary and higher education cess@1%	1,031
Tax liability	35,400

Notes:

1. Deduction under section 80GG is to be made from Gross Total Income. Gross Total Income as defined under section 80B(5) means the total income computed in accordance with the provisions of this Act, before making any deduction under Chapter VI-A. Under section 112(2), Long term capital gains have to be reduced from Gross Total Income and Chapter VI-A deductions should be allowed as if the Gross Total income so reduced were the Gross Total Income of the assessee. Therefore, in this case, for the purpose of allowing deduction u/s 80GG, Gross Total Income = Rs.4,97,730 – Rs.1,48,230 = Rs.3,49,500.

2. Depreciation on plant & machinery

	Rs.
On opening WDV of Rs.5,00,000 @15%	75,000
On equipment acquired Rs.2,00,000 @7.5% (50% thereon, since acquired in December, 2017)	15,000
	90,000

3. Since the property was acquired by Dr. K.P. Singh through inheritance, the cost of acquisition to him would be the cost of acquisition to the previous owner. As per section 55(2)(b), Cost of acquisition to the previous owner would be the higher of cost of acquisition to the previous owner i.e., Rs.1,50,000 or Fair Market Value of the capital asset on 01.04.2001 i.e., Rs. 2,50,000. However, indexation will be from the year in which the assessee (i.e., Dr. K.P. Singh in this case) first held the asset i.e. F.Y. 2004-05.

Alternative view: In the case of *CIT v. Manjula J. Shah 16 Taxmann 42 (Bom.)*, the Bombay High Court held that the indexed cost of acquisition in case of gifted asset can be computed with reference to the year in which the previous owner first held the asset.

As per this view, this indexed cost of acquisition of the vacant site would be Rs.6,80,000.

2. (a) **Computation of total income and tax payable by Mr. Manas for the A.Y. 2018-19**

Particulars	Rs.	Rs.
Gross total income including long term capital gain		8,18,240
Less: Long term capital gain		<u>2,45,000</u>
		5,73,240
Less: Deductions under Chapter VI-A:		
Under section 80C in respect of PPF deposit	1,40,000	
Under section 80D (it is assumed that premium of Rs.31,000 is paid by otherwise than by cash. The deduction would be restricted to Rs.30,000, since Mr. Manas is a senior citizen)	30,000	
Under section 80G (See Notes 1 & 2 below)	19,662	
Under section 80TTA (See Note 3 below)	<u>10,000</u>	<u>1,99,662</u>

Total income (excluding long term capital gains)	<u>3,73,578</u>
Total income (including long term capital gains)	6,18,578
Total income (rounded off)	6,18,580
Tax on total income (including long-term capital gains of Rs.2,45,000)	
LTCG Rs.2,45,000 x 20%	49,000
Balance total income Rs.3,73,580	<u>3,679</u>
	52,679
<i>Add:</i> Education cess @2% and Secondary and higher education cess @1%	<u>1,580</u>
Total tax liability	<u>54,259</u>
Total tax liability (rounded off)	54,260

Notes:

1. **Computation of deduction under section 80G:**

Particulars	Rs.
Gross total income (excluding long term capital gains)	5,73,240
Less: Deduction under section 80C, 80D & 80TTA	1,80,000
	<u>3,93,240</u>
10% of the above	39,324
Contribution made	40,000
Lower of the two eligible for deduction under section 80G	39,324
Deduction under section 80G – 50% of Rs.39,324	19,662

2. Deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding Rs. 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
 3. Deduction of upto Rs. 10,000 under section 80TTA is allowed, *inter alia*, to an individual assessee if gross total income includes interest income from deposits in a saving account with bank.
- (b) The income of an assessee for a previous year is charged to income-tax in the assessment year following the previous year. However, in a few cases, the income is taxed in the previous year in which it is earned. These exceptions have been made to protect the interests of revenue. The exceptions are as follows:
- (i) Where a ship, belonging to or chartered by a non-resident, carries passengers, livestock, mail or goods shipped at a port in India, the ship is allowed to leave the port only when the tax has been paid or satisfactory arrangement has been made for payment thereof. 7.5% of the freight paid or payable to the owner or the charterer or to any person on his behalf, whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned.
 - (ii) Where it appears to the Assessing Officer that any individual may leave India during the current assessment year or shortly after its expiry and he has no present intention of returning to India, the total income of such individual for the period from the expiry of the respective previous year up to the probable date of his departure from India is chargeable to tax in that assessment year.

