

PAPER – 4 : TAXATION
SECTION A : INCOME TAX LAW

Question No.1 is compulsory.

*Candidates are also required to answer any **five** questions from the remaining **six** questions.*

Working notes shall form part of the respective answers.

All questions pertaining to income-tax relate to assessment year 2018-19, unless stated otherwise in the question.

Question 1

Mr. Hari, aged 55 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2017-18.

Receipts and Payments Account

Receipts	₹	Payments	₹
Opening Balance (01-04-2017)		Staff salary, bonus and stipend to articled clerks	20,50,000
Cash & Bank	20,000	Other general and administrative expenses	12,00,000
Fee from professional service	39,60,000	Office rent	48,000
Motor car loan from SBI @10% interest per annum	2,00,000	Life Insurance Premium	23,000
		Motor car (Acquired in January 2018 by way of online payment)	4,00,000
		Books bought (annual publication by credit card)	22,000
		Computer acquired on 1-11-2017 for professional use	25,000
		Domestic drawings	2,50,000
		Motor car maintenance	12,000
		Public Provident Fund subscription	1,40,000
		Closing balances (31-03-2018)	
		Cash & Bank	<u>10,000</u>
	<u>41,80,000</u>		<u>41,80,000</u>

The Suggested Answers for Paper 4A: Income-tax law are based on the provisions of income-tax law as amended by the Finance Act, 2017. The relevant assessment year is A.Y.2018-19.

Other information:

- (i) Motor car was put to use for both official and personal purposes. 1/4th of the motor car is for personal purpose. No interest on car loan was paid during the year.
- (ii) Mr. Hari purchased a flat in Jaipur for ₹ 15,00,000 in July 2012 cost of which was partly financed by a loan from State Bank of India of ₹ 10,00,000 @ 10% interest, his own-savings ₹ 1,00,000 and a deposit from Bank of Baroda for ₹ 4,00,000. The flat was given to Bank of Baroda on lease for 10 years @ ₹ 40,000 per month. The following particulars are relevant:
- (a) Municipal taxes paid by Mr. Hari ₹ 4,200 per annum
- (b) House insurance ₹ 1,000
- (iii) He earned ₹ 1,00,000 in share speculation business and lost ₹ 1,50,000 in commodity speculation business.
- (iv) Mr. Hari received a gift of ₹ 15,000 each from four of his family friends.
- (v) He contributed ₹ 1,11,000 to Prime Minister's Draught Relief Fund by way of bank draft.
- (vi) He donated to a registered political party ₹ 3,00,000 by way of cheque.

Compute the total income of Mr. Hari and the tax payable for the Assessment year 2018-19.

(10 Marks)

Answer**Computation of total income and tax liability of Mr. Hari for A.Y. 2018-19**

Particulars	₹	₹	₹
Income from house property			
Gross annual value ¹ (₹ 40,000 x 12)		4,80,000	
Less: Municipal taxes paid by Mr. Hari		<u>4,200</u>	
Net annual value		4,75,800	
Less: Deductions under section 24			
(a) 30% of Net Annual Value		1,42,740	
(b) Interest on house borrowing ² (₹ 10,00,000 x 10%)		<u>1,00,000</u>	
			2,33,060

¹ Rent receivable has been taken as the gross annual value in the absence of other information

² Assuming the entire amount of loan is still outstanding

Profits and gains of business or profession			
Income from profession			
Fees from professional services		39,60,000	
Less: Expenses allowable as deduction			
- Staff salary, bonus and stipend	20,50,000		
- Other general and administrative expenses	12,00,000		
- Office rent	48,000		
- Motor car maintenance (₹ 12,000 x 3/4)	9,000		
- Car loan interest – not allowable (since the same has not been paid during the year)	-	33,07,000	
[Refer Note 1]			
		6,53,000	
Less: Depreciation u/s 32			
- Motor car ₹ 4,00,000 x 15% x 50% x ¾, being put to use for less than 180 days	22,500		
- Books being annual publications [₹22,000 x 40%] [Refer Note 2]	8,800		
- Computer @40% of ₹25,000 x 50%, since the same is put to use for less than 180 days, assuming that payment was made through A/c payee cheque/bank draft or ECS through bank account [Refer Note 3]	5,000	36,300	
		6,16,700	
For the P.Y. 2017-18, the gross receipts of Mr. Hari is ₹ 39,60,000. Since, it does not exceed ₹ 50,00,000, he is eligible to opt for presumptive tax scheme under section 44ADA			
In such case, his professional income would be ₹ 19,80,000, being 50% of ₹ 39,60,000			
It is more beneficial for Mr. Hari to declare profit of ₹ 6,16,700 as per books of accounts which is lower than the profits computed on presumptive basis under section 44ADA. However, for declaring lower profits, he has to maintain books of account under section 44AA and get the same audited under section 44AB			

