MOCK TEST PAPER

INTERMEDIATE (NEW) COURSE

PAPER – 4: TAXATION

SECTION – A: INCOME TAX LAW

ANSWERS

1. Computation of total income of Mr. Rajan for A.Y. 2018-19

Particulars	Working Note Nos.	₹
Income from house property	I.	95,900
Profit and gains of business or profession	II.	1,83,100
Long term capital gains	III.	1,70,000
Income from other sources	IV.	7,500
Gross Total Income		**4,56,500**
Less: Deduction under Chapter VI-A	V.	55,000
Total Income		**4,01,500**

Working Notes:

I. Computation of income under the head "Income from House Property"

Particulars	₹	₹
Let-out portion – 50%		
Gross Annual Value		1, 50,000
(Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent)		
Less: Municipal taxes paid in respect of let out portion [50% of ₹ 26,000 (₹ 36,000 - ₹ 10,000, being municipal taxes paid as tenant)]		13,000
Net Annual Value (NAV)		1,37,000
Less: Deduction under section 24@30% of NAV		41,100
Income from House Property		**95,900**

II. Computation of income under the head "Profits and gains of business or profession"

Particulars	₹	₹
Net profit as per Profit and Loss account		1,10,350
Add: Expenses debited to profit and loss account but not allowable or to be considered separately		
(i) Fire Insurance [50% of ₹ 15,000, disallowed since relating to let-out portions of house property owned by him]	7,500	
(ii) Income-tax [disallowed as per section 40(a)(ii)]	30,000	
(iii) Household expenses [Personal expenses are disallowed by virtue of section 37]	50,000	

(iv) Contribution to IIT, Mumbai for approved scientific research programme to be considered separately	1,00,000	
(v) Municipal Taxes paid as tenant [Personal expenses are disallowed by virtue of section 37]	10,000	
(v) Municipal Taxes paid in respect of let-out portions [50% of ₹ 26,000 (₹ 36,000 - ₹ 10,000, being municipal taxes paid as a tenant) disallowed, since incurred for personal purposes]	13,000	
(vi) Investment in NSC (Deduction allowed under section 80C)	10,000	
(vii) Interest payable to a non-resident, as tax has not been deducted at source [Section 40(a)(i)]	10,000	
(viii) Rent paid for his residence [Personal expenses not allowed as deduction as per section 37]	50,000	2,80,500
		3,90,850
Less: Weighted deduction@150% for contribution to IIT, Mumbai for scientific research programme approved under section 35(2AA) [₹ 1,00,000 × 150%]		1,50,000
		2,40,850
Less: Income credited to Profit & Loss Account but not taxable under this head:		
(i) Cash gifts	51,000	
(ii) Interest on debentures	6,750	57,750
Profits and gains from business and profession		**1,83,100**

III. Computation of income under the head "Capital Gains"

Particulars	₹	₹
Capital gains		
Actual Sale consideration	1,50,000	
Value adopted by Stamp Valuation Authority	2,80,000	
Gross Sale consideration		2,80,000
[In case the actual sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C]		
Less: Cost of acquisition		1,10,000
Short term capital gain [Since vacant land is held by Mr. Rajan for not more than 24 months]		**1,70,000**

IV. Computation of income under the head "Income from other sources"

Particulars	₹	₹
Cash gift received on the occasion of his son's marriage from his maternal uncle would not be taxable, since maternal uncle fall within the definition of relative.		Nil
Interest on debentures (gross) [₹ 6,750 × 100/90] (The rate of TDS under section 194A is 10%)		7,500
Income chargeable under this head		**7,500**

V. Computation of deduction under Chapter VI-A

Particulars	₹	₹
Deduction under section 80C		
Investment in NSC	10,000	
LIC Premium paid ₹ 50,000 [deduction restricted to 15% of ₹ 3,00,000, being the capital sum assured, since the policy was taken after 31.3.2013 to insure the life of his disabled daughter]	45,000	55,000
Deduction under section 80GG		
[Since Mr. Rajan is staying in a rented premise in Nagpur itself, he would not be eligible for deduction under section 80GG as he owns a house in Nagpur which he has let out.		NIL
Deduction under Chapter VI-A		55,000

