

**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**

*Miss Sakshitha, a resident individual, aged 32 years, furnishes the following particulars relating to the year ended 31-3-2018:*

- (a) *Analysis of her bank account in her ledger reveals the under-mentioned data:*
- |  |          |
|--|----------|
| (i) Winnings from a TV Game show (Net)   | 70,000   |
| (ii) Gift received from mother's father  | 80,000   |
| (iii) Gift received from Ramya, her close friend   | 60,000   |
| (iv) Interest on capital received from Vidyut & Co., a partnership firm in which she is a partner (@15% p.a.)  | 3,00,000 |
| (v) Rent received for a vacant plot of land  | 2,00,000 |
| (vi) Amount received from Sharks Pvt. Ltd., for a house at Salem for which she had been in negotiation for enhanced rent three years back. This has not been taxed in any earlier year. The house was, however, sold off in March, 2017. | 1,50,000 |
| (vii) Amount received under Keyman Insurance Policy  | 2,20,000 |
| (viii) Amount forfeited by a buyer of her vacant plot, since the buyer could not finalize the deal as per agreement.   | 3,10,000 |
- (b) *Donation given in cash to a charitable trust registered u/s 12AA* 12,000
- (c) *She owns agricultural lands at Colombo, Sri Lanka. She has derived agricultural income therefrom* 1,80,000
- (d) (i) *Public Provident Fund paid in the name of her minor daughter* 75,000  
(ii) *Interest credited in the said PPF account during the year* 8,900
- (e) *Share of profits received from Vidyut & Co.,* 1,90,000

*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.*

You are required to compute the total income of the assessee and the tax payable for the assessment year 2018-19.

Computation should be made under proper heads of income.

(10 Marks)

**Answer**

**Computation of total income of Miss Sakshitha for A.Y. 2018-19**

Particulars	₹	₹
<b>Income from house property</b>		
Arrears of rent [Taxable, even if Ms. Sakshitha is no longer the owner of house property]	1,50,000	
Less: 30% of arrears of rent	<u>45,000</u>	1,05,000
<b>Profits and gains of business or profession</b>		
Interest on capital @12%, being the maximum allowable interest [₹3,00,000/15% x 12%] assuming interest@12% is authorized by the partnership deed and has been allowed as deduction while computing the income of the firm	2,40,000	
Share of profit from Vidyut & Co., a firm [Exempt]	-	
Amount received under Keyman Insurance Policy	<u>2,20,000</u>	4,60,000
<b>Income from other sources</b>		
Winning from a TV Game show (Gross) [₹70,000 x 100/(100-30)]	1,00,000	
Gift received from non-relatives exceeding ₹ 50,000 in aggregate		
- Gift received from mother's father, since 80,000 mother's father does not fall within the definition of relative		
- Gift received from Ramya, her close friend <u>60,000</u>	1,40,000	
Rent received for a vacant plot of land	2,00,000	
Amount forfeited on cancellation of agreement for transfer of vacant plot	3,10,000	
Agricultural income from agricultural land at Colombo, Sri Lanka [not exempt, since such income is derived from land outside India]	1,80,000	
Interest credited in PPF account [Exempt]	<u>-</u>	9,30,000
<b>Gross Total Income</b>		<b>14,95,000</b>
<b>Less: Deductions under Chapter VI-A</b>		
<b>Section 80C</b>		
PPF subscription in the name of minor daughter	75,000	

<b>Section 80G</b>		
Donation of ₹ 12,000 to a charitable trust registered u/s 12AA is not allowable as deduction since the same is made in cash in excess of ₹ 2,000	_____ -	<u>75,000</u>
<b>Total Income</b>		<b><u>14,20,000</u></b>

**Computation of tax liability of Miss Sakshitha for A.Y. 2018-19**

Particulars	₹	₹
Tax on winnings of ₹ 1,00,000 from TV game show @30%		30,000
Tax on balance income of ₹ 13,20,000		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,001 - ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,001 - ₹ 13,20,000 @30%	<u>96,000</u>	<u>2,08,500</u>
		2,38,500
Add: Education cess @2%		4,770
Secondary and higher education cess @1%		<u>2,385</u>
<b>Tax liability</b>		<b><u>2,45,655</u></b>
Less: TDS		<u>30,000</u>
<b>Tax payable</b>		<b><u>2,15,655</u></b>
<b>Tax payable (rounded off)</b>		<b><u>2,15,660</u></b>

**Note** – Gift of ₹ 80,000 received from mother's father has been brought to tax under section 56(2)(x) on the basis of the view that maternal grandparents are not "lineal ascendants" and hence, do not fall within the definition of 'relative' given there under. However, there is an alternate view that maternal grandparents are lineal ascendants and hence, fall under the definition of relative under section 56(2). If this view is considered, gift of ₹ 80,000 from mother's father would not be taxable. In such case, the total income would be Rs. 13,40,000 and tax payable would be Rs. 1,90,940.

**Question 2**

(a) Following incomes are derived by Mr. Krishna Kumar during the year ended 31-3-2018 :

Pension received from the US Government	3,20,000
Agricultural income from lands in Malaysia	2,70,000
Rent received from let out property in Colombo, Sri Lanka	4,20,000

Discuss the taxability of the above items where the assessee is (i) Resident, (ii) Non-resident.

**(6 Marks)**

(b) Mr. Dhanapal wishes to purchase a residential house costing ₹ 60 lakhs from Ms. Saipriya. The house is situated at Chennai. He also wants to purchase agricultural lands in a rural area for ₹ 65 lakhs. He wants to know whether there will be any obligation to deduct tax at source in these two situations. Both the buyer as well as the sellers are residents in India. Advise Mr. Dhanapal suitably. **(2 Marks)**

(c) Rahil & Co., a partnership firm is having a car dealership show-room. They have purchased cars for ₹ 2 crores from XYZ Ltd., car manufacturers, the cost of each car being more than ₹ 12 lakhs.