Income from share speculation business	1,00,000		
Less: Loss from commodity speculation business set off against income from share speculation business. Balance loss of ₹ 50,000 from commodity speculation business to be carried forward to A.Y. 2019-20	<u>1,00,000</u>	<u>Nil</u>	6,16,700
Income from other sources			
Cash Gift of ₹ 60,000 i.e., ₹ 15,000 x 4, received from his four friends is taxable u/s 56(2)(x), since the same exceeds ₹ 50,000			<u>60,000</u>
Gross Total Income			9,09,760
Less: Deductions under Chapter VI-A			
Section 80C			
Life insurance premium	23,000		
PPF subscription	<u>1,40,000</u>		
	1,63,000		
Restricted to ₹ 1,50,000		1,50,000	
Section 80G			
Contribution to Prime Minister's Drought Relief Fund (50% of ₹ 1,11,000) by way of bank draft		55,500	
Section 80GGC			
Donation to registered political party made by way of cheque		<u>3,00,000</u>	
			<u>5,05,500</u>
Total Income			<u>4,04,260</u>
Tax liability			
Tax @5% on ₹ 1,54,260 [₹ 4,04,260 - ₹ 2,50,000, being basic exemption limit]			7,713
Add: Education cess@2%			154
Secondary and higher education cess@1%			<u>77</u>
Tax liability			<u>7,944</u>
Tax liability (Rounded off)			7,940

Notes:

- (1) It is assumed that the same has also not been paid on or before the due date under section 139(1), hence disallowance under section 43B is attracted, if he is following mercantile basis of accounting. If it is assumed that the payment has been made on or before due date under section 139(1), disallowance under this section would not be

attracted and the same [i.e., ₹ 2,00,000 x 10% x 3/12 x 3/4 i.e., ₹ 3,750] would be allowed as deduction. If it is assumed that he is following cash basis of accounting, it would, in any case, not be allowed

- (2) As per second proviso to section 43(1), in computing actual cost, the expenditure for acquisition of asset, for which payment is made to a person in a day exceeds ₹ 10,000 has to be ignored, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. In this case, the books are purchased and payment of ₹ 22,000 is made by credit card. In the above solution, depreciation has been allowed on the assumption that payment has not been made to the same person on the same day. Alternatively, assuming that payment has been made to the same person on the same day, it is possible to take a view that depreciation would not be admissible on such sum based on the plain reading of the section and strict interpretation thereof that such payment has to be made only by way of account payee cheque or bank draft or ECS for the purpose of inclusion of such sum in actual cost. In such a case, the business income would be ₹ 6,25,500, the gross total income would be ₹ 9,18,560, the total income would be ₹ 4,13,060, and the tax liability (rounded off) would be ₹ 8,400.
- (3) Since the question is silent regarding the mode of payment for purchase of computers , depreciation is allowed on computers assuming that payment is made by way of A/c payee cheque/ bank draft or ECS through bank account. However, if it is assumed that payments for purchase of computers is made otherwise than by way of A/c payee cheque/ bank draft or ECS through bank account, no depreciation would be admissible on computers. The total income and tax liability (rounded off) would be ₹ 4,09,260 and ₹ 8,200, respectively.

Question 2

Star Enterprises has transferred its unit R to A Ltd. by way of Slump Sale on January 23, 2018. The summarised Balance Sheet of Star Enterprises as on that date is given below:

Liabilities	Amount (₹ In lacs)	Assets	Amount (₹ In lacs)
<u>Own Capital</u>	1,750	<u>Fixed Assets:</u>	
<u>Accumulated P & L balance</u>	670	Unit P	200
<u>Liabilities:</u>		Unit Q	150
Unit P	90	Unit R	600
Unit Q	160	<u>Other Assets:</u>	
Unit R	140	Unit P	570
		Unit Q	850
		Unit R	440
Total	<u>2,810</u>	Total	<u>2,810</u>

Using the further information below, compute the Capital Gains arising from slump sale of Unit R for Assessment year 2018-19 from slump sale of Unit R for Assessment year 2018-19.

- (i) Slump sale consideration on, transfer of Unit R was ₹ 930 lacs.
- (ii) Fixed Assets of Unit R includes land which was purchased at ₹ 110 lacs in the year 2008 and was revalued at ₹ 140 lacs.
- (iii) Other fixed assets are reflected at ₹ 460 lacs, (i.e., ₹ 600 lacs less value of land) which represents written down value of those assets as per books. The written down value of these assets is ₹ 430 lacs.
- (iv) Unit R was set up by Star Enterprises in Oct, 2006.

Note: Cost Inflation Indices for the financial year 2006-07 and financial year 2017-18 are 122 and 272, respectively. **(10 Marks)**

Answer

Computation of capital gain on slump sale of Unit R for A.Y. 2018-19

Particulars	₹
Full value of consideration	9,30,00,000
Less: Deemed cost of acquisition (Net worth is deemed to be the cost of acquisition) [Refer Working Note below]	<u>8,40,00,000</u>
Long-term capital gain [Since the Unit is held for more than 36 months]	<u>90,00,000</u>

Working Note: Net worth of Unit-R

Particulars	₹
Cost of Land (Revaluation not to be considered)	1,10,00,000
WDV of other depreciable fixed assets as per the Income-tax Act, 1961	4,30,00,000
Other Assets (book value)	<u>4,40,00,000</u>
	9,80,00,000
Less: Liabilities	<u>1,40,00,000</u>
Net worth	<u>8,40,00,000</u>

Notes:

- (1) In case of slump sale, net worth of the undertaking transferred shall be deemed to be the cost of acquisition and cost of improvement as per section 50B.
- (2) "Net worth" of the undertaking shall be the aggregate value of total assets of the undertaking or division as reduced by the value of liabilities of such undertaking or division as appearing in the books of accounts.