2. (a) Computation of tax payable by Mrs. Sushma for the A.Y.2018-19

	Particulars	₹	₹
	Step 1		
	Agricultural income and Non-agricultural income (₹ 60,000 + ₹ 11,00,000) [For computation of non-agricultural income, see Working Note below]	11,60,000	
	Tax on the above income		
(i)	Tax on long-term capital gain of ₹ 2,00,000 @ 20%	40,000	
(ii)	Tax on dividend of ₹ 1,50,000 @ 10%	15,000	
(ii)	Tax on winning from lotteries ₹ 2,20,000 @ 30%	66,000	
(iv)	Tax on remaining income of ₹ 5,90,000 (₹ 5,30,000 + ₹ 60,000) at normal slab rate i.e., 5% on income of ₹ 2,00,000 plus 20% on ₹ 90,000	28,000	1,49,000
	Total tax on ₹ 11,60,000		**1,49,000**
	Step 2		
	Basic exemption limit to agricultural income (₹ 3,00,000 + ₹ 60,000)	3,60,000	
	Tax on ₹ 3,60,000		**3,000**
	Step 3		
	Tax on non-agricultural income (Tax under step 1 – Tax under step 2) (₹ 1,49,000 – ₹ 3,000)		1,46,000
	Add: Education cess @ 2%		2,920
	Add: Secondary and higher education cess @ 1%		1,460
	Tax payable by Mrs. Sushma		**1,50,380**

Working Note:

Computation of total income of Mrs. Sushma for the A.Y. 2018-19

Particulars	₹	₹
Business income		3,20,000
Salary		2,40,000
Dividend income **[See Note 2]**		1,50,000

Long term capital gains on sale of shares in XYZ Pvt. Ltd.		2,00,000
Short term capital gains on sale of house property		30,000
Lottery winning (Gross)		2,20,000
Gross Total Income		**11,60,000**
Less: **Deduction under section 80C**		
Life insurance premium of self	40,000	
Life insurance premium of husband	20,000	60,000
Total Income		**11,00,000**

Notes:

1. Mrs. Sushma born on 1st April, 1958, turns 60 years of age on 31.03.2018. Therefore, she is a senior citizen for the P.Y. 2017-18 and is entitled to the higher basic exemption limit of ₹ 3,00,000.
2. Dividend received from ABC Ltd, an Indian Company, upto ₹ 10,00,000 is exempt under section 10(34). ₹ 1,50,000, being dividend received in excess of ₹ 10,00,000 would be taxable @10% as per section 115BBDA. No deduction is allowable in respect of any expenditure or allowance against such income.
3. Short-term capital gains on sale of house property are taxable at normal rates.
4. Tax saver deposit in the name of major son does not qualify for deduction under section 80C.

(b) (i) TDS on rent for building and machinery: Tax is deductible on rent under section 194-I, if the aggregate amount of rental income paid or credited to a person exceeds ₹ 1,80,000. Rent includes payment for use of, *inter alia,* building and machinery.

The aggregate payment made by Mac Ltd. to Ramesh towards rent in P.Y. 2017-18 is ₹ 1,85,000 (i.e., ₹ 1,35,000 for building and ₹ 50,000 for machinery). Hence, Mac Ltd. has to deduct tax @10% on rent paid for building and tax @2% on rent paid for machinery.

Tax to be deducted = ₹ 14,500 (i.e., ₹ 1,35,000 x 10% = ₹ 13,500 + ₹ 50,000 x 2% = ₹ 1,000)

(ii) TDS on compensation for compulsory acquisition: Tax is deductible at source @10% under section 194LA, where payment is made to a resident as compensation or enhanced compensation on compulsory acquisition of any immovable property (other than agricultural land).

However, no tax deduction is required if the aggregate payments in a year does not exceed ₹ 2, 50,000.

Therefore, no tax is required to be deducted at source on payment of ₹ 2,45,000 to Mr. X, since the aggregate payment does not exceed ₹ 2,50,000.

3. In this case, the voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Port Blair) and having its destination at a port outside India (i.e., the Thailand port). Hence, the voyage is an eligible voyage for the purposes of section 6(1).