They sell the cars to individual buyers at a price yielding 10% margin on cost. State whether there will be any obligation to collect tax in the above two situations. **(2 Marks)**

### Answer

#### (a) Taxability of items in the hands of Mr. Krishna Kumar

	Item of income	Amount ₹	If Mr. Krishna Kumar is resident	If Mr. Krishna Kumar is non-resident
(i)	Pension received from the US Government	3,20,000	Taxable, since global income is taxable in case of a resident.	Not taxable, since the income has accrued and arisen outside India and assuming that the same is also received outside India.
(ii)	Agricultural income from lands in Malaysia	2,70,000	Taxable, since global income is taxable in case of a resident. Only agricultural income from lands in India is exempt and not lands outside India.	Not taxable, since the income has accrued and arisen outside India and assuming that the same is also received outside India.
(iii)	Rent received from let-out property in Colombo, Sri Lanka	4,20,000	Taxable, since global income is taxable in case of a resident. 30% deduction from net annual value is allowed.	Not taxable, since the income has accrued and arisen outside India and assuming that the same is also received outside India.

(b) Since the sale consideration of residential house exceeds ₹ 50 lakh, Mr. Dhanapal is required to deduct tax at source@1% of sale consideration of ₹ 60 lakh under section 194-IA.

TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land, even if the consideration exceeds ₹ 50 lakh.

- (c) Every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding ₹ 10 lakhs, is required to collect tax at source @1% of the sale consideration from the buyer.

TCS provisions will, however, not apply on sale of motor vehicles by manufacturers to dealers/distributors. Hence, XYZ Ltd., the manufacturer-seller need not collect tax at source on sale of cars to the dealer, Rahil & Co., even if the value of each car exceeds ₹10 lakhs.

However, TCS provisions would be attracted when Rahil & Co., sells cars to individual buyers, since the value of each car exceeds ₹10 lakhs. Rahil & Co. has to collect tax@1% of the consideration on sale of each car to an individual buyer.

### Question 3

- (a) Mrs. Disha Khanna, a resident of India, owns a house property at Bhiwani in Haryana. The Municipal value of the property is ₹ 7,50,000, Fair Rent of the property is ₹ 6,30,000 and Standard Rent is ₹ 7,20,000 per annum.

The property was let out for ₹ 75,000 per month for the period April 2017 to December 2017.

Thereafter, the tenant vacated the property and Mrs. Disha Khanna used the house for self-occupation. Rent for the months of November and December 2017 could not be realized from the tenant. The tenancy was bonafide but the defaulting tenant was in occupation of another property of the assessee, paying rent regularly.

She paid municipal taxes @ 12% during the year and paid interest of ₹ 35,000 during the year for amount borrowed towards repairs of the house property.

You are required to compute her income from "House Property" for the A.Y. 2018-19.

**(7 Marks)**

- (b) Explain the quantum of late fees under section 234F for delay in furnishing return of income within the prescribed time limit under section 139(1) for A.Y. 2018-19. **(3 Marks)**

### Answer

- (a) **Computation of income from house property of Mrs. Disha Khanna for the A.Y.2018-19**

Particulars	Amount in ₹	
<b>Computation of Gross Annual Value</b>		
Expected Rent for the whole year = Higher of Municipal Value of ₹ 7,50,000 and Fair Rent of ₹ 6,30,000, but restricted to Standard Rent of ₹ 7,20,000	7,20,000	

Actual rent received for the let-out period = ₹ 75,000 × 9 [Unrealised rent is not deductible from actual rent in this case since the defaulting tenant is in occupation of another property of the assessee, and hence, one of the conditions laid out in Rule 4 has not been fulfilled]	6,75,000	
GAV is the higher of Expected Rent for the whole year and Actual rent received/receivable for the let-out period	7,20,000	
<b>Gross Annual Value (GAV)</b>		<b>7,20,000</b>
Less: Municipal taxes (paid by the owner during the previous year) = 12% of ₹ 7,50,000		90,000
<b>Net Annual Value (NAV)</b>		<b>6,30,000</b>
<b>Less: Deductions under section 24</b>		
(a) 30% of NAV = 30% of ₹ 6,30,000	1,89,000	
(b) Interest on amount borrowed for repairs (Fully allowable as deduction, since it pertains to let-out property)		
	35,000	2,24,000
<b>Income from house property</b>		<b>4,06,000</b>

**(b) Quantum of late fee for delay in furnishing return of Income**

Late fee under section 234F is attracted where a person, who is required to furnish a return of income under section 139, fails to do so within the time limit prescribed under section 139(1).

Quantum of Late Fee	Circumstances
₹ 5,000	If the return is furnished on or before the 31st December of the assessment year;
₹ 10,000	In any other case
However, if the total income of the person does not exceed ₹ 5 lakhs, the fee payable shall not exceed ₹ 1,000	

**Question 4**

- (a) Mr. Subramani sold a house plot to Mrs. Vimala for ₹ 45 lakhs on 12-5-2017. The valuation determined by the stamp valuation authority was ₹ 53 lakhs. Discuss the tax consequences of above, in the hands of each one of them, viz, Mr. Subramani & Mrs. Vimala.

Mrs. Vimala has sold this plot to Ms. Padmaja on 21-3-2018 for ₹ 55 lakhs.

The valuation as per stamp valuation authority remains the same at ₹ 53 lakhs.

Compute the capital gains arising on sale of the house plot by Mrs. Vimala.

**Note:** None of the parties viz Mr. Subramani, Mrs. Vimala & Ms. Padmaja are related to each other; the transactions are between outsiders. **(6 Marks)**

- (b) Mr. Rangamannar resides in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days.

He has purchased a car on 21-09-2017, for the purpose of his business as per following details:

Cost of car (excluding GST)	12,00,000
Add: Delhi GST at 14%	1,68,000
Add: Central GST at 14%	<u>1,68,000</u>
Total price of car	<u>15,36,000</u>

He estimates the usage of the car for personal purposes will be 25%. He is advised that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using the car immediately after purchase.