However, any change in the value of assets on account of revaluation shall not be considered for this purpose

- (3) For calculating aggregate value of total assets of the undertaking or division in case of slump sale in case of depreciable assets, the written down value of block of assets determined in accordance with the provisions contained in section 43(6) of Income-tax Act, 1961 is to be considered and for all other assets, book value is to be considered.
- (4) Since Unit R is held by the assessee for more than 36 months, the capital gain arising from slump sale is a long-term capital gain.
- (5) Indexation benefit is not available in case of slump sale

Question 3

Compute the Gross Total Income in the hands of an individual, if he is

- (a) a resident and ordinary resident; and
- (b) a non-resident for the A. Y. 2018-19.

S. No.	Particulars	Amount (₹)
(i)	Interest from German Derivatives Bonds (1/3 received in India)	21,000
(ii)	Income from agriculture land situated in Malaysia, remitted to India	51,000
(iii)	Income earned from business in Dubai controlled from India (₹ 20,000 received in India)	75,000
(iv)	Profit from business in Mumbai, controlled from Australia	1,75,000
(v)	Interest received from Mr. Ashok (NRI) on loan provided to him for business in India	35,000
(vi)	Dividend from Brown Ltd., an Indian Company, u/s 115-O of Income-tax Act, 1961	30,000
(vii)	Profit from business in Canada controlled from Mumbai (60% of profits deposited in a bank in Canada and 40% remitted to India).	60,000
(viii)	Amount received from an NRI for the use of know-how for his business in Singapore	8,00,000
(ix)	Dividend received from foreign company in India.	25,000
(x)	Past years untaxed foreign income brought to India.	50,000

(10 Marks)

Answer

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

	Particulars	Resident and ordinarily resident ₹	Non-resident ₹
(i)	Interest from German Derivative Bonds (1/3 rd received in India) [Refer Note at the end]	21,000	7,000
(ii)	Income from agriculture land situated in Malaysia, remitted to India [Refer Note at the end] [Taxable only in the hands of resident and ordinarily resident, since agriculture income arises from land situated outside India]	51,000	-
(iii)	Income earned from business in Dubai, controlled from India (₹20,000 received in India) [Refer Note at the end]	75,000	20,000
(iv)	Profit from business in Mumbai, controlled from Australia [Since the income accrues or arises in India, the same is taxable in the hands of the resident and non-resident]	1,75,000	1,75,000
(v)	Interest received from Mr. Ashok (NRI) on loan provided to him for business in India [Since interest is payable by non-resident for the loan used for business in India, such income is deemed to accrue or arise in India u/s 9(1)(v). Consequently, such income is taxable in the hands of both the resident and non-resident]	35,000	35,000
(vi)	Dividend from Brown Ltd., an Indian Co. under section 115-O of the Income-tax Act, 1961 [Exempt u/s 10(34), in the hands of both resident and ordinarily resident and non-resident, since the dividend does not exceed ₹10,00,000]	-	-
(vii)	Profit from business in Canada controlled from Mumbai (60% of profits deposited in a bank in Canada and 40% remitted to India) [Refer Note at the end]	60,000	-

(viii)	Amount received from an NRI for the use of know-how for his business in Singapore [Since the amount is received for the use know-how for his business outside India, the same is not deemed to accrue or arise in India as per section 9(1)(vii). Accordingly, such income is not taxable in case of the non-resident, assuming that the amount is received outside India]	8,00,000	-
(ix)	Dividend received from foreign company in India [Taxable both in the hands of resident and ordinarily resident and non-resident, since the income is received in India and no exemption is available in respect of dividend from foreign company]	25,000	25,000
(x)	Past years untaxed foreign income brought to India [Not taxable, since it does not represent income of the P.Y. 2017-18]	-	-
Gross Total Income		12,42,000	2,62,000

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

- (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 German derivative bonds, income from agriculture land in Malaysia, income earned from business in Dubai and profit from business in Canada would be fully taxable in the hands of the resident and ordinarily resident, even though such income accrues or arises outside India, since global income is taxable in case of a resident and ordinarily resident. However, in case of a non-resident, such income would be taxable only to the extent it is received in India. Subsequent remittance to India, would however, not attract taxability of such income in India in the hands of the non-resident.

Question 4

Mr. Honey is working with a domestic company having a production unit in the U.S.A. for last 15 years. He has been regularly visiting India for export promotion of company's product. He has been staying in India for atleast 184 days every year.

He submits the following information:

Salary received outside India (For 6 months) ₹ 50,000 P.M

Salary received in India (For 6 months) ₹ 50,000 P.M.

He has been given rent free accommodation in U.S.A. for which company pays ₹ 15,000 per month as rent, but when he comes to India, he stays in the guest house of the company. During this period he is given free lunch facility.

During the previous year, company incurred an expenditure of ₹ 48,000 on this facility.

He has been provided a car of 2000 cc capacity in U.S.A. which is used by him for both office and private purposes. The actual cost of the car is ₹ 8,00,000. But when he is in India, the car is used by him and the members of his family only for personal purpose. The monthly expenditure of car is ₹ 5,000. His elder son is studying in India for which his employer spends ₹ 12,000 per year whereas his younger son is studying in U.S.A. and stays in a hostel for which Mr. Honey gets ₹ 3,000 per month as combined allowance.

The company has taken an accident insurance policy and a life insurance policy. During the previous year, the company paid premium of ₹ 5,000 and ₹ 10,000, respectively.

Compute Mr. Honey's taxable income from salary for the Assessment Year 2018-19.

(10 Marks)

Answer

Since Mr. Honey stays in India for atleast 184 days every year, he is resident and ordinarily resident in India, every year. Therefore, his global income would be taxable in India. The salary received by him in India and outside India would be taxable in India as per the provisions of the Income-tax Act, 1961.

