

Roll No. .... **GROUP I - PAPER 4**

**TAXATION**

Total No. of Questions – 7

Total No. of Printed Pages – 16

Time Allowed – 3 Hours

Maximum Marks – 100

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Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

Question No. 1 is compulsory.

Attempt any five questions from the remaining six questions.

Working notes should form part of the answer.

Wherever necessary, suitable assumptions may be made and stated clearly by way of a note.

All questions pertaining to Income Tax relate to Assessment Year 2015-16, unless stated otherwise in the question.

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**P.T.O.**

1. (a) Dr. Shashank is a noted child specialist of Mumbai. His Income and Expenditure account for the financial year ended 31-03-2015 is given below :

Expenditure	Amount (₹)	Income	Amount (₹)
To Staff salary	2,78,000	By Fee receipts	16,76,000
" Administrative expenses	1,64,000	" Winning at TV game	
" Medicine consumed	3,95,800	show (Net of TDS)	35,000
" Consumables	57,500	" LIC policy matured	1,15,000
" Depreciation	1,25,000	" Honorarium for giving	
" Rent of clinic	1,20,000	lectures at seminars	24,000
" Donation to National Children's Fund	51,000		
" To Net Profit	6,58,700		
<b>Total</b>	<b>18,50,000</b>	<b>Total</b>	<b>18,50,000</b>

- (1) Depreciation computed as per Income Tax Rules, 1962 has been ascertained at ₹ 75,000.
- (2) Medicines consumed include cost of medicine for self and family of ₹ 18,000 and for treating poor patients of ₹ 24,000 from whom he did not charged any fee either.
- (3) Salary includes ₹ 30,000 paid in cash to a computer specialist who computerized his patient's data on 30<sup>th</sup> September, 2014 at 3 p.m.
- (4) Donation to National Children's Fund has been made by way of an account payee cheque.
- (5) He has paid a sum of ₹ 25,000 for a Life Insurance Policy (Sum assured ₹ 2,00,000) of himself, which was taken on 1-07-2012.

(3)

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- (6) He also contributed ₹ 1,20,000 towards Public Provident Fund.
- (7) Dr. Shashank also paid interest of ₹ 10,000 on loan taken for higher education of his daughter.
- (8) Dr. Shashank made investments in equity shares listed in a recognized stock exchange of ₹ 30,000 and units of equity oriented fund of Rajiv Gandhi Equity Savings Scheme of ₹ 40,000.
- (9) Dr. Shashank also made donation of ₹ 1,00,000 to a charitable trust registered & eligible for deduction under Income Tax Act, 1961.

You are required to compute the total income and tax payable by Dr. Shashank for the Assessment Year 2015-16.

- (b) MCSS Tech Solutions is providing taxable Information Technology software services, and provide the following information related to the services rendered, invoice issued and payment received for these services, for the half year ended on 31<sup>st</sup> March 2015.

Particulars	Amount ₹
(i) Advance received on 31 <sup>st</sup> March, 2015 for upgradation and enhancement of software service to be rendered in the month of April, 2015.	7,50,000
(ii) Service provided to United Nations in New Delhi for analysis, design and programming of latest information technology software.	6,00,000
(iii) Service billed to various clients. (including the services provided to United Nations)	56,00,000

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Service tax, Education cess and Secondary and Higher Education cess have been charged separately in all the bills.

Compute the value of total taxable services and the total service tax payable by MCSS Tech. Solutions @ 12.36% for the half year ended on 31<sup>st</sup> March, 2015.

- (c) Mr. Devansh, a dealer of rice plant machinery in the State of Punjab, provide the following informations : 4

Total inter-state sales during the F.Y. 2014-15 is ₹ 95,00,000, CST included in this sales; This sales also include the following :

Dharmada ₹ 7,50,000

Freight ₹ 4,50,000 (₹ 3,00,000 shown separately in the invoices)

Cost of packing boxes for machinery are of ₹ 68,500 and installation and commissioning charges shown separately are of ₹ 65,000.

Determine CST payable assuming that all transactions were covered by valid 'C' forms and the VAT rate within the state is 5%.

2. (a) (i) Explain with reasons whether the following transactions attract income-tax in India in the hands of recipients ? 4
- (a) Salary paid to Mr. David, a citizen of India ₹ 15,00,000 by the Central Government for the services rendered in Canada.
- (b) Legal charges of ₹ 7,50,000 paid to Mr. Johnson, a lawyer of London, who visited India to represent a case at the Supreme Court.

- (c) Royalty paid to Rajeev, a non-resident by Mr. Mukesh, a resident for a business carried on in Sri Lanka.
- (d) Interest received of ₹ 1,00,000, on money borrowed from France, by Ms. Dyana, a non-resident for the business at Bangalore.
- (ii) Ms. Bindu, a non-resident, residing in New York since 1990, came back to India on 19-02-2013 for permanent settlement in India. Explain her residential status of Ms. Bindu for the Assessment Year 2015-16. In accordance with the various provision of Indian Income tax Act. **4**
- (b) Rahul & Co. is a firm engaged in the business of recruitment and supply of Manpower. It furnishes the following details pertaining to the quarter ended 31-03-2015 : **5**

	Amount (₹)
(i) Amount collected from clients for recruitment of	
Permanent Staff	5,00,000
Temporary Staff	3,00,000
(ii) Amounts collected from clients for pre-recruitment screening	2,50,000
(iii) Domestic helps arranged for friends & relative (Value of similar services is ₹ 45,000 to other customers)	—
(iv) Amount collected from a warehouse of agricultural produce for labour provided for loading and unloading.	1,75,000

- (v) Advances received from prospective employers for conducting campus interviews in colleges to be held in May 2015. 2,00,000
- (Such campus interviews could not be conducted due to student's strike in those colleges. Hence, the advances received was later on returned to the employers)

None of the clients of Rahul & Co. was a body corporate during the relevant quarter. Compute the value of taxable services rendered and the total service tax payable @ 12.36% by the assessee for the relevant quarter assuming that Rahul & Co. is not eligible for the small service provider's exemption in the financial year 2014-15. All above amounts are inclusive of service tax, where applicable.