Determine the depreciation allowable on car for the A.Y. 2018-19, if this is the only asset in the block.

Rate of depreciation may be taken at 15%

If this car were to be used in the subsequent Assessment Year 2019-20 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act, 1961. **(4 Marks)**

### Answer

(a)

(i)	<b><u>Tax consequences in the hands of Mr. Subramani</u></b>
	As per section 50C, the stamp duty value of immovable property, being land or building or both, would be deemed to be the full value of consideration arising on transfer of such property, if the same is higher than actual consideration. Accordingly, in this case, capital gains would be computed in the hands of Mr. Subramani, for A.Y.2018-19, taking the stamp duty value of ₹ 53 lakh of house plot as the full value of consideration arising on transfer of such house plot, since the same is higher than the actual consideration of ₹ 45 lakh. <b>Note</b> – If it is assumed that Mr. Subramani is a property dealer, the income would be taxable as his business income under section 43CA
(ii)	<b><u>Tax consequences in the hands of Mrs. Vimala</u></b>
	In case immovable property is received for inadequate consideration, the

<p>difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds ₹ 50,000.</p> <p>Therefore, in this case, ₹ 8 lakh (₹ 53 lakh – ₹ 45 lakh) would be taxable in the hands of Mrs. Vimala under the head “Income from Other Sources” in A.Y.2018-19.</p> <p>At the time of subsequent sale of property by Mrs. Vimala to Mrs. Padmaja (on 21.3.2018), short-term capital gains would arise in the hands of Mrs. Vimala in A.Y.2018-19, since the property is held by her for less than 24 months.</p>	
Particulars	₹
Full value of consideration (Since actual consideration of ₹ 55 lakh is higher than stamp duty value of ₹ 53 lakh)	55 lakh
Less: Cost of acquisition (Value taken into account for the purpose of section 56(2)(x) <sup>1</sup>	<u>53 lakh</u>
<b>Short-term capital gains</b>	<b><u>2 lakh</u></b>

(b)

Particulars	₹
Since the car was put to use for more than 180 days in the P.Y.2017-18, full depreciation@15% is allowable on the actual cost of ₹15,36,000, which is the total price (inclusive of GST). However, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable.	
Depreciation for P.Y.2017-18 = 15% x ₹15,36,000 x 75% =	1,72,800
Written Down Value as on 1.4.2018 = ₹15,36,000 – ₹1,72,800 = ₹13,63,200	
Depreciation for P.Y.2018-19 = 15% x ₹13,63,200 x 75% =	1,53,360

**Note** - As per section 17(5) of the CGST Act, 2017/Delhi GST Act, 2017, input tax credit would not be available in respect of motor vehicles except if they are used for making taxable supply of such vehicles or for transportation of goods or passengers or for imparting training on driving, flying navigating such vehicles. In this case, the question mentions that the car is the only asset in the block. In the absence of any information in the question to the contrary, it is logical to assume that the car is not used for making the above taxable supplies. Accordingly, input tax credit would not be available and hence,

<sup>1</sup> As per section 49(4), in case where capital gains arises from subsequent sale of property, which was subject to tax under section 56(2)(x), the value taken into account for the purpose of section 56(2)(x) would be deemed to be the cost of acquisition.



*GST would form part of actual cost of car. The above solution has been worked out accordingly.*

However, input tax credit would be available if it is assumed that the car is used in making the above taxable supplies or in transportation of goods, the answer would be as follows –

**Alternative Answer**

Particulars	₹
Since the car was put to use for more than 180 days in the P.Y.2017-18, full depreciation@15% is allowable on the actual cost of ₹ 12 lakh (exclusive of GST of ₹ 3,36,000), assuming that input tax credit is available in respect of GST.	
Further, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable.	
Depreciation for P.Y.2017-18 = 15% x ₹ 12,00,000 x 75% =	1,35,000
Written Down Value as on 1.4.2018 = ₹ 12,00,000 – ₹ 1,35,000 = ₹ 10,65,000	
Depreciation for P.Y.2018-19 = 15% x ₹ 10,65,000 x 75% =	1,19,813

**Question 5**

(a) *Mr. Janakaraj, employed as General Manager in Rajus Refractories Pvt. Ltd., furnishes you the under mentioned information for the year ended 31-03-2018 :*

(i) *Basic salary upto 30-11-2017 ₹ 70,000 p.m.*

*Basic salary from 01-12-2017 ₹ 80,000 p.m.*

**Note:** *Salary is due and paid on the last day of every month.*

(ii) *Dearness allowance @ 50% of basic salary (not forming part of salary for retirement benefits).*

(iii) *Bonus equal to one month salary. This was paid in November, 2017 on basic salary plus dearness allowance applicable for that month.*

(iv) *Contribution of employer to recognized provident fund account of the employee @ 18% of basic salary, employee also contributing an equivalent amount.*

(v) *Profession tax paid ₹ 6,000 of which ₹ 3,000 was paid by the employer.*

(vi) *Facility of laptop was provided to Janakaraj for both official and personal use. Cost of laptop ₹ 65,000 and was purchased by the company on 11-10-2017*

(vii) *Leave travel concession given to Janakaraj, his wife and three children (one daughter aged 6 and twin sons aged 4). Cost of air tickets (economy class)*

reimbursed by the employer ₹ 20,000 for adults and lumpsum of ₹ 25,000 for three children. Janakaraj is eligible for availing exemption this year to the extent it is permissible under the Income-tax Act, 1961.

Compute the taxable salary of Mr. Janakaraj.

**(6 Marks)**

- (b) Examine with brief reasons, whether the following are chargeable to income-tax and the amount liable to tax with reference to the provisions of the Income-tax Act, 1961:
- Allowance received by an employee Mr. Ram working in a transport system at ₹ 12,000 p.m. which has been granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer.
  - During the previous year 2017-18, Mrs. Aishwarya, resident, received a sum of ₹ 8,50,000 as dividend from Indian companies and ₹ 4,00,000 as dividend from Indian equity oriented mutual fund units.