- (iii) If an AOP/BOI etc. is formed or established for a particular event or purpose and the Assessing Officer apprehends that the AOP/BOI is likely to be dissolved in the same year or in the next year, he can make assessment of the income up to the date of dissolution as income of the relevant assessment year.
- (iv) During the current assessment year, if it appears to the Assessing Officer that a person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets to avoid payment of any liability under this Act, the total income of such person for the period from the expiry of the previous year to the date, when the Assessing Officer commences proceedings under this section is chargeable to tax in that assessment year.
- (v) Where any business or profession is discontinued in any assessment year, the income of the period from the expiry of the previous year up to the date of such discontinuance may, at the discretion of the Assessing Officer, be charged to tax in that assessment year.

[Note – Any 3 may be given in the answer]

3. Computation of Gross Total Income of Mrs. Heena for the A.Y. 2018-19

Particulars	Rs.	Rs.
Salaries		
Salary including dearness allowance		6,50,000
Bonus		50,000
Employer's contribution to recognized provident fund in excess of 12% of salary (i.e., 3% of Rs.6,50,000)		19,500
Conveyance allowance (Fully exempt under section 10(14)(i) read with Rule 2BB(1)(c), assuming that it is granted to meet the expenditure actually incurred on conveyance in performance of duties of an office or employment of profit).		Nil
Children education allowance (Rs.500 x 12)	6,000	
Less: Exempt under section 10(14) (Rs.100 x 2 x 12)	2,400	3,600
Value of perquisites:		
(i) Salary of servant [Rule 3(3)]	48,000	
(ii) Free gas, electricity and water [Rule 3(4)]	82,000	
(iii) Cost of free education provided by employer (Rs. 2,500 x 12) is fully taxable, since the cost of education exceeds Rs.1,000 per month [Rule 3(5)].	30,000	
(iv) Computer provided in the residence of employee by the employer-not chargeable to tax [Rule3(7)(vii)]	Nil	1,60,000
Income chargeable under the head "Salaries"		8,83,100
Income from house property		
Let-out property (At Dwarka)		
Gross Annual Value (GAV) (Lease rental is taken as GAV in the absence of other information) (Rs.35,000 × 12)	4,20,000	
Less: Municipal taxes paid	12,000	
Net Annual Value (NAV)	4,08,000	
Less: Deduction under section 24(a): 30% of NAV* (A)	1,22,400	
(A)		2,85,600
Self-occupied property (At Rohini)		
Net Annual Value (NAV) [Since the property is self-occupied]		Nil

* No separate deduction is allowable in respect of insurance.

Less: Deduction under section 24(b) Interest on loan from State Bank of India @11% of Rs.18,50,000 = Rs.2,03,500 restricted to	(2,00,000)	
(B)	(2,00,000)	
Income from house property [A - B]		85,600
Income from Other Sources Gift received from two friends [taxable under section 56(2)(x)] since the aggregate amount received during the year exceeds Rs.50,000 (Rs.45,000 x 2)		90,000
Gross Total Income		10,58,700

4. The residential status of Mrs. Bhawna and Mrs. Prerna has to be determined on the basis of the number of days of their stay in India. Since Mrs. Bhawna is settled in Malaysia since 1986, she would be a non-resident for A.Y. 2018-19. Her visit to India for a month every year would not change her residential status. However, Mrs. Prerna would be resident and ordinarily resident for A.Y. 2018-19, since she is settled in India permanently since 1994.

Based on their residential status, the gross total income of Mrs. Bhawna and Mrs. Prerna would be determined as follows:

Computation of Gross Total Income of Mrs. Bhawna & Mrs. Prerna for the A.Y. 2018-19

S. No.	Particulars	Mrs. Bhawna (Non-Resident) (Rs.)	Mrs. Prerna (Resident) (Rs.)
(i)	Income from profession in Malaysia (set up in India) received there (See Note below)	-	-
(ii)	Profit from business in Delhi, but managed directly from Malaysia (See Note below)	40,000	-
(iii)	Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels (See Note below)	-	-
(iv)	Dividend from PQR Ltd. an Indian Company [Exempt under section 10(34), both in the hands of non-resident and resident]	-	-
(v)	Agricultural income from land in Maharashtra [Exempt under section 10(1), both in the hands of non-resident and resident].	-	-
(vi)	Past foreign untaxed income brought to India [Not taxable, since it does not represent income of the P.Y.2017-18].	-	-
(vii)	Fees for technical services rendered in India, but received in Malaysia (See Note below)	25,000	-
(viii)	Income from a business in Pune (Mrs. Bhawna receives 50% of the income in India) (See Note below)	12,000	15,000
Gross Total income		77,000	15,000

Note:

As per section 5(1), global income is taxable, in case of a resident. However, as per section 5(2), only the following incomes are chargeable to tax, in case of a non-resident:

- (i) Income received or deemed to be received in India; and

(ii) Income accruing or arising or deemed to accrue or arise in India.