Therefore, the period beginning from 10th July, 2017 and ending on 21st January, 2018, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Kunal, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 196 days [22+31+30+31+30+31+21] have to be excluded from the period of his stay in India. Consequently, Mr. Kunal's period of stay in India during the P.Y. 2017-18 would be 169 days [i.e., 365 days – 196 days]. Since his period of stay in India during the P.Y. 2017-18 is less than 182 days, he is a non-resident for A.Y. 2018-19.

Based on the residential status, the total income of Mr. Kunal would be determined as follows:

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

S. No.	Particulars	(₹)
(i)	Dividend from Thailand Company received in Thailand (***Note 2)***	-
(ii)	Short term capital gain on sale of shares of an Indian company	25,000
(iii)	Interest on savings account with Post office (***Note 3)***	9,500
(iv)	Past foreign untaxed income brought to India during the previous year *[Not taxable, since it does not represent income of the P.Y.2017-18]*	-
(v)	Gift received from non-relative *[As per section 56(2)(x), cash gifts received from a non-relative would be taxable, if the amount exceeds ₹50,000 in aggregate during the previous year]*	-
(vi)	Income from agricultural land in Nepal received there and then brought to India ***(Note 2)***	-
(vii)	Interest received from a non-resident on moneys borrowed for the purpose of business in Delhi ***(Note 4)***	1,50,000
Gross Total income		**1,84,500**
Less:	Deductions under Chapter VIA	
	Section 80TTA	9,500
	(In case of an individual, interest upto ₹ 10,000 from savings account with, *inter alia,* a post office is allowable as deduction under section 80TTA)	
Total Income		**1,75,000**

Notes:

(1) Since the residential status of Mr. Kunal is "non-resident" for A.Y. 2018-19 consequent to his number of days of stay in P.Y. 2017-18 being less than 182 days, his period of stay in the earlier previous years become irrelevant.

(2) As per section 5(2), only the following incomes are chargeable to tax in India, in case of a non-resident:

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

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

Therefore, dividend from Thailand Company received in Thailand and Income from agricultural land in Nepal received there and then brought to India by Mr. Kunal, a non-resident, would not be taxable in India, since both the accrual and receipt are outside India.

(3) The interest on Post Office Savings Bank Account, would be exempt under section 10(15)(i), only to the extent of ₹3,500 in case of an individual account.

(4) As per section 9(1)(v)(c), interest payable by a non-resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.

4. Computation of taxable salary of Mrs. Anjali for A.Y. 2018-19

Particulars	₹
Basic pay [(₹ 20,000×11) + (₹ 22,500×1)] = ₹ 2,20,000 + ₹ 22,500	2,42,500
Dearness allowance [30% of basic pay]	72,750
Bonus [₹ 22,500 × 2]	45,000

Employer's contribution to Recognized Provident Fund in excess of 12% (15% - 12% = 3% of ₹ 3,15,250)		9,458
Taxable allowances		
Transport allowance (₹ 2,000 x 12)	24,000	
Less: Exemption under section 10(14) read with Rule 2BB) @ ₹ 1,600 p.m.	19,200	4,800
Hostel allowance (₹ 4,000 x 3)	12,000	
Less: Exemption under section 10(14) read with Rule 2BB) @ ₹ 300 p.m. per child maximum for two children	7,200	4,800
Taxable perquisites		
Rent-free accommodation **[See Note 1 below]**		55,478
Medical reimbursement (₹ 35,000 - ₹ 15,000) **[See Note 2 below]**		20,000
Gift voucher [**See Note 3 below]**		6,000
Value of free lunch facility [**See Note 4 below]**		-
Professional tax paid by the company [**See Note 6 below]**		2,000
Gross Salary		**4,62,786**
Less: Professional tax paid by the company [Section 16(iii)]		2,000
Salary chargeable to tax		**4,60,786**

Notes:

1. Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

   For the purposes of valuation of rent free house, salary includes:

(i)	Basic salary	2,42,500
(ii)	Dearness allowance	72,750
(iii)	Bonus	45,000
(iv)	Transport allowance	4,800
(v)	Hostel allowance	4,800
Total		3,69,850

   15% of salary = ₹ 3,69,850 × 15/100 = ₹ 55,478

   Value of rent-free house will be

   - Actual amount of lease rental paid by employer (i.e. ₹ 60,000) or
   - 15% of salary (i.e., ₹ 55,478),

   whichever is lower.