**(2 + 2 = 4 Marks)**

**Answer**

**(a) Computation of taxable salary of Mr. Janakaraj for the A.Y. 2018-19**

Particulars	₹	₹
Basic Salary [(₹ 70,000 x 8) + (₹ 80,000 x 4)]		8,80,000
Dearness allowance [50% of basic salary]		4,40,000
Bonus [₹ 70,000 + 50% of ₹ 70,000]		1,05,000
Employer's contribution to recognized provident fund in excess of 12% of salary [(18%-12%) x ₹ 8,80,000 = 6% of ₹ 8,80,000=		52,800
[Salary includes only basic salary, since dearness allowance, in this case, does not form part of salary for retirement benefits]		
Leave travel concession	45,000	
Less: Exempt	<u>45,000</u>	-
[Mr. Janakaraj can avail exemption on the entire amount of ₹45,000 reimbursed by the employer towards leave travel concession since the leave travel concession was availed for himself, wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple birth which take place after the first child.]		
Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]		3,000

Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both]		-
<b>Gross Salary</b>		<b>14,80,800</b>
Less: Deduction under section 16		
Professional tax paid		6,000
<b>Taxable Salary</b>		<b>14,74,800</b>

(b)

	Chargeability	Amount liable to tax (₹)	Reason
(i)	<b>Partly taxable</b>	43,200	Any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt provided he is not in receipt of any daily allowance. The exemption is 70% of such allowance (i.e., ₹ 8,400 per month being, 70% of ₹ 12,000) or ₹ 10,000 per month, whichever is less. Hence, ₹ 1,00,800 (i.e., ₹ 8,400 x 12) is exempt. Balance ₹ 43,200 (₹ 1,44,000 – ₹ 1,00,800) is taxable in the hands of Mr. Ram.
(ii)	<b>Not Taxable</b>	-	As per section 10(34), dividend received upto ₹ 10 lakhs from Indian companies on which dividend distribution tax is paid by the company, is exempt in the hands of shareholder. As per section 10(35), income received from units of mutual fund is exempt. Hence, ₹ 8,50,000, being the dividend from Indian companies and ₹ 4,00,000, being the dividend from Indian equity oriented mutual fund units is not taxable in the hands of Mrs. Aishwarya.

**Question 6**

Answer any **two** of the following three sub-parts.

- (a) Mr. Rakesh Gupta has derived the following income/loss, as computed below, for the previous year 2017-18:

Loss from let out house property

2,50,000

Loss from non-speculation business	3,20,000
Income from speculation business	12,45,000
Loss from specified business covered u/s 35AD	4,10,000
Winnings from lotteries (Gross)	1,50,000
Winnings from bettings	90,000
Loss from card games	3,40,000

You are required to compute the total income of the assessee for the assessment year 2018-19, showing clearly the manner of set-off and the items eligible for carry forward. The return of income has been filed on 30-7-2018. **(5 Marks)**

- (b) Mrs. and Mr. Vinod Amin have two minor children M and N. The following are the receipts in the hands of M and N during the year ended 31-3-2018:

- (i) M received a gift of ₹ 70,000 from her friend's father on the occasion of her birthday.
- (ii) M won a prize money of ₹ 3,00,000 in National Quiz competition.  
This was invested in debentures of a company, from which interest of ₹ 19,000 (gross) accrued during the year.
- (iii) N won prize in a lottery. The net amount received after deduction of tax at source was ₹ 1,05,000.

Mr. Vinod Amin's income before considering clubbing provisions is higher than that of his wife. Discuss how these items will be considered for taxation under the provisions of the Income-tax Act, 1961. Detailed computation of income is not required. **(5 Marks)**

- (c) Mr. Rajat Saini, aged 32 years, furnishes the following details of his total income for the A.Y. 2018-19 :

Income from Salaries	27,88,000
Income from House Property (Computed)	15,80,000
Interest Income from FDR's	7,22,000

He has not claimed any deduction under Chapter VI-A. You are required to compute tax liability of Mr. Rajat Saini as per the provisions of Income-tax Act, 1961. **(5 Marks)**

### Answer

- (a) Computation of total income of Mr. Rakesh Gupta for the A.Y.2018-19

Particulars	₹	₹
Profits and gains of business or profession		
Income from speculation business	12,45,000	

Less: Set-off of loss from non-speculation business	3,20,000	
	9,25,000	
Less: Set-off of loss from house property, restricted to	2,00,000	7,25,000
<b>Income from other sources</b>		
Winnings from lotteries	1,50,000	
Winnings from bettings [See Note below]	90,000	2,40,000
<b>Gross Total Income</b>		<b>9,65,000</b>
Less: Deduction under Chapter VI-A		Nil
<b>Total income</b>		<b>9,65,000</b>

**Losses to be carried forward to A.Y.2019-20:**

Particulars	₹
<b>Loss from house property</b> (₹ 2,50,000 - ₹ 2,00,000) As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only. As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year <sup>2</sup> .	50,000
<b>Loss from specified business covered by section 35AD</b> Loss from specified business under section 35AD can be set-off only against profits of any other specified business. As per section 73A(2), if loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. Since the return has been filed before the due date, such loss can be carried forward.	4,10,000
<b>Loss from card games</b> Loss from card games can neither be set off against any other income, nor can it be carried forward.	

**Note** – It has been assumed that the amount of ₹ 90,000 given in the question represents gross winnings from bettings. Accordingly, the total income has been computed. However, in case ₹ 90,000 considered as net amount and grossed up the same, the gross winnings from bettings would be ₹ 1,28,571 [₹ 90,000 x 100/70]. The total income would be ₹ 10,03,570 (rounded off).