- (c) Balaji enterprises, a registered dealer provide the following details of purchases, sales, etc. for the year ended 31<sup>st</sup> March, 2015 : 3

Particulars	Amount ₹
Purchase of raw materials within State (1500 units), inclusive of VAT @ 12.5%	4,05,000
Inter-State purchases of raw materials, inclusive of CST @ 2%	3,06,000
Import of raw materials, inclusive of custom duty of ₹ 50,000	4,50,000
Capital goods purchased on 15-6-2014, inclusive of VAT levy @ 10% (input credit to be spread over 3 financial years)	3,30,000
Manufacturing expenses	1,75,000
Sales of taxable goods within state, inclusive of VAT @4%	10,92,000
Sale of exempted goods within state, (manufactured from Inter-State purchase of raw materials)	2,25,000

Closing Stock of 200 units of raw material purchased within State as on 31<sup>st</sup> March, 2015. Input tax credit is allowed only on raw materials used in manufacturing of taxable goods. Compute the net VAT liability of Balaji enterprises, for the year ended on 31<sup>st</sup> March, 2015.

3. (a) Rudra Ltd. has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA), the company provides the following details for the previous year 2014-15. 8

Particulars	Rudra Ltd.	Unit in DTA
	(₹)	(₹)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	4,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2015-16, in the following situations :

- (i) If both the units were set up and start manufacturing from 22-05-2008.
- (ii) If both the units were set up and start manufacturing from 14-05-2012.

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(b) BC Pvt. Ltd., a manufacturer, has furnished the following information :

5

Sr. No.	Particulars		Excise Duty/ Service Tax Paid (₹)
(i)	Input 'A'	Invoice dated 23-09-2014	1,56,000
(ii)	Input 'B'	Invoice dated 10-4-2015	1,35,000
(iii)	Input 'C'	Invoice missing	89,460
(iv)	Input Service 'X'	Invoice dated 12-11-2014	45,340
(v)	Input Service 'Y'	Invoice dated 20-9-2014	68,240
(vi)	Machinery (being eligible capital goods under Chapter 82)	Invoice dated 12-9-2014	3,54,670
(vii)	GTA service for bringing raw materials to the factory (Payment has not been made to GTA but service tax has been paid under reverse charge)	Invoice dated 14-4-2015 Value of Services ₹ 3,00,000	9,270

Excise duty/Service tax given above are including education cess and secondary and higher education cess. BC Pvt. Ltd. is not entitled to SSI exemption. You are required to determine the total CENVAT credit that can be availed by BC Pvt. Ltd. during the month of April, 2015.

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(9)

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- (c) Rajeshwari Industries imported a machinery from Germany in an aircraft. The bill of entry was presented on 12-07-2014 and the aircraft arrived in India on 25-07-2014. The rate of import duty are : 3

Particulars	Date	Rate of Custom Duty
Bill of entry on	12-07-2014	12%
Arrival of aircraft on	25-07-2014	15%

In the above case, determine the applicable rate of import duty.

4. (a) From the following details furnished by Mr. Dinesh, a marketing manager of XL Corporation Ltd., Delhi. Compute the gross total income for the Assessment Year 2015-16. 8

Particulars	Amount
	(₹)
Salary including Dearness Allowance	6,50,000
Conveyance allowance of ₹ 900 p.m.	10,800
Bonus	50,000
Salary of servant provided by the employer	48,000
Bills paid by the employer for gas, electricity and water provided free of cost at the residence of Mr. Dinesh.	82,000

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Dinesh purchased a flat in a co-operative housing society in Dwarka, Delhi for self occupation for ₹ 35,00,000 in April 2011, which was finance by a loan from Bank of India of ₹ 20,00,000 @ 11% interest and his own savings of ₹ 5,00,000 and a deposit of ₹ 10,00,000 from Bank of Baroda, to whom he let out his another house in Rohini, Delhi on lease for ten years. The rent payable by Bank of Baorda is ₹ 35,000 per month. Other relevant particulars are given below :

- (i) Municipal taxes paid by Dinesh for his flat in Dwarka are ₹ 18,000 per annum and for his house in Rohini are ₹ 12,000 per annum.
- (ii) Principal loan amount outstanding as on 01-04-2014 was ₹ 18,50,000.
- (iii) He also paid ₹ 8,000 towards insurance of both the houses.
- (iv) In the financial year 2013-14, he had gifted ₹ 40,000 each to his wife and minor son. The gifted amounts were advanced to Mr. Sandeep, who is paying interest @ 18% per annum.
- (v) Mr. Dinesh's son is studying in a school run by the employer company throughout the financial year 2014-15. The education facility was provided free of cost. The cost of such education in similar school is ₹ 2,500 per month.
- (vi) Dinesh also received gifts of ₹ 45,000 each from his two friends during the financial year 2014-15.

(b) With reference to the service tax laws as contained in the Finance Act, 1994, kindly explain the followings :

(i) What will be the point of taxation in case of continuous supply of services ? 2

(ii) Mohan, a service provider had received ₹ 2,50,000 in advance, from Rakesh. Mohan had deposited service tax on such amount in the relevant half year. He finally rendered services valuing to ₹ 2,20,000 only and refunded balance amount to Rakesh. Mohan want to adjust service tax on ₹ 30,000 refunded by him from his current dues of Service Tax. Advise him. 2

(c) A manufacturer of machinery sold his machine on which excise duty is payable under Section 4 of Central Excise Act, 1944. 4

	Amount (₹)
Total Invoice Price	7,50,000
Erection Charges (Erection to be done at customer's factory)	50,000
Packing Charges	12,000
Design Charges	20,000
Insurance Charges (for dispatch to customer's factory)	8,000
Outward freight (from place of removal to customer's factory)	17,000
State VAT	12.50%

Cash discount @ 2% was allowed as the customer had made full advance payment. Excise duty rate is 12% and education and secondary & higher education cesses as applicable. Calculate Assessable Value of the machine and excise duty payable.

5. (a) Ms. Mohini transferred a house to her friend Ms. Ragini for ₹ 35,00,000 on 01-10-2014. The Sub Registrar valued the land at ₹ 48,00,000. Ms. Mohini contested the valuation and the matter was referred to Divisional Revenue Officer, who valued the house at ₹ 41,00,000. Accepting the said value, differential stamp duty was also paid and the transferred was completed. 8

The total income of Mohini and Ragini for the assessment year 2015-16, before considering the transfer of said house are ₹ 2,80,000 and ₹ 3,45,000, respectively. Ms. Mohini had purchased the house on 15<sup>th</sup> May 2010 for ₹ 25,00,000 and registration expenses were ₹ 1,50,000.

You are required to explain provisions of Income-tax Act, 1961 applicable to present case and also determine the total income of both Ms. Mohini and Ms. Ragini taking into account the above said transactions. Cost inflation indices for :

- (i) Financial Year 2010-11 : 711 and
- (ii) Financial Year 2014-15 : 1024

(b) State whether the following services are covered under negative list of services under Section 66 D. Need not assign any reason. 4

(i) Service provided by the Department of Post by way of speed post, express parcel post, Life Insurance and agency services provided to a person other than Government.