   Therefore, the perquisite value is ₹ 55,478.

2. Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family is exempt to the extent of ₹ 15,000. Therefore, in this case, the balance of ₹ 20,000 (i.e., ₹ 35,000 – ₹ 15,000) is a taxable perquisite.

3. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household is below ₹ 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000. Therefore, entire amount of ₹ 6,000 is liable to tax as perquisite.

   Alternative View: An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No. 15/2001 dated 12.12.2011 that such gifts upto ₹ 5,000 in

the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 1,000.

4. Free lunch provided by the employer during office hours is not a perquisite, assuming that the value does not exceed ₹ 50 per meal.
5. As per Rule 3(7)(vii), facility of use of laptop and computer is an exempt perquisite, whether used for official or personal purpose or both.
6. Professional tax paid by employer on behalf of employee is a taxable perquisite, hence, included in gross salary as a perquisite.

5. (a) (i) As per *Explanation 3* to section 40(b), "book profit" shall mean the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit.

In the present case, the net profit given is before deduction of depreciation on plant and machinery, interest on capital of partners and salary to the working partners. Therefore, the book profit shall be as follows:

Computation of Book Profit of the firm under section 40(b)

Particulars	₹	₹
Net Profit (before deduction of depreciation, salary and interest)		6,00,000
Less: Depreciation under section 32 **(See note below)**	NIL	
Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (5,00,000 × 12%)	60,000	60,000
Book Profit		**5,40,000**

Note: As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds ₹ 10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on plant and machinery purchased on 15.7.2017 is not allowable since the payment is made otherwise than by A/c payee cheque/ A/c payee draft/ ECS to a person in a day.

(ii) Salary actually paid to working partners = ₹ 20,000 × 2 × 12 = ₹ 4,80,000.

As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits -

On the first ₹ 3,00,000 of book profit or in case of loss	₹ 1,50,000 or 90% of book profit, whichever is more
On the balance of book profit	60% of the balance book profit

Therefore, the maximum allowable working partners' salary for the A.Y. 2018-19 in this case would be:

Particulars	₹
On the first ₹3,00,000 of book profit [(₹1,50,000 or 90% of ₹ 3,00,000) whichever is more]	2,70,000
On the balance of book profit [60% of (₹ 5,40,000 - ₹ 3,00,000)]	1,44,000
Maximum allowable partners' salary	4,14,000

Hence, allowable working partners' salary for the A.Y. 2018-19 as per the provisions of section 40(b)(v) is ₹ 4,14,000.

(b) Computation of deduction under section 10AA of the Income-tax Act, 1961

As per section 10AA, in computing the total income of Mr. Rajkumar from his 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 01.04.2006 but before 1st April 2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of first five consecutive assessment years beginning with the assessment year relevant to the previous year in which the undertaking 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.

Computation of eligible deduction under section 10AA [See Working Note below]:

(i) If unit in SEZ was set up and began manufacturing from 20-07-2009:

Since A.Y. 2018-19 is the 9th assessment year from A.Y. 2010-11, relevant to the previous year 2009-10, in which the SEZ unit began manufacturing of articles or things, he shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\%$$

$$= 75 \text{ lakhs} \times \frac{300 \text{ lakhs}}{450 \text{ lakhs}} \times 50\% = ₹ 25 \text{ lakhs}$$

(ii) If Unit in SEZ was set up and began manufacturing from 04-10-2015:

Since A.Y.2018-19 is the 3rd assessment year from A.Y. 2016-17, relevant to the previous year 2015-16, in which the SEZ unit began manufacturing of articles or things, he shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\%$$

$$= 75 \text{ lakhs} \times \frac{300 \text{ lakhs}}{450 \text{ lakhs}} \times 100\% = ₹ 50 \text{ lakhs}$$

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.