**(b) (i) Gift received from non-relative by minor daughter M**

Gift of ₹ 70,000 received by minor daughter M, from non-relative would be taxable, since the amount of gift exceeds ₹ 50,000. It would be included in the hands of her father, Mr. Vinod Amin, since his income before considering clubbing provisions is higher than that of his wife.

<sup>2</sup> It can be carried forward for a maximum of eight assessment years i.e., upto A.Y.2026-27, in this case.

(ii) **Prize money of ₹ 3,00,000 in National Quiz Competition/Interest on debentures received by minor daughter M**

Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be included in the hands of parent. Hence, the prize money of ₹ 3,00,000 won in National Quiz Competition by minor daughter M from exercise of special talent would not be included in the income of either parent.

However, interest of ₹ 19,000 on debentures has to be included in the hands of her father, Mr. Vinod Amin, even if the investment is made out of income arising from application of special talent.

Exemption of ₹ 1,500 would be allowed in respect of the aggregate income of minor daughter M so included in the hands of Mr. Vinod Amin under section 10(32).

(iii) **Winning from lottery by minor child N**

Winnings of ₹ 1,50,000 (1,05,000 x 100/70) from lotteries by minor child N is includible in the hands of his father, Mr. Vinod Amin. Mr. Vinod Amin can claim credit of tax of ₹ 45,000 deducted at source from such lottery income.

**Note** – As regards availability of exemption under section 10(32) in respect of lottery income of minor child N includible in the hands of his father, there are two possible views. Since exemption of upto ₹ 1,500 under section 10(32) is available in respect of any income of minor child includible in the total income of parent, one view is that such exemption would also be available in respect of lottery income of a minor child includible in the hands of parent.

The alternate view is that since as per section 58(4), no deduction is allowable in respect of any expenditure or allowance in connection with lottery income under any provision of the Income-tax Act, 1961, exemption under section 10(32) would also not be available in respect of such income of minor child includible in the hands of the parent. Further, lottery income is subject to tax at a flat rate of 30%, and hence, if any exemption is allowed in respect of such income, it would reduce the tax liability and the effective rate of tax.

(c) **Computation of tax liability of Mr. Rajat Saini for the A.Y. 2018-19**

Particulars	₹	₹
Income from Salaries		27,88,000
Income from house property (computed)		15,80,000
Interest income from FDR's		<u>7,22,000</u>
<b>Total Income</b>		<b><u>50,90,000</u></b>
<b>Tax Liability</b>		
<b>(A) Tax payable including surcharge on total income of ₹ 50,90,000</b>		

Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @ 5%	12,500	
₹ 5,00,001 – ₹ 10,00,000 @ 20%	1,00,000	
₹ 10,00,001 – ₹ 50,90,000 @30%	<u>12,27,000</u>	
	<b>13,39,500</b>	
Add: Surcharge @ 10%, since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore.	<u>1,33,950</u>	14,73,450
<b>(B) Tax Payable on total income of ₹ 50 lakhs (₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000, being 30% of ₹ 40,00,000)</b>		<u>13,12,500</u>
(C) Excess tax payable (A)-(B)		1,60,950
(D) Marginal Relief (₹ 1,60,950 – ₹ 90,000, being the amount of income in excess of ₹ 50,00,000)		70,950
Tax payable (A)-(D) [ ₹ 14,73,450 – ₹ 70,950]		14,02,500
Add: Education cess@1% and SHEC@2%		<u>42,075</u>
<b>Tax Liability</b>		<b><u>14,44,575</u></b>
<b>Tax Liability (Rounded off)</b>		<b>14,44,580</b>

**Question 7**

- (a) Mrs. Vibha Gupta, a resident individual, is running a SEZ unit, as well as a unit in Domestic Tariff Area (DTA). She furnishes the following details relating to the year ended 31-3-2018, pertaining to these two units

	<b>DTA Unit (₹ in lakhs)</b>	<b>SEZ Unit (₹ in lakhs)</b>
Export turnover	100	1000
Total turnover	400	1100
Net profit	50	220

Compute the deduction available u/s 10AA:

- (i) When the SEZ unit had been set up on 12-3-2010, and  
(ii) When the SEZ unit had been set up on 12-8-2015. **(6 Marks)**
- (b) Every person is required to file a return of income on or before due date in the prescribed form and manner as per section 139(1). What is the meaning of due date of filing Income-tax Returns for different categories of assessee as per section 139(1) of the Income-tax Act 1961 ? **(4 Marks)**

**Answer****(a) Computation of deduction under section 10AA**

(i)	<p><b><u>If Unit in SEZ was set up on 12-03-2010:</u></b></p> <p>Since A.Y. 2018-19 is the 9<sup>th</sup> assessment year from A.Y. 2010-11, relevant to the previous year 2009-10, in which the SEZ unit was set up, it shall be eligible for deduction of 50% of the profits derived from export, assuming all the other conditions specified in section 10AA are fulfilled.</p> $= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\%$ $= 220 \text{ lakhs} \times \frac{1000 \text{ lakhs}}{1100 \text{ lakhs}} \times 50\% = ₹ 100 \text{ lakhs}$
(ii)	<p><b><u>If Unit in SEZ was set up on 12-08-2015:</u></b></p> <p>Since A.Y.2018-19 is the 3<sup>rd</sup> assessment year from A.Y. 2016-17, relevant to the previous year 2015-16, in which the SEZ unit was set up, it shall be eligible for deduction of 100% of the profits derived from export, assuming all the other conditions specified in section 10AA are fulfilled.</p> $= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\%$ $= 220 \text{ lakhs} \times \frac{1000 \text{ lakhs}}{1100 \text{ lakhs}} \times 100\% = ₹ 200 \text{ lakhs}$
<p>The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction under section 10AA in respect of its export profits, in both the situations.</p>	

**Note:**

As per section 10AA, in computing the total income of Mrs. Vibha Gupta from her unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 1.4.2006 but before 1.4.2021, a deduction of 100% of the profit and gains derived from export of such articles or things or from services is allowable for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years subject to fulfillment of other



*conditions specified in section 10AA. In this case, it is assumed that the manufacturing or production commenced from the year in which the SEZ was set up.*

**(b)** 'Due date' for filing of return of income as per section 139(1):

(i) 30th September of the assessment year, where the assessee, other than an assessee referred to in (ii) below, is -

(a) a company,

(b) a person (other than a company) whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force; or

(c) a working partner of a firm whose accounts are required to be audited under the Income-tax Act, 1961 or any other law for the time being in force.