(ii) Service provided by way of supply of farm labour relating to agriculture.

(iii) Services by way of renting of residential dwellings for use as residence.

(iv) Services for funeral, burial, crematorium or mortuary and transportation of the deceased.

(v) Services relating to education as a part of an approved vocational education course.

(vi) Service of transportation of passengers with or without accompanied belongings, by Railways in an air conditioned coach.

(vii) Services by way of transportation of goods by road by a goods transportation agency.

(viii) Selling of space or time slots for advertisement broadcast by FM Radio.

(c) Define the term "Transaction value" as per Central Excise Act, 1944. 4

6. (a) (i) Compute the eligible deduction under Chapter VI-A for the Assessment year 2015-16 of Ms. Roma, who has a gross total income of ₹15,00,000 for the assessment year 2015-16 and provide the following informations about his investments/payments during the year 2014-15 : 4

Sl. No.	Particulars	Amount (₹)
1.	Life Insurance premium paid (Policy taken on 01-01-2012 and sum assured is ₹ 1,50,000)	35,000
2.	Public Provident Fund contribution.	90,000
3.	Repayment of Housing loan to Bhartiya Mahila Bank, Bangalore.	20,000
4.	Payment to L.I.C. Pension Fund	25,000
5.	Mediclaime Policy taken for self, wife and dependent children, premium paid	20,000
6.	Medical Insurance premium paid for parents (Senior Citizen)	25,000

- (ii) Mr. Ramesh gifted a sum of ₹ 5 lacs to his brother's minor son on 16-4-2014. On 18-4-2014, his brother gifted debentures worth ₹ 6 lacs to Mrs. Ramesh. Son of Mr. Ramesh' brother invested the amount in fixed deposit with Bank of India @ 9% p.a. interest and Mrs. Ramesh received interest of ₹ 45,000 on debentures received by her. 4

Discuss the implications under the provisions of the Income-tax Act, 1961.

- (b) Ms. Vasundhara, a service provider, who pays service tax regularly, was of the opinion that a particular service rendered by her was not liable to service tax. She therefore, did not charge service tax in her bill. She received the payment for the bill amount without service tax. However, it was later confirmed that service tax is payable on said service. How will service tax liability of Ms. Vasundhara be determined in such a case ? 4
- (c) Explain the term "Price cum Duty" as per Central Excise Act, 1944. 4
7. (a) Briefly explain any two of the following three sub-divisions :
- (i) Explain the term "return of loss" under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required ? 4
- (ii) Mr. Madan sold his house property in Surat as well as his rural agricultural land for a consideration of ₹ 65 lakhs and ₹ 20 lakhs respectively, to Mr. Raman on 01-10-2014. He has purchased the house property for ₹ 40 lakhs and the land for ₹ 15 lakhs, in the year 2011. There was no difference in the stamp valuation. You are required to determine TDS implications, if any, assuming both persons are resident Indians. 4
- (iii) What is the difference between TDS and TCS under the Income-tax Act, 1961 ? 4

- (b) Ashok, a taxable service provider outsourced a part of work by engaging Suresh, a subcontractor. Service tax is charged and paid by Ashok for the total work. Whether Suresh, the sub contractor is liable to charge and pay any service tax ? 4
- (c) RSL Pvt. Ltd. purchased a pollution control equipment on 20-6-2010 for ₹ 15,00,000 (including excise duty of ₹ 1,85,400); and took the CENVAT credit of 50% of the excise duty paid in the financial year 2010-11 and balance credit of 50% in the financial year 2011-12. 4
- After using such equipment, sold it as scrap for ₹ 50,000 excluding excise duty, on 31<sup>st</sup> Dec., 2014. Examine whether :
- (i) RSL Pvt. Ltd. was correct in availing the CENVAT credit on the said equipment in financial years 2010-11 and 2011-12 ?
- (ii) On selling of above equipment in the financial year 2014-15, it needs to pay the amount of excise duty earlier availed as CENVAT Credit ?



## **DISCLAIMER**

The Suggested Answers hosted in the website do not constitute the basis for evaluation of the students' answers in the examination. The answers are prepared by the Faculty of the Board of Studies with a view to assist the students in their education. While due care is taken in preparation of the answers, if any errors or omissions are noticed, the same may be brought to the attention of the Director of Studies. The Council of the Institute is not in anyway responsible for the correctness or otherwise of the answers published herein.

## PAPER – 4 : TAXATION

Question No.1 is compulsory.

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

Working notes should form part of the answer.

Wherever necessary, suitable assumptions may be made and stated clearly by way of note.

All questions pertaining to Income-tax relate to assessment year 2015-16, unless stated otherwise in the question.

### Question 1

- (a) Dr. Shashank is a noted child specialist of Mumbai. His Income and Expenditure account for the financial year ended 31-03-2015 is given below:

Expenditure	Amount (₹)	Income	Amount (₹)
To Staff salary	2,78,000	By Fee receipts	16,76,000
To Administrative expenses	1,64,000	By Winning at TV game show (Net of TDS)	35,000
To Medicine consumed	3,95,800	By LIC policy matured	1,15,000
To Consumables	57,500	By Honorarium for giving lectures at seminars	24,000
To Depreciation	1,25,000		
To Rent of clinic	1,20,000		
To Donation to National Children's Fund	51,000		
To Net Profit	<u>6,58,700</u>		
Total	18,50,000	Total	<u>18,50,000</u>

- (1) Depreciation computed as per Income-tax Rules, 1962 has been ascertained at ₹ 75,000.
- (2) Medicines consumed include cost of medicine for self and family of ₹ 18,000 and for treating poor patients of ₹ 24,000 from whom he did not charged any fee either.
- (3) Salary includes ₹ 30,000 paid in cash to a computer specialist who computerized his patient's data on 30<sup>th</sup> September, 2014 at 3 p.m.
- (4) Donation to National Children's Fund has been made by way of account payee cheque.
- (5) He has paid a sum of ₹ 25,000 for a Life Insurance Policy (Sum assured ₹ 2,00,000) of himself, which was taken on 1-07-2012.

The Suggested Answers for Paper 4: Taxation are based on the provisions of tax laws as amended by the Finance (No.2) Act, 2014. The answers to questions on income-tax are based on the provisions of income-tax law applicable for A.Y.2015-16, which is the assessment year relevant for May, 2015 examination.

- (6) He also contributed ₹ 1,20,000 towards Public Provident Fund.
- (7) Dr. Shashank also paid interest of ₹ 10,000 on loan taken for higher education of his daughter.
- (8) Dr. Shashank made investments in equity shares listed in a recognized stock exchange of ₹ 30,000 and units of equity oriented fund of Rajiv Gandhi Equity Savings Scheme of ₹ 40,000.
- (9) Dr. Shashank also made donation of ₹ 1,00,000 to a charitable trust registered & eligible for deduction under Income-tax Act, 1961.