Therefore, income from profession in Malaysia and rent from property in Malaysia received in Malaysia by Mrs. Bhawna, a non-resident, would not be taxable in India, since both the accrual and receipt are outside India.

However, profit from business in Delhi would be taxable in India in the hands of Mrs. Bhawna, even though it is managed directly from Malaysia.

Further, by virtue of section 9(1)(vii), fees for technical services rendered in India would also be taxable in the hands of Mrs. Bhawna, since it is deemed to accrue or arise in India.

The entire income from a business in Pune is taxable in the hands of both Mrs. Bhawna and Mrs. Prerna due to their accrual/deemed accrual in India, even though a part of income from business in Pune is received by Mrs. Bhawna outside India.

5 (a) **Computation of Total Income of Mr. Prince for the A.Y.2018-19**

Particulars	Rs.	Rs.
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property	1,90,000	30,000
Profits and gains of business or profession		
Income from speculation business	30,000	
Less: Loss from toy business set off	30,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Loss from toy business set off	2,10,000	40,000
Income from other sources		
Income from betting		45,000
Gross total income/ Total Income		1,15,000

Losses to be carried forward:

Particulars	Rs.
(1) Loss from toy business (Rs.2,40,000 – Rs.30,000 – Rs.2,10,000)	Nil
(2) Loss from specified business covered by section 35AD	20,000

Notes:

- (i) Long-term capital gains from sale of listed shares in a recognized stock exchange is exempt under section 10(38). Loss from an exempt source cannot be set off against profits from a taxable source. Therefore, long-term capital loss on sale of listed shares cannot be set-off against long-term capital gains from sale of urban land.
- (ii) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year.
- (iii) Business loss cannot be set off against salary income. However, the balance business loss of Rs.2,10,000 (Rs.2,40,000 – Rs.30,000 set-off against income from speculation business) can be set-off against long-term capital gains of Rs.2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be Rs. 40,000.

- (iv) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.
- (b) In the given case, Mr. Raju gifted a sum of Rs.10 lacs to his brother's minor daughter on 7.4.2017 and simultaneously, his brother gifted debentures worth Rs.12 lacs to Mr. Raju's wife on 16.4.2017. Mr. Raju's brother's minor daughter invested the gifted amount of Rs.10 lacs in fixed deposit with Bank of India.

These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted[†].

As per section 64(1A), all income of a minor child is includible in the hands of the parent, whose total income, before including minor's income is higher. Accordingly, the interest income arising to Mr. Raju's brother's daughter from fixed deposits would be included in the total income of Mr. Raju's brother, assuming that Mr. Raju's brother's total income is higher than his wife's total income, before including minor's income. Mr. Raju's brother can claim exemption of Rs. 1,500 under section 10(32).

Interest on debentures arising in the hands of Mrs. Raju would be taxable in the hands of Mr. Raju as per section 64(1)(iv).

This is because both Mr. Raju and his brother are the indirect transferors of the income to their spouse and minor daughter, respectively, with an intention to reduce their burden of taxation.

In the hands of Mr. Raju, interest received by his spouse on debentures of Rs.10 lacs alone would be included and not the entire interest income on the debentures of Rs.12 lacs, since the cross transfer is only to the extent of Rs.10 lacs.

Hence, only proportional interest (i.e., 10/12th of Rs. 90,000, being interest on debentures received) Rs. 75,000 would be includible in the hands of Mr. Raju.

The provisions of section 56(2)(x) are not attracted in respect of sum of money transferred or value of debentures transferred, since in both the cases, the transfer is from a relative.