Computation of total income from salary of Mr. Honey for the A.Y. 2018-19

Particulars	₹	₹
Basic Salary		
Salary received outside India for 6 months (₹ 50,000 x 6)	3,00,000	
Salary received in India for 6 months (₹ 50,000 x 6)	<u>3,00,000</u>	6,00,000
Children Education and Hostel Allowance		
Amount received from employer (₹ 3,000 x 12)	36,000	
[No exemption is available in respect of allowance received for any education or hostel facility of children outside India]	<u>Nil</u>	36,000
Perquisites:		
Value of rent-free accommodation in USA		95,400
Lower of:		
- 15% of ₹ 6,36,000 (Basic Salary + Children Education and Hostel Allowance)	95,400	
- Rent paid by employer = ₹ 15,000 x 12	1,80,000	
Value of guest house in India		-
[not taxable, since it is provided for stay when he visits India wholly for official purposes]		

Lunch facility provided by employer [Taxable perquisite, since the value exceeds ₹ 50 per meal] [See Note 1 below]		48,000
Motor car provided by employer [₹14,400 + ₹ 70,000] [See Note 2 below]		84,400
Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is ₹14,400 [₹ 2,400 x 6], since cubic capacity exceeds 1.6 litres, assuming that expenses are fully met by employer	14,400	
Used for personal purposes by his family members for 6 months when he is in India		
Actual running and maintenance expenditure ³ [₹ 5,000 x 6]	30,000	
Normal wear and tear [10% of actual cost of motor car for 6 months] = ₹ 8,00,000 x 10% x 6/12	<u>40,000</u>	<u>70,000</u>
Education expenditure of elder son in India met by employer [Fully taxable perquisite]		12,000
Life insurance premium paid by the employer – any sum payable by the employer to effect an assurance on the life of the employee is a taxable perquisite		10,000
Accident insurance premium paid by employer – exempt perquisite, since such policy is taken by the employer in business interest so as to indemnify the company from payment of compensation.		-
Gross Salary		8,85,800
Less: Deductions under section 16		<u>Nil</u>
Taxable Salary		8,85,800

Notes:

- (1) Lunch facility provided to Mr. Honey is a taxable perquisite as per Rule 3(7)(iii). The benefit under the proviso to this Rule would be available only if the value does not exceed ₹ 50 per meal. In this case since the value far exceeds ₹ 50 per meal, the benefit under the proviso to Rule 3(7)(iii) is not available. The above solution has been worked out accordingly.

However, in page 17 of the CBDT Circular No. 29/2017 dated 5.12.2017, the method of valuation of perquisite of free lunch facility has been explained. As per the said circular, a fixed sum of ₹ 50 per meal has to be reduced to arrive at the value of perquisite of free food provided by the employer. If the beneficial view given in the circular is considered for answering this question, an assumption as to the number of working days per month has to be made and thereafter, calculation for 6 months has to be made to arrive at the value of taxable and exempt perquisite of provision of lunch facility.

³ It is assumed that the same is fully met by the employer

- (2) In the above solution, the perquisite value of motor car provided by employer has been worked out assuming that the employer fully meets the running and maintenance expenses. However, if expenses of running and maintenance of motor car are fully met by Mr. Honey himself, then, the value of perquisite of motor car would be as follows :

Particulars	₹
Motor car provided by employer [₹5,400 + ₹40,000]	
Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is ₹900 p.m., since cubic capacity exceeds 1.6 litres,	5,400
Used for personal purposes by his family members for 6 months when he is in India	
Normal wear and tear [10% of actual cost of motor car for 6 months] = ₹ 8,00,000 x 10% x 6/12	<u>40,000</u>
	<u>45,400</u>

In this case, the taxable salary would be ₹8,46,800.

Question 5

- (a) Discuss the taxability of the following receipts in the hands of Mr. Sanjay Kamboj under the Income-tax Act, 1961 for A.Y. 2018-19:
- ₹ 51,000 received from his sister living in US on 1-6-2017.
 - Received a car from his friend on payment of ₹ 2,50,000, the FMV of which was ₹ 5,50,000.

Provisions of taxability or non-taxability must be discussed.

(3 Marks)

- (b) Mr. Avani, a resident aged 25 years, manufactures tea leaves from the Tea plants grown by him in India. These are then sold in the India market for ₹ 40 lakhs. The cost of growing tea plants was ₹ 15 lakhs and the cost of manufacturing tea leaves was ₹ 10 lakhs.

Compute her tax liability for the Assessment Year 2018-19.

(7 Marks)

Answer

- (a) (i) **Not taxable**

Cash gift of ₹ 51,000 received from his sister, being a relative, would **not** be taxable in the hands of Mr. Sanjay Kamboj under section 56(2)(x), even though the amount exceeds ₹ 50,000.

(ii) Not Taxable

Car is not included in the definition of “property”, for the purpose of taxability of gifts in kind, in the hands of the recipient under the head “Income from other sources”.

Hence, ₹ 5,50,000, being the fair market value of car received for inadequate consideration from his friend is not taxable under section 56(2)(x) in the hands of Mr. Sanjay Kamboj, even though the difference between the purchase price and FMV exceeds ₹ 50,000 and the gift is received from a non-relative.

(b) Computation of tax liability of Ms. Avani for the A.Y. 2018-19

In cases where the assessee himself grows tea leaves and manufactures tea in India, then, as per Rule 8 of 40% of profit on sale of tea is taxable as business income under the head “Profits and gains from business or profession”, and the balance 60% is agricultural income, which is exempt from tax.