(ii) 31st July of the assessment year, in the case of any other assessee.

**Note:** *In the case of an assessee who is required to furnish a report referred to in section 92E, the due date for filing return of income is 30<sup>th</sup> November of the assessment year.*

**SECTION B: INDIRECT TAXES**

Question No. 8 is compulsory.

Attempt any **three** questions from the rest.

Working notes should form part of the respective answers.

**Question 8**

- (a) Mr. Thiraj, a registered supplier of service in Bangalore (Karnataka State) has provided the following information for the month of February 2018:

	<b>Particulars</b>	<b>Amount in ₹</b>
(i)	Intra-state taxable supply of service	5,20,000
(ii)	Legal fee paid to a Lawyer located within the state	20,000
(iii)	Rent paid to the State Govt. for his office building	30,000
(iv)	Received for services towards conduct of exams in Loveall University, Pune (recognized by law), being an inter-state transaction	16,000

Compute the net GST liability (CGST, SGST or IGST) of Mr. Thiraj for the month of February, 2018.

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

All the amounts given above are exclusive of taxes.

**(6 Marks)**

- (b) CANWIN Ltd., a registered supplier, is engaged in the manufacture of Tanks. The company provides the following information pertaining to GST paid on the purchases made/input services availed by it during the month of January 2018:

	<b>Particulars</b>	<b>GST Paid (₹)</b>
(i)	Purchase of Machinery where debit note is issued	1,15,000
(ii)	Input purchased was directly delivered to Mr. Joe, a job worker and a registered supplier	80,000
(iii)	Computers purchased (Depreciation was claimed on the said GST portion under the Income-Tax Act, 1961)	50,000
(iv)	Works Contract services availed for construction of Staff quarters within the company premises	4,25,000

The Suggested Answers for Paper 4B: Indirect Taxes are based on the position of GST law as amended by the significant notifications/circulars issued till 30th April, 2018.

Determine the amount of ITC available to M/s. CANWIN Ltd. for the month of January 2018 by giving brief explanations for treatment of various items. Subject to the information given above, all the conditions necessary for availing the ITC have been fulfilled. **(4 Marks)**

**Answer**

**(a) Computation of net GST liability by Mr. Thiraj for the month of February, 2018**

S.No.	Particulars	Value of supply (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
<b>Output supply</b>					
(i)	Intra-State taxable supply of services	5,20,000	46,800	46,800	
(iv)	Services towards conduct of exams in Loveall University, Pune [Note-1]	16,000			Exempt
<b>Inward supply</b>					
(ii)	Legal fee paid to lawyer located within State [Note-2]	20,000	1,800	1,800	
(iii)	Rent paid to State Government for Office Building [Note-3]	30,000	<u>2,700</u>	<u>2,700</u>	
Total tax liability			51,300	51,300	
Less: Cash paid towards tax payable under reverse charge [A] [Note-4]			<u>(4,500)</u>	<u>(4,500)</u>	
Output tax payable against which ITC can be set off			46,800	46,800	
Less: ITC of tax paid on legal fees and rent			<u>(4,500)</u>	<u>(4,500)</u>	
Output tax payable after set off of ITC [B]			42,300	42,300	
<b>Net GST liability [A] + [B]</b>			<b>46,800</b>	<b>46,800</b>	

**Notes:-**

- Since Loveall University provides education recognized by law<sup>1</sup>, it is an educational institution and services provided to an educational institution, by way of conduct of examination by such institution are exempt from GST.

<sup>1</sup> It has been logically assumed that the education provided by the Loveall University is recognised by **Indian** law.

2. In case of legal services provided by an advocate to any business entity GST is payable under reverse charge by the recipient of service<sup>2</sup>.
3. In case of services supplied by, *inter alia*, State Government by way of renting of immovable property to a person registered under the CGST Act, GST is payable under reverse charge by the recipient of service
4. The amount available in the electronic credit ledger may be used for making payment towards output tax. However, tax payable under reverse charge is not an output tax. Therefore, tax payable under reverse charge cannot be set off against the input tax credit and thus, will have to be paid in cash.

**(b) Computation of input tax credit (ITC) available with CANWIN Ltd. for the month of January 2018**

Particulars	GST (₹)
Purchase of machinery where debit note is issued [Note-1]	1,15,000
Inputs directly delivered to a job worker supported by a valid document	80,000
Computers [Note-2]	Nil
Works contract services availed for construction of staff quarters within the company premises [Note-3]	Nil
<b>Total ITC</b>	<b>1,95,000</b>

**Notes:-**

1. Input tax credit on goods purchased on the basis of debit note which is a valid document is allowed.
2. Where depreciation has been claimed on the tax component of the cost of capital goods and plant and machinery under the provisions of the Income-tax Act, 1961, the input tax credit on the said tax component is not allowed.
3. Input tax credit on works contract services supplied for construction of an immovable property is specifically disallowed except where it is an input service for further supply of works contract service.

**Question 9**

- (a) Ms. Achintya, a registered supplier in Kochi (Kerala State) has provided the following details in respect of her supplies made Intra-State for the month of March 2018:

	Particulars	Amount in ₹
(i)	List price of goods supplied intra-state (exclusive of items given below from ii to v)	3,30,000

<sup>2</sup> It has been logically assumed that the turnover of Mr. Thiraj exceeded ₹20 lakhs in the preceding financial year.