You are required to compute the total income and tax payable by Dr. Shashank for the Assessment Year 2015-16. (10 Marks)

- (b) MCSS Tech Solutions is providing taxable information technology software services, and provides the following information related to the services rendered, invoice issued and payment received for these services, for the half year ended on 31<sup>st</sup> March, 2015.

	Particulars	Amount (₹)
(i)	Advance received on 31 <sup>st</sup> March 2015 for upgradation and enhancement of software service to be rendered in the month of April, 2015	7,50,000
(ii)	Service provided to United Nations in New Delhi for analysis, design and programming of latest information technology software	6,00,000
(iii)	Service billed to various clients (including the services provided to United Nations)	56,00,000

Service tax, Education cess and Secondary and Higher Education cess have been charged separately in all the bills.

Compute the value of total taxable services and the total service tax payable by MCSS Tech Solutions @ 12.36% for the half year ended on 31<sup>st</sup> March, 2015. (6 Marks)

- (c) Mr. Devansh, a dealer of rice plant machinery in the State of Punjab, provides the following information:

Total inter-State sales during the F. Y. 2014-15 is ₹ 95,00,000, CST included in this sales; This sales also includes the following:

Dharmada ₹ 7,50,000

Freight ₹ 4,50,000 (₹ 3,00,000 shown separately in the invoices)

Cost of packing boxes for machinery is of ₹ 68,500 and installation and commissioning charges shown separately are of ₹ 65,000. Determine CST payable assuming that all transactions were covered by valid 'C' forms and the VAT rate within the State is 5%. (4 Marks)

**Answer****(a) Computation of Total income of Dr. Shashank for the Assessment Year 2015-16**

Particulars	₹
Profits and gains of business or profession (Working Note 1)	6,33,700
Income from other sources (Working Note 2)	<u>74,000</u>
<b>Gross Total Income</b>	<b>7,07,700</b>
Less: Deduction under Chapter VI-A (Working Note 3)	<u>2,52,635</u>
<b>Total Income</b>	<b>4,55,065</b>
<b>Total Income (rounded off)</b>	<b>4,55,070</b>

**Computation of tax liability of Dr. Shashank for the Assessment Year 2015-16**

Particulars	₹
Tax on winnings from TV game show [₹ 50,000 @ 30%]	15,000
Tax on balance income of ₹ 4,05,070 (₹ 4,55,070 – ₹ 50,000)	
10% of ₹ 1,55,070 [i.e., ₹ 4,05,070 – ₹ 2,50,000 <sup>1</sup> (basic exemption limit)]	<u>15,507</u>
	30,507
Less: Rebate under section 87A (since total income does not exceed ₹ 5,00,000)	<u>2,000</u>
	28,507
Add: Education cess@2% and secondary and higher education cess@1%	<u>855</u>
Total tax liability	29,362
Less: Tax deducted at source	<u>15,000</u>
<b>Net tax liability</b>	<b>14,362</b>
<b>Net tax liability (rounded off)</b>	<b>14,360</b>

**Working Notes:****1. Computation of income under the head “Profits and gains of business or profession”**

Particulars	₹	₹
Net Income as per Income and Expenditure Account		6,58,700
Add: <b>Expenses disallowed</b>		
Depreciation (₹ 1,25,000 – ₹ 75,000)	50,000	

<sup>1</sup> Assuming that Dr. Shashank is less than 60 years of age as on 31.3.2015

Medicine consumed for self and family (disallowed under section 37, being expenditure of personal nature)	18,000	
Medicine consumed for treating poor patients from whom fees was not charged is an allowable expense, since the same is incurred in the course of carrying on medical profession.	-	
Cash payment of salary disallowed under section 40A(3), since the same is in excess of ₹ 20,000 <b>[See Note 1]</b>	30,000	
Donation to National Children's Fund (not allowable as deduction while computing income from profession)	<u>51,000</u>	<u>1,49,000</u>
		8,07,700
<b>Less: Income credited to Income and Expenditure Account but not chargeable to income-tax or not chargeable under this head</b>		
Maturity proceeds of LIC policy [Exempt under section 10 (10D)] <b>[See Note 2]</b>	1,15,000	
Winning from TV game show (taxable under the head "Income from other sources")	35,000	
Honorarium for giving lectures at seminars (taxable under the head "Income from other sources")	<u>24,000</u>	<u>1,74,000</u>
<b>Chargeable income from profession</b>		<b>6,33,700</b>

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

Particulars	₹	₹
Honorarium for giving lectures at seminars		24,000
Winning from TV Game Show (Gross)		<u>50,000</u>
<b>Income from other sources</b>		<b><u>74,000</u></b>

3. Computation of deduction under Chapter VI-A

Section	Particulars	₹
80C	Life Insurance Premium [₹ 25,000 restricted to 10% of ₹ 2,00,000 (i.e. sum assured) since the policy is issued on or after 1.4.2012]	20,000

	Contribution to Public Provident Fund		<u>1,20,000</u>
			<b>1,40,000</b>
80CCG	Listed equity shares	₹ 30,000	
	Units of equity oriented fund	<u>₹ 40,000</u>	
	<b>Total investment under Rajiv Gandhi Equity Savings Scheme [See Note 3]</b>	<b>₹ 70,000</b>	
	Maximum deduction – 50% of ₹ 70,000 or ₹ 25,000, whichever is lower		25,000
80E	Interest on loan taken for higher education of daughter		10,000
80G	Donation to National Children's Fund [100% deduction allowable, since it is made by a mode other than cash]	₹ 51,000	
	Donation to a registered charitable trust [50% of actual contribution of ₹ 1,00,000 or 10% of adjusted total income, whichever is lower] [See Working Note 4 below]	<u>₹ 26,635</u>	<u>77,635</u>
<b>Total deduction under Chapter VI-A</b>			<b><u>2,52,635</u></b>

#### 4. Deduction under section 80G in respect of donation to charitable trust

Particulars	₹	₹
<b>Adjusted Total Income<sup>2</sup></b>		
Gross Total income	7,07,700	
Less: Deductions under Chapter VI-A except under section 80G	<u>1,75,000</u>	
	5,32,700	
10% of Adjusted Total Income (A)		53,270
Actual contribution to charitable trust (B)		1,00,000
Lower of A & B	53,270	
Deduction under section 80G in respect of donation to registered charitable trust [See Note 4]		
50% of ₹ 53,270		<b>26,635</b>

<sup>2</sup> It is also possible to take a view that winnings from TV game show should be deducted from gross total income for computing adjusted total income for the purpose of section 80G, on the reasoning that since no deduction is allowable under any provision of the Act, including Chapter VIA in respect of such income which is taxable@30% under section 115BB, the same should not be considered for computing adjusted total income also.