Profits from manufacture and sale of tea = ₹ 40 lakhs – ₹ 15 lakhs – ₹ 10 lakhs = ₹ 15 lakhs

Agricultural Income = 60% of ₹ 15 lakhs = ₹ 9 lakhs

Business Income = 40% of ₹ 15 lakhs = ₹ 6 lakhs.

The tax liability of Ms. Avani has to be computed applying the concept of partial integration, since her total income comprises of both agricultural income and non-agricultural income and her agricultural income exceeds ₹ 5,000 p.a and her non-agricultural income exceeds the basic exemption limit i.e., ₹ 2,50,000 (applicable, in her case).

Accordingly, her tax liability would be computed in the following manner:

Particulars	₹
Tax on total income of ₹ 15,00,000, being agricultural income and non-agricultural income	2,62,500
Less: Tax on agricultural income and basic exemption limit i.e., ₹11,50,000 [₹ 9,00,000 plus ₹ 2,50,000]	<u>1,57,500</u>
	1,05,000
Add: Education cess@2%	2,100
Secondary & higher education cess@1%	<u>1,050</u>
Total Tax liability	1,08,150

Question 6

- (a) Mr. Madhav made a gift of ₹ 2,50,000 to his handicapped son, Master Tapan who was aged 12 years as on 31st March 2016, which he deposited in a fixed deposit account in a Nationalised bank at 10% interest p.a. 'compounded' annually. The balance in this

account as on 1st April, 2017 was ₹ 2,75,000 and the bank credited a sum of ₹ 27,500 as interest on 31st March, 2018.

Madhav's father gifted equity shares worth ₹ 50,000 of an Indian company to Master Manan, another son of Mr. Madhav (Date of birth 10th April, 2010) in July 2010 which were purchased by him on 8th December, 2004 for ₹ 80,000. Manan received a dividend of ₹ 5,000 on these shares in October 2017. He sold these shares on 1st November, 2017 for ₹ 5,00,000 and deposited ₹ 3,00,000 in a company at 15% interest per annum.

Cost Inflation Index

Financial Year	Cost Inflation Index
2004-05	113
2010-11	167
2017-18	272

Mr. Madhav has a taxable income of ₹ 3,50,000 from his profession during the financial year 2017-18.

Compute his Gross Total Income for the A.Y. 2018-19. **(5 Marks)**

- (b) Briefly mention the provisions of Income-tax Act, 1961 with regard to quoting Aadhar Number under section 139AA of the Act. **(5 Marks)**

OR

- (1) State whether quoting of PAN in the following transactions is mandatory or not, as per the provisions of Income-tax Act, 1961 for A.Y. 2018-19:

- Mr. A makes cash payment to a hotel Radisson Blu, Ahmedabad of ₹ 50,000 against the bill raised by the hotel.
- Mr. Abhishek, in a single transaction, makes contract of ₹1,20,000 for sale/purchase of securities (other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956.
- Payment to Mutual Funds of ₹ 70,000 for purchase of its units.

Your answers must be supported with reasons. **(3 Marks)**

- (2) Briefly mention the concept of self-assessment tax u/s 140A of the Income-tax Act, 1961 and its components. **(2 Marks)**

Answer

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

Particulars	₹	₹	₹
Income from profession			3,50,000

Income of minor son Manan			
Capital gains			
Full value of consideration	5,00,000		
Less: Indexed Cost of Acquisition [$\text{₹ } 80,000 \times 272/167$]	<u>1,30,299</u>	3,69,701	
Income from Other Sources			
Dividend of ₹ 80,000 on equity shares [Exempt u/s 10(34)]	-		
Interest on company deposit [$\text{₹ } 3,00,000 \times 15\% \times 5/12$]	<u>18,750</u>	<u>18,750</u>	
		3,88,451	
Less: Exemption u/s 10(32) in respect of income of minor child		<u>1,500</u>	
			<u>3,86,951</u>
Gross Total Income			<u>7,36,951</u>

Notes:

- (1) As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, interest income of ₹ 27,500 arising to handicapped son, Master Tapan, would not be clubbed with the income of Mr. Madhav
- (2) Income of the other minor child, Master Manan, is includible in the hands of Mr. Madhav, assuming that Mr. Madhav's income is higher than that of his wife.
- (3) In the above solution, the indexed cost of acquisition has been computed by taking into consideration the first year in which Master Manan held the asset, i.e., F.Y.2010-11, as per the definition given in clause (iii) of Explanation below section 48. However, as per the view expressed by Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is considered, the indexed cost of acquisition would have to be calculated by considering the Cost Inflation Index of F.Y.2004-05. The solution based on alternate view is given as under:

Computation of gross total income of Mr. Madhav for the A.Y. 2018-19

Particulars	₹	₹	₹
Income from profession			3,50,000
Income of minor son Manan			
Capital gains			
Full value of consideration	5,00,000		
Less: Indexed Cost of Acquisition [₹ 80,000 x 272/113]	<u>1,92,566</u>	3,07,434	
Income from Other Sources			
Dividend on equity shares [Exempt u/s 10(34)]	-		
Interest on company deposit [₹ 3,00,000 x 15% x 5/12]	<u>18,750</u>	<u>18,750</u>	
		3,26,184	
Less: Exemption u/s 10(32) in respect of income of minor child		<u>1,500</u>	
			<u>3,24,684</u>
Gross Total Income			<u>6,74,684</u>

(b) [First Alternative]**Provisions of Income-tax Act, 1961 relating to quoting of Aadhar Number under section 139AA**

Every person who is eligible to obtain Aadhar Number is required to mandatorily quote Aadhar Number, on or after 1st July, 2017:

- (a) in the application form for allotment of Permanent Account Number (PAN)
- (b) in the return of income

The provisions of section 139AA relating to quoting of Aadhar Number would, however, not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

- (i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;
- (ii) a non-resident as per Income-tax Act, 1961;
- (iii) of the age of 80 years or more at any time during the previous year;
- (iv) not a citizen of India.