(ii)	Swachh Bharat cess levied on sale of the goods	12,500
(iii)	Packing expenses charged separately in the invoice	10,800
(iv)	Discount of 1% on list price of goods was provided (recorded in the invoice of goods)	
(v)	Subsidy received from State Govt. for encouraging women entrepreneurs	5,000

Compute the value of taxable supply and the gross GST liability of Ms. Achintya for the month of March 2018 assuming rate of CGST to be 9% and SGST to be 9%. All the amounts given above are exclusive of GST **(5 Marks)**

- (b) Explain the meaning of supply as per provisions of Section 7(1) of Central Goods and Service Tax Act, 2017. **(5 Marks)**

### Answer

- (a) **Computation of value of taxable supply and gross GST liability of Ms. Achintya for the month of March, 2018**

Particulars	₹
List price of the goods	3,30,000
Add: Swachh Bharat Cess (SBC) levied on sale of goods [Note-1]	12,500
Add: Packing expenses [Note-2]	10,800
Less: Subsidy received from State Government [Note-3]	(5,000)
Less: Discount @ 1% on list price [Note-4]	<u>(3,300)</u>
<b>Value of taxable supply</b>	<b>3,45,000</b>
CGST @ 9%	31,050
SGST @ 9%	<u>31,050</u>
<b>Gross GST liability</b>	<b>62,100</b>

### Notes:-

As per section 15 of CGST Act, 2017,

- Any taxes, duties and cesses levied under any law other than CGST, SGST is includible in the value.
- Packing expenses being incidental expenses, are includible in the value.
- Since subsidy is received from State Government, the same is not includible in the value. It has been assumed that such subsidies are directly linked to the price of the goods. Further, since the same has not been adjusted in the list price, the same is to be excluded from the list price.

4. Since discount is known at the time of supply, it is deductible from the value.

**Note:** (i). In the above answer, the term “exclusive” mentioned in the question has been taken to be as “not adjusted in the list price”, i.e. the list price given in the question is before adjusting the amount of discount and subsidy. However, it is also possible to take a view that the list price “excludes” amount of discount and subsidy. Therefore, the same need not be deducted again from the list price to arrive at the taxable value.

(ii) Read SBC as other taxes.

**(b) As per section 7(1) of CGST Act, 2017, the term supply includes –**

- (a) all forms of supply of goods or services or both such as sale, transfer, barter, exchange, license, rental, lease or disposal made or agreed to be made for a consideration by a person, in the course or furtherance of business;
- (b) import of services for a consideration whether or not in the course or furtherance of business;
- (c) the activities specified in Schedule I, made or agreed to be made without a consideration; and
- (d) the activities to be treated as supply of goods or supply of services as referred to in Schedule II.

**Question 10**

- (a) From the following information, compute the Net GST payable for the month of March, 2018:-

	<b>Output GST</b>	<b>Amount in ₹ Opening ITC as Per credit ledger</b>
CGST	2,000	Nil
SGST	15,000	1,000
IGST	24,000	37,000

**(4 Marks)**

- (b) Decide with reason whether the following independent services are exempt under CGST Act, 2017 :

- (i) M/s Fast Trans, a goods transport agency, transported relief materials meant for victims of Kerala floods being a natural disaster, by road from Delhi to Ernakulam, for a Limited Co.
- (ii) Keyan Enterprises, an event organizer, provided services to Breathing Wall Ltd. by way of organizing business exhibition at Pragati Maidan in New Delhi as part of Make in India initiative.

**(3 Marks)**

- (c) Decide which person is liable to pay GST in the following independent cases, where the recipient is located in the taxable territory. Ignore the Aggregate Turnover and Exemption available.
- (i) Mr. Raghu provided sponsorship services to WE-WIN Cricket Academy, an LLP.
- (ii) 'Safe Trans', a Goods Transport Agency, transported goods of Kapil & Co., a partnership firm which is not registered under GST. **(3 Marks)**

**Answer****(a) Computation of net GST payable for the month of March, 2018**

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Output tax payable	2,000	15,000	24,000
Less: Opening ITC as per credit ledger	(Nil) -CGST	(1,000)-SGST	(24,000)-IGST
	(2,000)-IGST	(11,000)-IGST	
<b>Net GST payable</b>	<b>Nil</b>	<b>3,000</b>	<b>Nil</b>

**Note:** Input tax credit of IGST has been used to pay IGST, CGST and SGST in that order.

- (b) (i) Services provided by a goods transport agency, by way of transport in a goods carriage of, *inter alia*, relief materials meant for victims of *inter alia* natural or man-made disasters are exempt from GST. Therefore, services provided by M/s Fast Trans will be exempt from GST.
- (ii) Services provided by an organiser to any person in respect of a business exhibition held outside India is exempt from GST. Since in the given case, the exhibition is organized in India, the services of organization of event by Keyan Enterprises will not be exempt from GST.
- (c) (i) In case of services provided by any person by way of sponsorship to any body corporate or partnership firm / LLP, GST is liable to be paid under reverse charge by such body corporate or partnership firm / LLP located in the taxable territory. Therefore, in the given case, WE-WIN Cricket Academy is liable to pay GST under reverse charge.
- (ii) In case of services provided by Goods Transport Agency (GTA) in respect of transportation of goods by road to, *inter alia*, any partnership firm whether registered or not under any law; GST is liable to be paid by such partnership firm. Therefore, in the given case, Kapil & Co. is liable to pay GST under reverse charge.