**Notes:**

- (1) The exception under Rule 6DD(j) would not be attracted in this case, since 30<sup>th</sup> September, 2014 is not a bank holiday but a day on which some banks may be closed for public dealing. Further, the question does not specifically mention that the payment was necessarily required to be made on that date, which is necessary for the exception under Rule 6DD(j) to get attracted. Hence, disallowance under section 40A(3) would be attracted in this case.
- (2) The maturity proceeds received under a life insurance policy are wholly exempt from tax under section 10(10D), assuming that the conditions given thereunder are satisfied (i.e., the annual premium does not exceed the specified percentage of actual capital sum assured)
- (3) Dr. Sashank is eligible for deduction under section 80CCG since his gross total income does not exceed ₹ 12 lakh. It is assumed that he is a new retail investor.
- (4) It is assumed that the donation of ₹ 100,000 to the charitable trust is made by any mode other than cash.

**(b) Computation of the value of taxable service and the service tax payable by MCSS Tech Solutions for half year ended on 31<sup>st</sup> March, 2015**

Particulars	Amount (₹)
Advance received on 31 <sup>st</sup> March, 2015 for upgradation and enhancement of software service to be rendered in April, 2015	6,67,497
₹ 7,50,000 × $\frac{100}{112.36}$ [Note-1] (rounded off)	
Service provided to United Nations in New Delhi for analysis, design and programming of latest information technology software	Nil
Service billed to various clients excluding services billed to United Nations [Note-3]	<u>50,00,000</u>
<b>Value of taxable service</b>	<b><u>56,67,497</u></b>
<b>Service tax payable @ 12.36% (including education cesses) rounded off</b>	<b>7,00,503</b>

**Notes:**

1. Since services agreed to be provided are also chargeable to service tax, advance received will be liable to service tax [Section 66B of the Finance Act, 1994].

Advance received on 31<sup>st</sup> March, 2015 will be taxable on the same day [Rule 3 of the Point of Taxation Rules, 2011] (hereinafter referred to as POTR). Further, advance received has been taken to be inclusive of service tax on the presumption that no bill has been issued for the same.

2. As per mega exemption *Notification No. 25/2012 ST dated 20.06.2012*, services provided to United Nations are exempt from service tax.
3. Services billed in the half year ended on 31<sup>st</sup> March, 2015 will be taxable in the said half year as point of taxation is issuance of invoice or receipt of payment, whichever is earlier [Rule 3 of POTR].
4. It has been assumed that MCSS Tech Solutions is not entitled for small service provider's exemption.

(c) **Computation of CST payable by Mr. Devansh for financial year 2014-15:**

Particulars	₹	₹
Total inter-State sales		95,00,000
Less: Freight shown separately in the invoices [Freight not shown separately in invoices is not deductible]	3,00,000	
Less: Insallation and commissioning charges [deductible since shown separately in the invoice]	<u>65,000</u>	<u>3,65,000</u>
Turnover (including CST)		91,35,000
CST payable @ 2% = ₹ 91,35,000 × 2/102 [Since transactions are covered by valid 'C' Forms, CST is 2% or Sales tax rate within the State (5%), whichever is lower, i.e., 2%] <b>CST payable (rounded off)</b>		<b>1,79,118</b>

**Note:** Dharmada and cost of packing boxes for machinery are includible while calculating turnover.

**Question 2**

- (a) (i) Explain with reasons whether the following transactions attract income-tax in India in the hands of recipients :
- (a) Salary paid to Mr. David, a citizen of India ₹ 15,00,000 by the Central Government for the services rendered in Canada.
  - (b) Legal charges of ₹ 7,50,000 paid to Mr. Johnson, a lawyer of London, who visited India to represent a case at the Supreme Court.
  - (c) Royalty paid to Rajeev, a non-resident by Mr. Mukesh, a resident for a business carried on in Sri Lanka.
  - (d) Interest received of ₹ 1,00,000, on money borrowed from France, by Ms. Dyana, a non-resident for the business at Bangalore. (4 Marks)
- (ii) Ms. Bindu, a non-resident, residing in New York since 1990, came back to India on



19-02-2013 for permanent settlement in India. Explain the residential status of Ms. Bindu for the Assessment Year 2015-16 in accordance with the various provisions of Income-tax Act, 1961. (4 Marks)

- (b) Rahul & Co. is a firm engaged in the business of recruitment and supply of manpower. It furnishes the following details pertaining to the quarter ended 31-03-2015:

		Amount (₹)
(i)	Amount collected from clients for recruitment of Permanent staff	5,00,000
	Temporary staff	3,00,000
(ii)	Amounts collected from clients for pre-recruitment screening	2,50,000
(iii)	Domestic helps arranged for friends & relative (Value of similar services is ₹ 45,000 to other customers)	-
(iv)	Amount collected from a warehouse of agricultural produce for labour provided for loading and unloading	1,75,000
(v)	Advances received from prospective employers for conducting campus interviews in colleges to be held in May, 2015 (Such campus interviews could not be conducted due to student's strike in those colleges. Hence, the advances received was later on returned to the employers)	2,00,000

None of the clients of Rahul & Co. was a body corporate during the relevant quarter. Compute the value of taxable services rendered and the total service tax payable @ 12.36% by the assessee for the relevant quarter assuming that Rahul & Co. is not eligible for the small service provider's exemption in the financial year 2014-15. All above amounts are inclusive of service tax, where applicable. (5 Marks)

- (c) Balaji enterprises, a registered dealer, provide the following details of purchases, sales, etc. for the year ended 31<sup>st</sup> March, 2015:

Particulars	Amount (₹)
Purchase of raw materials within State (1500 units), inclusive of VAT @ 12.5%	4,05,000
Inter-State purchases of raw materials, inclusive of CST @ 2%	3,06,000
Import of raw materials, inclusive of custom duty of ₹ 50,000	4,50,000
Capital goods purchased on 15-06-2014, inclusive of VAT levy @ 10% (input credit to be spread over 3 financial years)	3,30,000
Manufacturing expenses	1,75,000

Sales of taxable goods within State, inclusive of VAT @ 4%	10,92,000
Sale of exempted goods within State, (manufactured from inter-State purchase of raw materials)	2,25,000