If a person does not have Aadhar Number, he is required to quote Enrolment ID of Aadhar application form issued to him at the time of enrolment in the application form for allotment of PAN or in the return of income furnished by him.

Every person who has been allotted PAN as on 1st July, 2017, and who is eligible to obtain Aadhar Number, shall intimate his Aadhar Number to prescribed authority on or before a date as may be notified by the Central Government.

(b) [Second Alternative]

(1) Requirement of quoting PAN in respect of certain transactions [Rule 114B of Income-tax Rules, 1962]

- (i) **PAN not required to be quoted:** Mr. A is not required to quote his PAN while making payment ₹ 50,000 in cash to a hotel Radisson Blu, Ahmedabad, since such payment does not exceed ₹ 50,000.
- (ii) **PAN is mandatorily required to be quoted:** Mr. Abhishek is required to quote his PAN while making contract of ₹ 1,20,000 for sale/purchase of securities (other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956, since amount of the transaction exceeds ₹ 1,00,000.
- (iii) **PAN is required to be quoted:** PAN has to be mandatorily quoted while making payment of ₹ 70,000 to Mutual Funds for purchase of its units, since such payment exceeds ₹ 50,000.

(2) Concept of self-assessment tax under section 140A

Where any tax is payable on the basis of any return required to be furnished under, *inter alia*, section 139, after taking into account -

- (i) the amount of tax, already paid, under any provision of the Income-tax Act, 1961
- (ii) the tax deducted or collected at source

the assessee shall be liable to pay such tax together with interest and fees payable under any provision of this Act for any delay in furnishing the return or any default or delay in payment of advance tax before furnishing the return.

The return shall be accompanied by the proof of payment of such tax, interest and fee.

Where the amount paid by the assessee under section 140A(1) falls short of the aggregate of the tax, interest and fees as aforesaid, the amount so paid shall first be adjusted towards the fees payable and thereafter, towards interest and the balance shall be adjusted towards the tax payable.

Question 7

- (a) *Indicate the three situations where the return of income has to be compulsorily filed u/s 139(1) of the Income-tax Act, 1961.* **(3 x 2 = 6 Marks)**
- (b) *Briefly explain the purpose for which the words "PROVISO" and "EXPLANATION" are incorporated under various sections of the Income-tax Act, 1961.* **(2 + 2 = 4 Marks)**

Answer**(a) Situations where Return of Income has to be compulsorily filed under section 139(1)**

- (i) Companies and firms (whether having profit or loss or nil income);
- (ii) a person, being a resident other than not ordinarily resident, who holds, as beneficial owner or otherwise, any asset (including any financial interest in any entity) located outside India or has signing authority in any account located outside India, or is a beneficiary of any asset (including any financial interest in any entity) whether or not having income chargeable to tax;
- (iii) Individuals, HUFs, AOPs or BOIs and artificial juridical persons whose total income before giving effect to the provisions of section 10(38) and Chapter VI-A deductions exceeds the basic exemption limit.

(b) Proviso: The Proviso to a section is incorporated to specify the exception(s) to the provision contained in the respective section i.e., the proviso spells out the cases where the provision contained in the respective section would not apply or where the provision contained in the respective section would apply with certain modification.

Explanation: An *Explanation* is incorporated in a section to provide a clarification relating to the provision contained in that section. Generally, an *Explanation* is clarificatory in nature.

SECTION B: INDIRECT TAXES

Question No. 8 is compulsory.

Candidates are also required to answer any **three** questions from the remaining **four** questions.

All questions should be answered on the basis of position of GST law as amended upto 31st October, 2017.

Working notes should form part of the answer.

Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of note.

Question 8

- (a) Mr. Ajay, a registered supplier of goods, pays GST under regular scheme and provides the following information for the month of August 2017:

Particulars	(₹)
(i) Inter-state taxable supply of goods	10,00,000
(ii) Intra state taxable supply of goods	2,00,000
(iii) Intra state purchase of taxable goods	5,00,000

He has the following input tax credit at the beginning of August 2017:

Nature	ITC Amount in (₹)
CGST	20,000
SGST	30,000
IGST	25,000

Rate of CGST, SGST and IGST are 9%, 9% and 18% respectively.

Both inward and outward supplies are exclusive of taxes wherever applicable.