6. (a) (i) **False:** As per section 10(34), only income by way of dividend referred to in section 115-O shall be exempt in the hands of shareholders. Dividend distribution tax under section 115-O is not leviable on deemed dividend under section 2(22)(e) and hence, such deemed dividend is not exempt under section 10(34), in the hands of Mr. Qureshi.
- (ii) **False:** Agricultural income means, *inter alia*, any rent or revenue derived from land which is situated in India and is used for agricultural purposes. In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. In effect, the land is not being put to use for agricultural purposes. Therefore, Rs. 72,000, being rent received by Mr. X from letting out of agricultural land for movie shooting, is not exempt under section 10(1). The same is chargeable to tax under the head "Income from other sources."

[†] It was so held by the Apex Court in *CIT vs. Keshavji Moraji (1967) 66 ITR 142*.

(b) In the hands of Mr. Akash

The provisions of section 43CA would be attracted in the hands of Mr. Akash, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value on the date of agreement.

Therefore, Rs.55 lakh, being the difference between the stamp duty value on the date of agreement (i.e., Rs.120 lakh) and the purchase price (i.e., Rs.65 lakh), would be chargeable as business income in the hands of Mr. Akash.

In the hands of Mr. Varun

Since Mr. Varun is a share broker, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Varun who has received immovable property, being a capital asset, for inadequate consideration.

Therefore, Rs.45 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., Rs.130 lakh) and the actual consideration (i.e., Rs.85 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Varun, since the payment is made by crossed cheque and not account payee cheque/draft or ECS.

7. (a) The following persons (mentioned in Column III below) are authorised as per section 140, to verify the return of income filed under section 139:

I	II	III
(i)	Political party	Chief Executive Officer of such party (whether known as secretary or by any other designation).
(ii)	Local authority	Principal Officer thereof.
(iii)	Association of Persons	Any member of the association or the principal officer thereof.
(iv)	LLP	Designated partner, or Any partner, - where the designated partner is not able to verify the return for any unavoidable reason; - where there is no designated partner.

OR

- (a) A return of loss is a return which shows certain losses. Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

Section 139(3) states that to carry forward the losses specified therein, the return should be filed within the time specified in section 139(1).

Following losses are covered by section 139(3):

- business loss to be carried forward under section 72(1),
- speculation business loss to be carried forward under section 73(2),
- loss from specified business to be carried forward under section 73A(2).
- loss under the head "Capital Gains" to be carried forward under section 74(1); and
- loss incurred in the activity of owning and maintaining race horses to be carried forward under section 74A(3)

However, loss from house property to be carried forward under section 71B and unabsorbed depreciation can be carried forward even if return of loss has not been filed as required under section 139(3).

- (b) (i) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of Rs. 30,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director.

Therefore, tax@10% has to be deducted at source under section 194J in respect of the sum of Rs. 19,000 paid by ABC Ltd. to its director.

- (ii) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a firm to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% if the payment is made to an individual

The aggregate amount credited during the year is Rs.4,20,000. Tax is deductible @ 1% on Rs. 4,20,000.

- (iii) As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if it is subject to tax audit under section 44AB in the financial year preceding the current financial year.

However, if such payment made for professional services is exclusively for the personal purpose of any member of Hindu Undivided Family, then, the liability to deduct tax at source is not attracted.

Therefore, in the given case, even if Mr. A (HUF) is liable to tax audit in the immediately preceding financial year, the liability to deduct tax at source is not attracted in this case since, the fees for professional service to Dr. Khanna is paid for a personal purpose i.e. the surgery of a member of the family.

SECTION B - INDIRECT TAXES (40 MARKS)

SUGGESTED ANSWERS

Notes

- (i) Section/sub-section/rule/notification numbers mentioned in the answers are solely for the ease of reference. The students are not expected to cite the same in their answers under examination conditions.
- (ii) GST law is in its nascent stage and has been subject to frequent changes. Although various clarifications have been issued in the last few months by way of FAQs or otherwise, many issues continue to arise on account of varying interpretations on several of its provisions. Therefore, alternate answers may be possible for the questions depending upon the view taken.

For the sake of brevity, Central Goods and Services Tax, Integrated Goods and Services Tax, Central Goods and Services Tax Act, 2017, Integrated Goods and Services Tax Act, 2017 and Central Goods and Services Tax Rules, 2017 have been referred to as CGST, IGST, CGST Act, IGST Act and CGST Rules respectively.