Closing stock of 200 units of raw material purchased within State as on 31<sup>st</sup> March, 2015. Input tax credit is allowed only on raw materials used in manufacturing of taxable goods. Compute the net VAT liability of Balaji enterprises, for the year ended on 31<sup>st</sup> March, 2015. (3 Marks)

**Answer****(a) (i) Taxability of certain receipts under the Income-tax Act, 1961**

Sl. No.	Taxable/ Not Taxable	Amount liable to tax (₹)	Reason
1	2	3	4
(a)	Taxable	15,00,000	Salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India as per section 9(1)(iii). Mr. David is a citizen of India. Therefore, salary paid by the Central Government to him for services rendered in Canada would be deemed to accrue or arise in India in his hands.
(b)	Taxable	7,50,000	In case of a non-resident, any income which accrues or arises in India or which is deemed to accrue or arise in India or which is received in India or is deemed to be received in India is taxable in India. Therefore, legal charges paid in India <sup>3</sup> to Mr. Johnson, a non-resident lawyer of London, who visited India to represent a case at the Supreme Court would be taxable in India. <b>Note</b> – This question can also be answered on the rationale that existence of professional connection tantamounts to existence of business connection, and hence, legal charges paid to a non-resident lawyer would be deemed to accrue or arise in India by virtue of section 9(1)(i).

<sup>3</sup> Since the payment is in Indian currency, it is logical to assume that the same has been paid in India.

(c)	Not Taxable	-	Royalty paid by a resident to a non-resident in respect of a business carried on outside India would not be taxable in the hands of the non-resident, as the same would <b>not</b> be deemed to accrue or arise in India as per the exception mentioned in section 9(1)(vi)(b). Therefore, royalty paid by Mukesh, a resident, to Rajeev, a non-resident, for a business carried on in Sri Lanka would <b>not</b> be deemed to accrue or arise in India. <b>Note</b> - It is assumed that the royalty was not received in India.
(d)	Taxable	1,00,000	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 as per section 9(1)(v)(c). Therefore, interest paid by Ms. Dyana, a non-resident, for the business at Bangalore is deemed to accrue or arise in India in the hands of the recipient.

(ii) **Determination of residential status of Ms. Bindu for the A.Y.2015-16**

Ms. Bindu is a resident since she has stayed in India for 365 days during the P.Y.2014-15. Therefore she satisfies the condition of stay in India for a period of 182 days or more in the relevant previous year as per the requirement under section 6(1).

As per section 6(6), an individual is said to be "not ordinarily resident" in India in any previous year, if he has:

- (a) been a non-resident in India in nine out of ten previous years preceding the relevant previous year; or
- (b) during the seven previous years immediately preceding the relevant previous year, been in India for a period of, or periods amount in all to, 729 days or less.

Ms. Bindu must, therefore, satisfy either of the conditions to qualify as a not-ordinarily resident.

Ms. Bindu was a non-resident in India up to A.Y.2013-14.

She was resident in India only for P.Y.2013-14 (A.Y.2014-15) out of the ten previous years preceding P.Y.2014-15 (A.Y.2015-16). This implies that she has been a non-resident in India in nine out of ten previous years preceding P.Y.2014-

15 (A.Y.2015-16).

Further, she was in India only for a period of 406 days [i.e., 10 days in February, 2013 + 31 days in March 2013 + 365 days during the P.Y.2013-14] in the seven previous years preceding P.Y.2014-15 (A.Y.2015-16).

Therefore, since Ms. Bindu satisfies both the conditions for “not-ordinarily resident”, her residential status for A.Y.2015-16 would be “Resident but not ordinarily resident”

**(b) Computation of value of taxable service and service tax payable by Rahul & Co. for the quarter ended 31.03.2015**

Particulars	₹
Amount collected from clients for recruitment of Permanent staff	5,00,000
Temporary staff	3,00,000
Amounts collected from clients for pre-recruitment screening	2,50,000
Domestic helps arranged for friends & relative for free [Note-1]	Nil
Amount collected from a warehouse of agricultural produce for labour provided for loading and unloading [Note-2]	1,75,000
Advances received from prospective employers for conducting campus interviews in colleges to be held in May, 2015 [Note-3]	<u>2,00,000</u>
Value of taxable service including service tax	<u>14,25,000</u>
<b>Value of taxable service (₹ 14,25,000 × 100/112.36) [rounded off]</b>	<b>12,68,245</b>
<b>Service tax (₹ 14,25,000 × 12.36/112.36) [rounded off]</b>	<b>1,56,755</b>

**Notes:**

- Free services are not liable to service tax as there is no consideration involved.
- Since labour supplied to a warehouse for loading and unloading of agricultural produce can neither be considered as supply of farm labour nor loading, unloading of agricultural produce, such service is not covered in the negative list of services and hence, is taxable [Section 66D of the Finance Act, 1994].
- Since services agreed to be provided are also chargeable to service tax, advance received will also be liable to service tax. Such advance received from prospective employers will be taxable at the time when it is received irrespective of the fact that no campus interviews were subsequently conducted and advances received were returned to employers.
- Since none of the clients of Rahul & Co. was a body corporate in the relevant quarter, reverse charge provisions will not be applicable.

## (c) Computation of Net VAT liability of Balaji Enterprises for the year ended 31.03.2015

Particulars	(₹)
<b>Input tax credit:</b>	
Intra-State purchases of raw materials $\left[ 4,05,000 \times \frac{12.5}{112.5} \right]$ [Eligible for input tax credit since purchased within State and were used for manufacture of taxable goods]	45,000
Inter-State purchases of raw materials [Not eligible for input tax credit]	-
Import of raw materials [Not eligible for input tax credit]	-
Purchase of capital goods [Eligible for input tax credit] Further, credit has to be spread over a period of 3 years $\left[ 3,30,000 \times \frac{10}{110} \times \frac{1}{3} \right]$	<u>10,000</u>
<b>Total input tax credit available (A)</b>	<u>55,000</u>
<b>Output VAT payable:</b>	
Sale of taxable goods within State $\left[ 10,92,000 \times \frac{4}{104} \right]$	42,000
Sale of exempted goods within State	-
<b>Total output VAT payable (B)</b>	<u>42,000</u>
<b>Net VAT liability</b>	<u>Nil</u>
VAT credit to be carried forward [(B)-(A)]	(13,000)

**Note:** VAT system allows credit in respect of purchases made during a period to be set-off against the taxable sales, irrespective of when the supplies/inputs purchased are utilized/sold. Therefore, input tax credit in respect of closing stock of raw materials need not be reduced from total input tax credit available.

**Question 3**

- (a) Rudra Ltd. has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The company provides the following details for the previous year 2014-15.