All the conditions necessary for availing the ITC have been fulfilled. Compute the net GST payable by Mr. Ajay for the month of August 2017. **(6 Marks)**

- (b) Fun Pharma Private Limited, a registered supplier is engaged in the manufacture of taxable goods. The company provides the following information of GST paid on the purchases made/input services availed by it during the month of September 2017 :

	Particulars	GST paid (₹)
(i)	Purchase of cabs used for the transportation of its employees	3,30,000
(ii)	Inputs consisting of three lots, out of which first lot was received during the month	1,25,000

(iii)	Capital Goods (out of three items, invoice for one item was missing and GST paid on that item was ₹ 25,000)	2,50,000
(iv)	Outdoor catering service availed on Women's day	72,000

Determine the amount of input tax credit available with M/s Fun Pharma Private Limited for the month of September, 2017 by giving necessary explanations for treatment of various items. All the conditions necessary for availing the input tax credit have been fulfilled. **(4 Marks)**

Answer

(a) Computation of net GST payable by Mr. Ajay for the month of August, 2017

Working of GST payable on Outward supplies

S.No.	Particulars	(₹)	GST (₹)
(i)	Intra-State taxable supply of goods		
	CGST @ 9% on ₹ 2,00,000	18,000	
	SGST @ 9% on ₹ 2,00,000	<u>18,000</u>	36,000
(ii)	Inter-State taxable supply of goods		
	IGST @ 18% on ₹ 10,00,000		1,80,000

Computation of total ITC

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Opening ITC	20,000	30,000	25,000
Add: ITC on Intra-State purchases of taxable goods valuing ₹ 5,00,000	45,000	45,000	
Total ITC	65,000	75,000	25,000

Computation of GST payable from cash ledger

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
GST payable	18,000	18,000	1,80,000
Less: ITC	(18,000)-CGST	(18,000)-SGST	(25,000)-IGST
			(47,000)-CGST
			(57,000)-SGST
Net GST payable	Nil	Nil	51,000

Note: ITC of IGST, CGST & SGST have been used to pay IGST in that order.

- (b) Computation of input tax credit (ITC) available with Fun Pharma Private Limited for the month of September, 2017

Particulars	₹
Purchase of cabs used for the transportation of its employees [Note-1]	Nil
Inputs consisting of three lots, out of which first lot was received during the month [Note-2]	Nil
Capital goods [Note-3]	2,25,000
Outdoor catering service availed on Women's day [Note-4]	<u>Nil</u>
Total ITC	2,25,000

Notes:-

- Section 17 of CGST Act, 2017 provides that ITC on motor vehicles can be availed, *inter alia*, when they are used for making the taxable supply of transportation of passengers i.e., if the taxable person is in the business of transport of passengers. In the given case, since the supplier is a manufacturer, it cannot avail credit on cabs used for transportation of its employees.
- When inputs are received in instalments, ITC can be availed only on receipt of last instalment in terms of section 16 of CGST Act, 2017.
- ITC cannot be taken on missing invoice. The registered person should have the invoice in its possession to claim ITC vide section 16 of CGST Act, 2017 .
- ITC on outdoor catering is specifically disallowed unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply in terms of section 17 of CGST Act, 2017.

Question 9

- (a) Candy Blue Ltd., Mumbai, a registered supplier, is manufacturing Chocolates and Biscuits. It provides the following details of taxable inter-state supply made by it for the month of October, 2017.

Particulars	Amount in (₹)
List price of goods supplied inter-state	12,40,000
Items already adjusted in the price given in (i) above:	
(1) Subsidy from Central Government for supply of biscuits to Government School.	1,20,000
(2) Subsidy from Trade Association for supply of quality biscuits.	30,000

Items not adjusted in the price given in (i) above:	
(3) Tax levied by Municipal Authority	24,000
(4) Packing Charges	12,000
(5) Late fee paid by the recipient of supply for delayed payment of invoice	5,000

Calculate the value of taxable supply made by M/s Candy Blue Ltd. for the month of October, 2017. **(5 Marks)**

- (b) Explain the meaning of the term "recipient of supply of goods and/or services" under the CGST Act, 2017. **(5 Marks)**

Answer

- (a) **Computation of value of taxable supply made by Candy Blue Ltd. for the month of October, 2017**

Particulars	₹
List Price of the goods	12,40,000
Add: Subsidy amounting to ₹ 1,20,000 received from Central Government [Since subsidy is received from Government, the same is not includible in the value in terms of section 15 of the CGST Act, 2017.]	NIL
Subsidy received from Trade Association [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.]	30,000
Tax levied by the Municipal Authority [Includible in the value as per section 15 of the CGST Act, 2017]	24,000
Packing charges [Being incidental expenses, the same are includible in the value as per section 15 of the CGST Act, 2017]	12,000
Late fees paid by recipient of supply for delayed payment [Includible in the value as per section 15 of the CGST Act, 2017]	<u>5,000</u>
Value of taxable supply	13,11,000

Note: In the above solution, list price of the goods and late fee for delayed payment of invoice have been assumed to be exclusive of taxes.

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

- (a) where a consideration is payable for the supply of goods or services or both, the person who is liable to pay that consideration;

- (b) 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
 - (c) 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.