**Question 11**

- (a) Determine with brief reasons, whether the following statements are True or False:

- (i) Registration under the CGST Act, 2017 can be cancelled by the proper officer, if the voluntarily registered person has not commenced the business within three months from the date of registration.
- (ii) Electronic cash ledger balance of ₹ 5,000 under the major head of IGST can be utilized for discharging the liability of major head of CGST. **(3 Marks)**
- (b) Mr. Lakhan provides Continuous Supply of Services (CSS) to M/s. TNB Limited. He furnishes the following further information:
- |  |            |
|--|------------|
| (i) Date of commencement of providing CSS -      | 01-10-2017 |
| (ii) Date of completion of providing CSS -       | 31-01-2018 |
| (iii) Date of receipt of payment by Mr. Lakhan - | 30-03-2018 |
- Determine the time of issue of invoice as per provisions of CGST Act, 2017, in the following circumstances:
- (i) If no due date for payment is agreed upon by both under the contract of CSS.
- (ii) If payment is linked to the completion of service.
- (iii) If M/s. TNB Limited has to make payment on 25-03-2018 as per the contract between them **(5 Marks)**
- (c) A tax payer can file GSTR-1 under CGST Act, 2017, only after the end of the current tax period. State exceptions to this. **(2 Marks)**

**Answer**

- (a) (i) **The said statement is False.**

Registration under the CGST Act, 2017 can be cancelled by the proper officer, if the voluntarily registered person has not commenced the business within six months from the date of registration.

- (ii) **The said statement is False.**

Amount available under one major head cannot be utilised for discharging the liability under any other major head.

- (b) (i) Where the due date of payment is not ascertainable from the contract, the invoice shall be issued before or at the time when the supplier of service receives the payment.  
Thus, in the given case, the invoice should be issued on or before 30.03.2018 (date of receipt of payment by Mr. Lakhan).
- (ii) If payment is linked to the completion of an event, the invoice should be issued on or before the date of completion of that event.  
Since in the given case payment is linked to the completion of service, invoice should be issued on or before 31.01.2018 (date of completion of service).



- (iii) Where the due date of payment is ascertainable from the contract, the invoice should be issued on or before the due date of payment.

If M/s. TNB Limited has to make payment on 25.03.2018 as per the contract between them, the invoice should be issued on or before 25.03.2018.

- (c) A taxpayer can file GSTR-1 under CGST Act, 2017, only after the end of the current tax period. However, following are the exceptions to this rule:
- (i) Casual taxpayers, after the closure of their business
  - (ii) Cancellation of GSTIN of a normal taxpayer.

### Question 12

Answer any two parts out of (a), (b) and (c):

- (a) State the persons who are not liable for registration as per provisions of Section 23 of Central Goods and Service Tax Act, 2017. **(5 Marks)**
- (b) Mr. Allan, a non-resident person, wishes to provide taxable supply of goods. He has no fixed place of business or residence in India. He seeks your advise on the following aspects, relating to CGST Act, 2017:
- (i) When shall he apply for registration?
  - (ii) Is PAN mandatory for his registration?
  - (iii) What is the period of validity of RC granted to him?
  - (iv) Will he be able to extend the validity of his registration? If yes, what will be the period of extension? **(5 Marks)**
- (c) (i) List any four Central levies, which are subsumed in GST. **(2 Marks)**
- (ii) Ms. Jimmy wants to adjust input tax credit for payment of interest, penalty and payment of tax under reverse charge. Explain whether she can do so. **(3 Marks)**

### Answer

- (a) As per provisions of Section 23 of CGST Act, 2017, the persons who are not liable for registration are as under–
- (a) Person engaged exclusively in supplying goods/services/both that are wholly exempt from tax.
  - (b) Person engaged exclusively in supplying goods/services/both that are not liable to tax.
  - (c) Agriculturist to the extent of supply of produce out of cultivation of land.
  - (d) Persons only engaged in making supplies of taxable goods or services or both liable to reverse charge.

- (e) Persons making inter-State supplies of taxable services up to an aggregate turnover of ₹ 20 lakh (₹ 10 lakh in case of special category States except Jammu and Kashmir).
- (f) Casual Taxable Persons making taxable supplies of specified handicraft goods up to an aggregate turnover of ₹ 20 lakh (₹ 10 lakh in case of special category States except Jammu and Kashmir) subject to specified conditions.
- (g) Persons making inter-State supplies of specified handicraft goods up to an aggregate turnover of ₹ 20 lakh (₹ 10 lakh in case of special category States except Jammu and Kashmir) subject to specified conditions.
- (h) Job workers making inter-State supply of services to a registered person up to an aggregate turnover of ₹ 20 lakh (₹ 10 lakh in case of special category States except Jammu and Kashmir) subject to specified conditions.
- (i) Persons making supplies of services through an electronic commerce operator (other than supplies specified under section 9(5) of the CGST Act) up to an aggregate turnover of ₹ 20 lakh (₹ 10 lakh in case of special category States except Jammu and Kashmir).

[Note Any 5 points may be mentioned]

- (b) (i) Mr. Allan, being a non-resident person, should apply for registration, irrespective of the threshold limit, at least 5 days prior to the commencement of business.
- (ii) No, PAN is not mandatory for his registration.  
He has to submit a self-attested copy of his valid passport along with the application signed by his authorized signatory who is an Indian Resident having valid PAN.  
However, in case of a business entity incorporated or established outside India, the application for registration shall be submitted along with its tax identification number or unique number on the basis of which the entity is identified by the Government of that country or its PAN, if available.
- (iii) Registration Certificate granted to Mr. Allan will be valid for:
  - (a) Period specified in the registration application, or
  - (b) 90 days from the effective date of registration
 whichever is earlier.
- (iv) Yes, Mr. Allan can get the validity of his registration extended. Registration can be extended further by a period not exceeding 90 days.
- (c) (i) The Central levies which are subsumed in GST are as under:-
  - (a) Central Excise Duty & Additional Excise Duties
  - (b) Service tax

- (c) Excise duty under Medicinal & Toilet Preparation Act
- (d) CVD
- (e) Special CVD
- (f) Central Sales Tax
- (g) Central surcharges and cesses in so far as they relate to supply of goods & services

*Note: Any of the four points may be mentioned*

- (ii) The input tax credit as self-assessed in the return of a registered person shall be credited to his electronic credit ledger which may be used for making any payment towards output tax.

“Output tax” *inter alia* excludes tax payable on reverse charge basis.

Thus, Ms. Jimmy cannot adjust input tax credit for payment of interest, penalty as also for payment of tax under reverse charge.