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	4,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2015-16, in the following situations:

- (i) If both the units were set up and start manufacturing from 22-05-2008.
- (ii) If both the units were set up and start manufacturing from 14-05-2012. (8 Marks)
- (b) BC Pvt. Ltd., a manufacturer, has furnished the following information:

Sr. No.	Particulars	Excise duty/ service tax paid (₹)
(i)	Input 'A' Invoice dated 23-09-2014	1,56,000
(ii)	Input 'B' Invoice dated 10-04-2015	1,35,000
(iii)	Input 'C' Invoice missing	89,460
(iv)	Input service 'X' Invoice dated 12-11-2014	45,340
(v)	Input service 'Y' Invoice dated 20-09-2014	68,240
(vi)	Machinery (being eligible capital goods under Chapter 82) Invoice dated 12-09-2014	3,54,670
(vii)	GTA service for bringing raw materials to the factory (Payment has not been made to GTA but service tax has been paid under reverse charge) Invoice dated 14-04-2015 Value of services ₹ 3,00,000	9,270

Excise duty/service tax given above is including education cess and secondary and higher education cess. BC Pvt. Ltd. is not entitled to SSI exemption. You are required to determine the total CENVAT credit that can be availed by BC Pvt. Ltd. during the month of April, 2015. (5 Marks)

- (c) Rajeshwari Industries imported a machinery from Germany in an aircraft. The bill of entry was presented on 12-07-2014 and the aircraft arrived in India on 25-07-2014. The rates of import duty are:

Particulars	Date	Rate of custom duty
Bill of entry on	12-07-2014	12%
Arrival of aircraft on	25-07-2014	15%

In the above case, determine the applicable rate of import duty. (3 Marks)

### Answer

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

As per section 10AA, in computing the total income of Rudra Ltd. from its 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, 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 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.

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

##### (i) If Unit in SEZ was set up and began manufacturing from 22-05-2008:

Since A.Y. 2015-16 is the 7<sup>th</sup> assessment year from A.Y. 2009-10, relevant to the previous year 2008-09, in which the SEZ unit began manufacturing of articles or things, it 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.

$$\begin{aligned}
 &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\% \\
 &= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 50\% = ₹ 22.50 \text{ lakhs}
 \end{aligned}$$

##### (ii) If Unit in SEZ was set up and began manufacturing from 14-05-2012:

Since A.Y. 2015-16 is the 3<sup>rd</sup> assessment year from A.Y. 2013-14, relevant to the previous year 2012-13, in which the SEZ unit began manufacturing of articles or things, it 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.

$$\begin{aligned}
 &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\% \\
 &= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 100\% = ₹ 45 \text{ lakhs}
 \end{aligned}$$

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	Rudra Ltd. (₹)	Unit in DTA (₹)	Unit in SEZ (₹)
Total Sales	6,00,00,000	2,00,00,000	4,00,00,000
Export Sales	4,60,00,000	1,60,00,000	3,00,00,000
Net Profit	80,00,000	20,00,000	60,00,000

**(b) Computation of CENVAT credit that can be availed by BC Pvt. Ltd. during the month of April, 2015**

Particulars	₹
Input 'A' [Note-1]	-
Input 'B' [Note-1]	1,35,000
Input 'C' [Note-2]	-
Input service 'X' [Note-3]	45,340
Input service 'Y' [Note-3]	-
Machinery [50% of ₹ 3,54,670] [Note-4]	1,77,335
GTA service for bringing raw materials to the factory [Note 5]	<u>9,270</u>
<b>Total CENVAT credit that can be availed during the month of April, 2015</b>	<b><u>3,66,945</u></b>

**Notes:**

1. A manufacturer can take CENVAT credit of inputs only upto 6 months from the date of issue of invoice [Rule 4 of CENVAT Credit Rules, 2004 (hereinafter referred to as CCR)].
2. CENVAT credit cannot be availed without a valid invoice [Rule 9 of CCR].
3. A manufacturer can take CENVAT credit of input services only upto 6 months from the date of issue of invoice [Rule 4 of CCR].
4. Since BC Pvt. Ltd. is not an SSI unit, CENVAT credit of only upto 50% of the excise duty paid is available in respect of the eligible capital goods, in the year of purchase [Rule 4 of CCR]. Further, time limit of 6 months for availment of CENVAT credit does not apply to capital goods.
5. GTA service used for bringing the raw materials to the factory is an eligible input service and service tax is payable thereon under reverse charge [Rule 2(l) of CCR].



Since BC Pvt. Ltd. has paid such service tax, it can avail credit of such tax paid even though the payment has not been made to GTA [Rule 4 of CCR].

(c) Where the goods are imported in an aircraft, the applicable rate of duty is the rate prevalent on:-

(i) the date of presentation of Bill of Entry

or

(ii) the date of arrival of aircraft,

whichever is later [Section 15 of the Customs Act, 1962]

Therefore, the relevant date for determination of the rate of import duty, in the given case, is 25.07.2014.

Hence, the applicable rate of import duty in the given case is 15%.

#### Question 4

(a) From the following details furnished by Mr. Dinesh, a marketing manager of XL Corporation Ltd., Delhi, compute the gross total income for the Assessment Year 2015-16.

<i>Particulars</i>	<i>Amount (₹)</i>
<i>Salary including Dearness Allowance</i>	6,50,000
<i>Conveyance allowance of ₹ 900 p.m.</i>	10,800
<i>Bonus</i>	50,000
<i>Salary of servant provided by the employer</i>	48,000
<i>Bills paid by the employer for gas, electricity and water provided free of cost at the residence of Mr. Dinesh</i>	82,000

Dinesh purchased a flat in a co-operative housing society in Dwarka, Delhi for self occupation for ₹ 35,00,000 in April 2011, which was financed by a loan from Bank of India of ₹ 20,00,000 @ 11% interest and his own savings of ₹ 5,00,000 and a deposit of ₹ 10,00,000 from Bank of Baroda, to whom he let out his another house in Rohini, Delhi on lease for ten years. The rent payable by Bank of Baroda is ₹ 35,000 per month. Other relevant particulars are given below:

(i) Municipal taxes paid by Dinesh for his flat in Dwarka are ₹ 18,000 per annum and for his house in Rohini are ₹ 12,000 per annum.

(ii) Principal loan amount outstanding as on 01-04-2014 was ₹ 18,50,000.

(iii) He also paid ₹ 8,000 towards insurance of both the houses.