Working Note:

Computation of total sales, export sales and net profit of unit in SEZ

Particulars	Rajkumar Proprietorship (₹)	Unit in DTA (₹)	Unit in SEZ (₹)
Total Sales	7,50,00,000	3,00,00,000	**4,50,00,000**
Export Sales	4,50,00,000	1,50,00,000	**3,00,00,000**
Net Profit	90,00,000	15,00,000	**75,00,000**

6. (a) Computation of Taxable Income of Mr. Raju for the A.Y. 2018-19

Particulars	₹	₹
Salaries		
Income from Salary	2,50,000	
Ishita's salary (₹ 15,000 x 12) **[See Note 1]**	1,80,000	
	4,30,000	

Less: Loss from house property set off against salary income as per section 71(3A) **[See Note 2]**	2,00,000	2,30,000
Capital Gains		
Short term capital gain	1,40,000	
Less: Loss from tea business (₹ 96,000 x 40%) **[See Note 3 & 4]**	38,400	1,01,600
Income from Other Sources		
Dividend income **[See Note 5]**		1,00,000
Taxable Income		**4,31,600**

The following losses can be carried forward for subsequent assessment years:

(i)	Loss from house property to be carried forward and set-off against income from house property	₹ 20,000
(ii)	Long-term capital loss of A.Y. 2015-16 can be carried forward and set-off against long-term capital gains	₹ 86,000
(iii)	60% of losses from tea business to be carried forward and set-off against agricultural income. The agricultural income, after set off such losses would be considered for the purpose of applying the concept of partial integration of agricultural income with non-agricultural income.	₹ 57,600

Notes:

(1) As per section 64(1)(ii), all the income which arises directly or indirectly, to the spouse of any individual by way of salary, commission, fees or any other form of remuneration from a concern in which such individual has a substantial interest shall be included in the total income of such individual. However, where spouse possesses technical or professional qualification and the income is solely attributable to the application of such knowledge and experience, clubbing provisions will not apply. Since, Mrs. Ishita is not adequately qualified for the post and Mr. Raju has substantial interest in Chander Ltd by holding 21% of the shares of the Chander Ltd., the salary income of Mrs. Ishita to be included in Mr. Raju's income.

(2) 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.

(3) 60% of the losses from tea business is treated as agricultural income and therefore exempt. Loss from an exempt source cannot be set off against profits from a taxable source.

(4) As per section 71(2A), business loss cannot be set off against salary income. Hence, 40% of the losses from tea business i.e., ₹ 38,400 set off against short term capital gains.

(5) Dividend received from Malpani Ltd, an Indian Company upto ₹ 10,00,000 is exempt under section 10(34). ₹ 1,00,000, being dividend received in excess of ₹ 10 lakh would be taxable @ 10% as per section 115BBDA. Set off of losses is not permissible against such income.

(6) Loss from Card games can neither be set off against any other income, nor can it be carried forward.

(7) As per section 74(1), brought forward Long-term capital loss can be set-off only against long-term capital gain. Such loss can be carried forward for eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since, 8 assessment years has not expired, such loss can be carried forward to A.Y. 2019-20 for set-off against long-term capital gains.

(b) Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time before the end of the relevant assessment year or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

(i) A belated return filed under section 139(4) can be revised.

(ii) A return revised earlier can be revised again as the first revised return replaces the original return.

Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. within the end of the relevant assessment year or before the completion of assessment, whichever is earlier.

7. (a) TCS is tax collection at source. Seller of certain goods is responsible for collecting tax at source at the prescribed rate from the buyer. Moreover, person who grants licence or lease (in respect of any parking lot, toll plaza, mine or quarry) is also responsible for collecting tax at source at the prescribed rate from the licensee or lessee, as the case may be.

Generally, tax is required to be collected at source at the time of debiting of the amount payable by the buyer of certain goods to the account of the buyer or at the time of receipt of such amount from the said buyer, whichever is earlier.

However, in case of sale of motor vehicle of the value exceeding ₹ 10 lakhs, tax collection at source is required at the time of receipt of sale consideration.

Buyer is a person who obtains in any sale, by way of auction, tender, or any other mode, goods including timber and other forest produce but does not include –

(A) a public sector company, the Central Government, a State Government, and an embassy, a high commission, legation, commission, consulate and the trade representation, of a foreign State and a club, or

(B) a buyer in the retail sale of such goods purchased by him for personal consumption.