1. (a) Computation of net GST payable by Mr. Kanhaiya for the month of January, 2018

S.No.	Particulars	(Rs.)	GST (Rs.)
(i)	Intra-State supply of goods		
	CGST @ 9% on Rs. 6,00,000	54,000	
	SGST @ 9% on Rs. 6,00,000	<u>54,000</u>	1,08,000
(ii)	Inter-State supply of goods		
	IGST @ 18% on Rs. 2,00,000		36,000

Computation of total ITC

Particulars	CGST @ 9% (Rs.)	SGST @ 9% (Rs.)	IGST @ 18% (Rs.)
Opening ITC	15,000	35,000	20,000
Add: ITC on Intra-State purchases of goods valuing Rs. 4,00,000	36,000	36,000	
Add: ITC on Inter-State purchases of goods valuing Rs. 50,000			<u>9,000</u>
Total ITC	<u>51,000</u>	<u>71,000</u>	<u>29,000</u>

Computation of GST payable from cash ledger

Particulars	CGST @ 9% (Rs.)	SGST @ 9% (Rs.)	IGST @ 18% (Rs.)
GST payable	54,000	54,000	36,000
Less: ITC	(51,000)-CGST	(54,000)-SGST	(29,000)-IGST
			<u>(7,000)-SGST</u>
Net GST payable	<u>3,000</u>	<u>Nil</u>	<u>Nil</u>

Note: ITC of SGST has been used to pay SGST and IGST in that order.

(b) **Computation of ITC available with Radiance Soap Factory**

Particulars	Amount (Rs.)
Soap making machine [Note-1]	50,000
Motor vehicles for transportation of inputs [Note-2]	70,000
Membership of 'Amaze' health and fitness centre for its employees [Note-3]	Nil
Inputs stolen from the factory [Note-4]	<u>Nil</u>
Total ITC available	<u>1,20,000</u>

Notes:-

1. ITC in respect of goods used in course/furtherance of business is available in terms of section 16 of the CGST Act.
 2. ITC in respect of motor vehicles and conveyances is blocked, except when used, inter alia, for transportation of goods, in terms of section 17(5) of the CGST Act.
 3. ITC in respect of membership of a club, health and fitness centre is blocked in terms of section 17(5) of the CGST Act.
 4. ITC in respect of goods stolen is blocked in terms of section 17(5) of the CGST Act.
2. (a) **Computation of value of taxable supply of product A made by Euphoria Ltd. for the month of March, 2018**

Particulars	Rs.
List price of product A	15,00,000
Add: Subsidy amounting to Rs. 2,10,000 received from Central Government [Note-1]	NIL
Subsidy received from NGO [Note-2]	50,000
Tax levied by the Municipal Authority [Note-3]	20,000
Packing charges [Note-4]	15,000
Late fees received in March, 2018 from recipient of supply for delayed payment [Note-5] (assumed to be inclusive of taxes) [Rs. 6,000 x 100/118] rounded off	<u>5,085</u>
Value of taxable supply	15,90,085
GST payable (Rs. 15,90,085 x 18%) rounded off	2,86,215

Notes:-

1. Since subsidy is received from Government, the same is not includible in the value in terms of section 15 of the CGST Act, 2017.
2. Since subsidy is received from a non-Government body, the same is includible in the value in terms of section 15 of the CGST Act, 2017.
3. Tax levied by the Municipal Authority is includible in the value as per section 15 of the CGST Act, 2017.
4. Packing charges being incidental expenses, the same are includible in the value as per section 15 of the CGST Act, 2017.
5. Late fees paid by recipient of supply for delayed payment is includible in the value as per section 15 of the CGST Act, 2017.

(b) Recipient of supply of goods or services or both, means —

- (i) where a consideration is payable for the supply of goods or services or both, the person who is liable to pay that consideration;
 - (ii) where no consideration is payable for the supply of goods, the person to whom the goods are delivered or made available, or to whom possession or use of the goods is given or made available; and
 - (iii) where no consideration is payable for the supply of a service, the person to whom the service is rendered,
- and (i) any reference to a person to whom a supply is made shall be construed as a reference to the recipient of the supply, and (ii) shall include an agent acting as such on behalf of the recipient in relation to the goods or services or both supplied.

3. (a) A registered person, whose aggregate turnover in the preceding financial year did not exceed Rs. 1 crore [Rs. 75 lakh in case of special category States except Jammu and Kashmir and Uttarakhand], may opt for composition scheme vide section 10 of CGST Act, 2017.

However, he shall not be eligible to opt for composition scheme if, *inter alia*, he is engaged in the supply of services other than restaurant services.