Question 10

- (a) *M/s Mansh & Vansh Trading Company, a registered supplier, is liable to pay GST under forward charge. Determine the time of supply from the following information furnished by it:*
 - (i) *Goods were supplied on 03-10-2017*
 - (ii) *Invoice was issued on 05-10-2017*
 - (iii) *Payment received on 09-10-2017* **(4 Marks)**
- (b) *Examine whether GST is exempted on the following independent supply of services:*
 - (i) *Teja & Co, a tour operator, provides services to a foreign tourist for tour conducted in Jammu & Kashmir and receives a sum of ₹ 3,00,000.*
 - (ii) *Ms. Poorva acts as a Team Manager for Indian Sports League (ISL), a recognised sports body, for a Tennis tournament organised by Multi brand retail company and received a remuneration of ₹ 2,00,000.* **(3 Marks)**
- (c) *M/s Sai Trading Company, an eligible registered dealer in goods making intra-state supplies within the state of Andhra Pradesh, has reported an aggregate turnover of ₹ 78 Lakhs in the preceding financial year.*
 - (i) *Determine whether Sai Trading Company will be eligible for composition levy, as on 31-10-2017.*
 - (ii) *Will your answer be different, if in the above scenario, M/s Sai Trading Company is making intra state supply within the state of Jammu and Kashmir?* **(3 Marks)**

Answer

- (a) As per section 12 of CGST Act, 2017, the time of supply of goods, tax on which is payable under forward charge, is the earlier of the following two dates:
 - (i) Date of issue of invoice/last date on which the invoice is required to be issued

- (ii) Date of receipt of payment⁴ i.e., the date on which the payment is recorded in the books of account of the supplier or date on which the payment is credited to the supplier's bank account, whichever is earlier

Further, a registered person is required to issue a tax invoice before or at the time of removal of goods for supply to the recipient. Thus, in the given case, the invoice for supply of goods should have been issued on or before the removal of goods i.e., on 03-10-2017.

However, since the invoice has not been issued within the prescribed time, the time of supply will be the last date on which the invoice is required to be issued (03-10-2017) or date of receipt of payment (09-10-2017), whichever is earlier.

Thus, the time of supply of the goods will be 03-10-2017.

- (b) (i) Services provided by a tour operator to a foreign tourist are exempt from GST provided such services are in relation to a tour conducted wholly outside India. Thus, since in the given case, services provided by Teja & Co. are in relation to a tour conducted within India, the same are not exempt from GST.
- (ii) Services provided by a team manager to a recognised sports body for participation in a sporting event are exempt from GST provided said sporting event is organised by a recognized sports body. Thus, since in the given case, the sporting event is not organised by a recognised sports body, the services provided by Ms. Poorva are not exempt from GST.
- (c) (i) Section 10 of CGST Act, 2017 provides that a registered person, whose aggregate turnover in the preceding financial year did not exceed ₹1 crore may opt for composition scheme. The turnover limit is ₹ 75 lakh in case of Special Category States. However, for Jammu and Kashmir and Uttarakhand, the turnover limit is ₹ 1 crore only.
- In the given case, the applicable turnover limit for composition scheme will be ₹ 1 crore as Andhra Pradesh is not a Special Category State.
- Further, since the aggregate turnover of the registered person in the given case does not exceed ₹ 1 crore and it satisfies other conditions of composition scheme namely, not making inter-State supplies of goods, it is eligible for composition levy.
- (ii) Since the turnover limit for determining the eligibility for composition scheme in the State of Jammu and Kashmir is also ₹ 1 crore, Sai Trading Company will be eligible for composition levy with other condition of not making inter-State supplies of goods being fulfilled.

⁴ It has been assumed that the aggregate turnover of Mansh and Vansh Trading Company in the preceding financial year is more than ₹ 1.5 crore.

Question 11

- (a) Determine the effective date of registration in the following instances:
- (i) The aggregate turnover of Madhu Ltd., engaged in taxable supply of services in the state of Punjab, exceeded ₹ 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, Madhu 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. **(3 Marks)**
- (c) List any six state levies, which are subsumed in GST. **(3 Marks)**

Answer

- (a) A supplier whose aggregate turnover in a financial year exceeds ₹ 20 lakh in a State/UT [₹ 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 ₹ 20 lakh/₹ 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 ₹ 20 lakh as Punjab is not a Special Category State.

- (i) Since Madhu 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 Madhu 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.

By virtue of an amendment, a non-banking financial company has been 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 six points may be mentioned.

Question 12

Answer any **two** out of the following **three** sub divisions:

(a) Discuss the following in terms of provisions of CGST Act, 2017:

When shall the interest be payable by a registered person and what is the maximum rate of interest chargeable for the same ? **(5 Marks)**

(b) List the inclusions and exclusions for computing the "Aggregate Turnover" under CGST Act, 2017. **(5 Marks)**

(c) Who is required to furnish Final Return under CGST Act, 2017 and what is the time limit for the same? Discuss. **(5 Marks)**

Answer

(a) Interest is payable in the following cases:-

- failure to pay tax, in full or in part within the prescribed period,
- undue or excess claim of input tax credit,
- undue or excess reduction in output tax liability.

The maximum rate of interest chargeable for the same is as under-

- (a) 18% p.a. in case of failure to pay full/part tax within the prescribed period
- (b) 24% p.a. in case of undue or excess claim of input tax credit or undue or excess reduction in output tax liability.

- (b)** Aggregate turnover includes the aggregate value of all:
- (i) taxable supplies,
 - (ii) exempt supplies,
 - (iii) exports of goods and/or services and
 - (iv) inter-State supplies of persons having the same PAN.,
- to be computed on all India basis
- Aggregate turnover excludes: -
- (i) value of inward supplies on which tax is payable by a person on reverse charge basis,
 - (ii) central tax, State tax, Union territory tax, integrated tax and
 - (iii) cess
- (c)** Every registered person who is required to furnish a return u/s 39(1) of the CGST Act, 2017 and whose registration has been surrendered or cancelled shall file a Final Return electronically in the prescribed form through the common portal.
- Final Return has to be filed within 3 months of the:
- (i) date of cancellation
- or
- (ii) date of order of cancellation
- whichever is later.