(b) The income of an assessee for a previous year is charged to income-tax in the assessment year following the previous year. However, in a few cases, the income is taxed in the previous year in which it is earned. These exceptions have been made to protect the interests of revenue. The exceptions are as follows:

(i) Where a ship, belonging to or chartered by a non-resident, carries passengers, livestock, mail or goods shipped at a port in India, the ship is allowed to leave the port only when the tax has been paid or satisfactory arrangement has been made for payment thereof. 7.5% of the freight paid or payable to the owner or the charterer or to any person on his behalf, whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned.

(ii) Where it appears to the Assessing Officer that any individual may leave India during the current assessment year or shortly after its expiry and he has no present intention of returning to India, the total income of such individual for the period from the expiry of the respective previous year up to the probable date of his departure from India is chargeable to tax in that assessment year.

(iii) If an AOP/BOI etc. is formed or established for a particular event or purpose and the Assessing Officer apprehends that the AOP/BOI is likely to be dissolved in the same year or in the next year, he can make assessment of the income up to the date of dissolution as income of the relevant assessment year.

(iv) During the current assessment year, if it appears to the Assessing Officer that a person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets to avoid payment of any liability under this Act, the total income of such person for the period from the expiry of the previous year to the date, when the Assessing Officer commences proceedings under this section is chargeable to tax in that assessment year.

(v) Where any business or profession is discontinued in any assessment year, the income of the period from the expiry of the previous year up to the date of such discontinuance may, at the discretion of the Assessing Officer, be charged to tax in that assessment year.

*[**Note** – Any 4 may be given in the answer]*

MOCK TEST PAPER

INTERMEDIATE (NEW) COURSE

PAPER – 4: TAXATION

SECTION B - INDIRECT TAXES (40 MARKS)

SUGGESTED ANSWERS

Notes

(i) Section/sub-section/rule/notification numbers mentioned in the answers are solely for the ease of reference. The students are not expected to cite the same in their answers under examination conditions.

(ii) GST law is in its nascent stage and has been subject to frequent changes. Although various clarifications have been issued in the last few months by way of FAQs or otherwise, many issues continue to arise on account of varying interpretations on several of its provisions. Therefore, alternate answers may be possible for the questions depending upon the view taken.

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

1. (a) Health care services provided by, *inter alia*, a clinical establishment in India are exempt from GST vide *Notification No. 12/2017 CT (R) dated 28.06.2017*. The definition of 'health care services' stipulates that such services must be provided in any recognized system of medicines.

As per section 2(h) of Clinical Establishments Act, 2010, recognised system of medicine means allopathy, yoga, naturopathy, ayurveda, homeopathy, siddha and unani system of medicines or any other system of medicines as may be recognised by the Central Government. Accordingly, value of supply and GST liability of Ayushman Medical Centre will be computed as follows:

S. No.	Particulars	₹
(i)	Reiki healing treatments [Not a recognized system of medicines]	10,00,000
(ii)	Plastic surgeries [₹ 20,00,000 - ₹ 1,00,000] ['Health care services' specifically excludes, *inter alia*, cosmetic or plastic surgery except when undertaken to restore/reconstruct anatomy/functions of body affected due to congenital defects, developmental abnormalities, injury or trauma]	19,00,000
(iii)	Air ambulance services to transport critically ill patients from distant locations to the Medical Centre ['Health care services' specifically includes services by way of transportation of the patient to and from a clinical establishment]	Nil
(iv)	Alternative medical treatments by way of Ayurveda [Being a recognized system of medicines]	Nil
	Value of supply	**29,00,000**
	CGST @ 9%	**2,61,000**
	SGST @ 9%	**2,61,000**

Note: Services provided by cord blood banks by way of preservation of stem cells or any other service in relation to such preservation are exempt from GST. Therefore, services provided in relation to preservation of stem cells by the cord blood bank operated by Ayushman Medical Centre will be exempt from GST.