In the given case, since M/s Modish and Stylish Company is engaged in supply of interior decorator's service, it is not eligible to opt for composition scheme irrespective of its turnover in the preceding financial year.

Therefore, the answer will remain the same i.e., the company will not be eligible to opt for composition scheme even with the change in the turnovers as given in the second case.

Further, where more than one registered persons are having the same Permanent Account Number, the registered person shall not be eligible to opt for composition scheme unless all such registered persons opt to pay tax under composition scheme.

Therefore, the answer will not change in the third case also as all the registrations under the same PAN are required to opt for composition scheme and since the supply of interior decorator service is ineligible for composition scheme, supply of readymade garments too becomes ineligible for composition scheme.

- (b) Section 12(4) of CGST Act, 2017 provides that in case of supply of vouchers by a supplier, the time of supply shall be the date of issue of invoice, if the supply is identifiable at that point; or the date of redemption of vouchers, in all other cases.

As the coupons can be used for a variety of food items, which are taxed at different rates, the supply cannot be identified at the time of purchase of the coupons. Therefore, the time of supply of the coupons is the date of their redemption in terms of section 12(4) of CGST Act.

4. (a) Debit note is required to be issued

- (i) if taxable value charged in the tax invoice is found to be less than the taxable value in respect of supply of goods and/or services or
- (ii) if tax charged in the tax invoice is found to be less than the tax payable in respect of supply of goods and/or services

Credit note is required to be issued:-

- (i) If taxable value charged in the tax invoice is found to exceed the taxable value in respect of supply of goods and/or services, or
- (ii) If tax charged in the tax invoice is found to exceed the tax payable in respect of supply of goods and/or services, or

- (iii) if goods supplied are returned by the recipient, or
 - (iv) if goods and/or services supplied are found to be deficient.
- (b) (i) CIN is Challan Identification Number. It is generated by the banks indicating that the payment has been realized and credited to the appropriate government account against a generated challan.
- (ii) The new payment system benefits the taxpayer and the commercial tax department in the following ways:-

Benefits to Taxpayer: -

- No more queues and waiting for making payments as payments can be made online 24 X 7.
- Electronically generated challan from GSTN common portal in all modes of payment and no use of manually prepared challan. Paperless transactions.
- Instant online receipts for payments made online.
- Tax consultants can make payments on behalf of the clients.
- Single challan form to be created online, replacing the three or four copy Challan.
- Greater transparency.

Benefits to the Commercial Tax Department:-

- Revenue will come earlier into the Government Treasury as compared to the old system.
- Logical tax collection data in electronic format.
- Speedy accounting and reporting.
- Electronic reconciliation of all receipts.
- Warehousing of digital challan.

Note – Any three points each may be mentioned for Tax payer and Commercial Tax Department.

5. (a) A supplier whose aggregate turnover in a financial year exceeds Rs. 20 lakh in a State/UT [Rs. 10 lakh in Special Category States except Jammu and Kashmir] is liable to apply for registration within 30 days from the date of becoming liable to registration (i.e., the date of crossing the threshold limit of Rs. 20 lakh/Rs. 10 lakh).

Where the application is submitted within the said period, the effective date of registration is the date on which the person becomes liable to registration; otherwise it is the date of grant of registration.

In the given case, the applicable turnover limit for registration will be Rs. 20 lakh as Punjab is not a Special Category State.

- (i) Since Ganesh Ltd. applied for registration within 30 days of becoming liable to registration, the effective date of registration is 25th August, 2017.
 - (ii) In this case, since Ganesh Ltd. applies for registration after the expiry of 30 days from the date of becoming liable to registration, the effective date of registration is 5th October, 2017.
- (b) (i) The given statement is false.
- Where a registered person is supplying taxable as well as exempted goods or services or both to an unregistered person, a single “invoice-cum-bill of supply” may be issued for all such supplies.
- (ii) The said statement is true.

A non-banking financial company is allowed to issue a consolidated tax invoice or any other document in lieu thereof for the supply of services made during a month at the end of the

month.

(c) The State levies which are subsumed in GST are as under:-

- State surcharges and cesses in so far as they relate to supply of goods & services
- Entertainment Tax (except those levied by local bodies)
- Tax on lottery, betting and gambling
- Entry Tax (All Forms) & Purchase Tax
- VAT/ Sales tax
- Luxury Tax
- Taxes on advertisements

Note: Any of the four points may be mentioned.