(b) Computation of ITC available with Ramoplast Soap Factory

Particulars	Amount (₹)
Soap making machine [ITC in respect of goods used in course/furtherance of business is available in terms of section 16 of the CGST Act]	50,000
Motor vehicles for transportation of inputs [ITC in respect of motor vehicles and conveyances is blocked, except when used, *inter alia*, for transportation of goods, in terms of section 17(5) of the CGST Act]	70,000
Membership of 'Fit and Fine' health and fitness centre for its employees [ITC in respect of membership of a club, health and fitness centre is blocked in terms of section 17(5) of the CGST Act]	Nil
Inputs stolen from the factory [ITC in respect of goods stolen is blocked in terms of section 17(5) of the CGST Act]	Nil
Total ITC available	1,20,000

2. (a) Computation of value of taxable supply

Particulars	₹
List price of the goods (exclusive of taxes and discounts)	1,00,000
Add: Corrugated Boxes used for packing the machine [Includible in the value as per section 15(2)(c)]	1,000
Add: Subsidy received from Delhi Government on sale of such machine [Subsidy received from State Government is not included the value in terms of section 15(2)(e)]	-
Total	1,01,000
Less: Discount @ 2% on ₹ 1,00,000 [Since discount is known at the time of supply, it is deductible from the value in terms of section 15(3)(a)]	2,000
Value of taxable supply	**99,000**

(b) Composite supply means a supply made by a taxable person to a recipient and:

- comprises two or more taxable supplies of goods or services or both, or any combination thereof.
- are naturally bundled and supplied in conjunction with each other, in the ordinary course of business
- one of which is a principal supply [Section 2(30) of the CGST Act].

A composite supply comprising of two or more supplies, one of which is a principal supply, shall be treated as a supply of such principal supply [Section 8 of the CGST Act, 2017].

3. (a) *Notification No. 12/2017 CT (R) dated 28.06.2017* exempts services by an artist by way of a performance in folk or classical art forms of (i) music, or (ii) dance, or (iii) theatre, if the consideration charged for such performance is not more than ₹ 1,50,000. However, exemption will not apply to service provided by such artist as a brand ambassador.

In view of the aforesaid provisions, services provided by Kesar Maharaj are exempt from GST as consideration for the classical dance performance has not exceeded ₹ 1,50,000. Therefore, his GST liability is nil.

(i) If Kesar Maharaj is a brand ambassador of a food product and aforesaid performance is for the promotion of such food product, he will be liable to pay GST as aforesaid exemption is not applicable to service provided by an artist as a brand ambassador. His CGST and SGST liability would, therefore, be ₹ 13,365 (₹ 1,48,500 × 9%) and ₹ 13,365 (₹ 1,48,500 × 9%) respectively.

(ii) If Kesar Maharaj gives a contemporary Bollywood style dance performance, such performance will not be eligible for aforesaid exemption. The reason for the same is that although the consideration charged does not exceed ₹ 1,50,000, said performance is not in folk or classical art forms of dance. Hence, GST would be payable on the same. His CGST and SGST liability would, therefore, be ₹ 13,365 (₹ 1,48,500 × 9%) and ₹ 13,365 (₹ 1,48,500 × 9%) respectively.

(iii) If the consideration charged for the classical dance performance by Kesar Maharaj is ₹ 1,60,000, he will be liable to pay GST on the same as although the performance is by way of classical art form of dance, consideration charged for such performance has exceeded ₹ 1,50,000. His CGST and SGST liability would, therefore, be ₹ 14,400 (₹ 1,60,000 × 9%) and ₹ 14,400 (₹ 1,60,000 × 9%) respectively.

(b) Time of supply of goods is the earlier of the following two dates:

- Date of issue of invoice/last date on which the invoice is required to be issued
- Date of receipt of payment.

Further, date of receipt of payment is earlier of date of recording the payment in books of account and date of crediting of payment in bank account [Section 12(2) of the CGST Act, 2017].

In the given case,

Date of invoice: 3rd December, 20XX

Date of recording payment in books of account: 20th December, 20XX

Date of crediting in the bank account: 21st December, 20XX

Therefore, the date of receipt of payment will be 20th December, 20XX (earlier of two dates namely, date of recording the payment in books of account and date of crediting of payment in bank account). However, since the invoice date is earlier than date of payment, the time of supply will be 3rd December, 20XX.

4. (a) Aggregate turnover includes the aggregate value of:

(i) all taxable supplies,

(ii) all exempt supplies,

(iii) exports of goods and/or services and

(iv) all inter-State supplies of persons having the same PAN.

The above is computed on all India basis. Further, the aggregate turnover excludes central tax, State tax, Union territory tax, integrated tax and cess. Moreover, the value of inward supplies on which tax is payable under reverse charge is not taken into account for calculation of 'aggregate turnover' [Section 2(6) of CGST Act].

(b) In case of taxable supply of goods, invoice shall be issued before or at the time of—

(a) removal of goods for supply to the recipient, where the supply involves movement of goods; or

(b) delivery of goods or making available thereof to the recipient, in any other case.

In case of continuous supply of goods, where successive statements of accounts/ successive payments are involved, the invoice shall be issued before/at the time each such statement is issued or each such payment is received [Section 31 of the CGST Act].

(c) Electronic cash ledger is maintained in prescribed form for each person, liable to pay tax, interest, penalty, late fee or any other amount, on the common portal for crediting the amount deposited and debiting the payment therefrom towards tax, interest, penalty, fee or any other amount.

The deposit can be made through any of the following modes, namely: -

i. Internet Banking through authorised banks;

ii. Credit card or Debit card through the authorised bank;

iii. NEFT or RTGS from any bank; or

iv. Over the Counter payment through authorised banks for deposits up to ₹ 10,000/- per challan per tax period, by cash, cheque or demand draft [Section 49 of the CGST Act read with rule 87 of the CGST Rules].

5. (a) As per section 22 of the CGST Act, a supplier is liable to be registered in the State/ Union territory from where he makes a taxable supply of goods or services or both, if his aggregate turnover in a financial year exceeds ₹ 20 lakh [₹ 10 lakh in case of special category States except Jammu and Kashmir], within 30 days from the date on which it becomes so liable to registration. Where an applicant submits application for registration within 30 days from the date he becomes liable to registration, effective date of registration is the date on which he becomes liable to registration otherwise it is the date of grant of registration.

In the given case, threshold limit of registration for Tirupati Box Manufacturing Co. is ₹ 20 lakh as it is engaged in making taxable supplies from Andhra Pradesh. The aggregate turnover of Tirupati Box Manufacturing Co. exceeded ₹ 20 lakh on 01.11.20XX. Thus, it is liable to get registered by 01.12.20XX [30 days] in the State of Andhra Pradesh.

Since Tirupati Box Manufacturing Co. applied for registration on 28.11.20XX i.e. before the expiry of 30 days from the date on which it becomes so liable to registration, the effective date of registration in its case is 01.11.20XX.

(b) **(1)** The given statement is false. A registered person paying tax under the provisions of section 10 [composition levy] is required to issue, instead of a tax invoice, a bill of supply containing the specified particulars in the prescribed manner [Section 31(3)(c) read with rule 49 of the CGST Rules].

(2) The given statement is false. Composition tax payer is required to furnish return under section 39 for every quarter even if no supplies have been effected during such period. In other words, filing of Nil return is also mandatory.

(c) GST is a win-win situation for the entire country. It brings benefits to all the stakeholders of industry, Government and the consumer. It will lower the cost of goods and services, give a boost to the economy and make the products and services globally competitive.

The significant benefits of GST are discussed hereunder:

- **Creation of unified national market:** GST aims to make India a common market with common tax rates and procedures and remove the economic barriers thus paving the way for an integrated economy at the national level.

- **Mitigation of ill effects of cascading:** By subsuming most of the Central and State taxes into a single tax and by allowing a set-off of prior-stage taxes for the transactions across the entire value chain, it would mitigate the ill effects of cascading, improve competitiveness and improve liquidity of the businesses.
- **Elimination of multiple taxes and double taxation**: GST has subsumed majority of existing indirect tax levies both at Central and State level into one tax i.e., GST which is leviable uniformly on goods and services. This will make doing business easier and will also tackle the highly-disputed issues relating to double taxation of a transaction as both goods and services.
- **Boost to 'Make in India' initiative:** GST will give a major boost to the 'Make in India' initiative of the Government of India by making goods and services produced in India competitive in the national as well as international market.
- **Buoyancy to the Government Revenue:** GST is expected to bring buoyancy to the Government Revenue by widening the tax base and improving the taxpayer compliance.

(Note: Any two points may be mentioned)