- (iv) In the financial year 2013-14, he had gifted ₹ 40,000 each to his wife and minor son. The gifted amounts were advanced to Mr. Sandeep, who is paying interest @ 18% per annum.
- (v) Mr. Dinesh's son is studying in a school run by the employer company throughout the financial year 2014-15. The education facility was provided free of cost. The cost of such education in similar school is ₹ 2,500 per month.
- (vi) Dinesh also received gifts of ₹ 45,000 each from his two friends during the financial year 2014-15. (8 Marks)
- (b) With reference to the service tax law as contained in the Finance Act, 1994, kindly explain the following:
- (i) What will be the point of taxation in case of continuous supply of services? (2 Marks)
- (ii) Mohan, a service provider, had received ₹ 2,50,000 in advance from Rakesh. Mohan had deposited service tax on such amount in the relevant half year. He finally rendered services valuing to ₹ 2,20,000 only and refunded balance amount to Rakesh. Mohan want to adjust service tax on ₹ 30,000 refunded by him from his current dues of service tax. Advise him. (2 Marks)
- (c) A manufacturer of machinery sold his machine on which excise duty is payable under section 4 of Central Excise Act, 1944.

Particulars	Amount (₹)
Total invoice price	7,50,000
Erection charges (Erection to be done at customer's factory)	50,000
Packing charges	12,000
Design charges	20,000
Insurance charges (for dispatch to customer's factory)	8,000
Outward freight (from place of removal to customer's factory)	17,000
State VAT	12.50%

Cash discount @ 2% was allowed as the customer had made full advance payment. Excise duty rate is 12% and education and secondary & higher education cesses as applicable. Calculate assessable value of the machine and excise duty payable. (4 Marks)

**Answer****(a) Computation of gross total income of Mr. Dinesh for the A.Y. 2015-16**

Particulars	₹	₹
<b>Salaries</b>		
Salary including dearness allowance		6,50,000
Bonus		50,000
Conveyance allowance (Fully exempt under section 10(14)(i) read with Rule 2BB(1)(c), assuming that it is granted to meet the expenditure actually incurred on conveyance in performance of duties of an office or employment of profit).		Nil
<b>Value of perquisites:</b>		
(i) Salary of servant [Rule 3(3)]	48,000	
(ii) Free gas, electricity and water [Rule 3(4)]	82,000	
(iii) Cost of free education provided by employer (₹ 2,500 x 12) is fully taxable, since the cost of education exceeds ₹ 1,000 per month [Rule 3(5)].	<u>30,000</u>	<u>1,60,000</u>
<b>Income chargeable under the head "Salaries"</b>		<b>8,60,000</b>
<b>Income from house property</b>		
<b>Let-out property (At Rohini)</b>		
Gross Annual Value (GAV) (Lease rental is taken as GAV in the absence of other information) (₹ 35,000 x 12)	4,20,000	
Less: Municipal taxes paid	<u>12,000</u>	
Net Annual Value (NAV)	4,08,000	
Less: Deduction under section 24(a): 30% of NAV <sup>4</sup>	<u>1,22,400</u>	
<b>(A)</b>	<u><b>2,85,600</b></u>	
<b>Self-occupied property (At Dwarka)</b>		
Net Annual Value (NAV) [Since the property is self-occupied]		Nil
Less: Deduction under section 24(a)		
Interest on loan from Bank of India @11% of ₹ 18,50,000 restricted to	2,03,500	<u>(2,00,000)</u>
<b>(B)</b>	<u><b>(2,00,000)</b></u>	
<b>Income from house property [A - B]</b>		<b>85,600</b>

<sup>4</sup> No separate deduction is allowable in respect of insurance.

<b>Income from Other Sources</b>		
(i) Interest earned by minor son from advances made out of money gifted to him by his father, Mr. Dinesh, is includible in the hands of Dinesh as per section 64(1A), since all income arising to a minor child is includible in the hands of parent <sup>5</sup> whose total income (before including the income of minor child) is greater (₹ 40,000 x 18%)	7,200	
Less: Exempt under section 10(32)	<u>1,500</u>	
	5,700	
(ii) Interest income earned by Dinesh's wife from advances made out of money gifted to her by her husband, Mr. Dinesh, has to be included in the total income of Mr. Dinesh as per section 64(1) (₹ 40,000 x 18%)	7,200	
(iii) Gift received from two friends [taxable under section 56(2)(vii)] since the aggregate amount received during the year exceeds ₹ 50,000 (₹ 45,000 x 2)	<u>90,000</u>	<u>1,02,900</u>
<b>Gross Total Income</b>		<b><u>10,48,500</u></b>

- (b) (i) In case of continuous supply of service, the date of completion of each event which requires the service receiver to make any payment to service provider, as specified in the contract shall be deemed to be the date of completion of provision of service.

The point of taxation will, then, be determined accordingly in terms of provisions of rule 3 of the Point of Taxation Rules, 2011.

- (ii) Where an assessee has received any payment against a service to be provided which is not so provided by him either wholly or partially for any reason, the assessee may take the credit of such excess service tax paid by him, if the assessee has refunded the payment or part thereof, so received for the service not provided to the person from whom it was received [Rule 6 of the Service Tax Rules, 1994].

Since, in the given case, service provider Mohan has refunded the payment relating to the value of services not provided (₹ 30,000) to service receiver Rakesh, he can take the credit of excess service tax paid by him on the said amount and adjust the same against his current service tax dues.

<sup>5</sup> It is assumed that Mr. Dinesh's total income before including the income of minor child is higher than his wife's total income.

**(c) Computation of assessable value of the machine and excise duty payable thereon**

Particulars	₹
Total invoice price (inclusive of VAT and excise duty)	7,50,000
Less: Cash discount @ 2% of invoice price [₹ 7,50,000 × 2%]	15,000
Erection charges [since incurred after place of removal]	50,000
Insurance charges [since incurred after place of removal]	8,000
Outward freight charges [since incurred beyond place of removal]	<u>17,000</u>
Price-cum-duty	6,60,000
Less : State VAT @ 12.5% [₹ 6,60,000 × 12.5/112.5]	<u>73,333</u>
Price cum duty deemed to be inclusive of duty payable on such goods	5,86,667
Less: <b>Excise duty @ 12.36% (including education cesses)</b> <b>[₹ 5,86,667 × 12.36/112.36] rounded off</b>	<u><b>64,535</b></u>
<b>Assessable value</b>	<u><b>5,22,132</b></u>

**Note:** Packing charges and designing charges are includible in the assessable value and thus not deducted from the invoice price<sup>6</sup>.

**Question 5**

- (a) *Ms. Mohini transferred a house to her friend Ms. Ragini for ₹ 35,00,000 on 01-10-2014. The Sub Registrar valued the land at ₹ 48,00,000. Ms. Mohini contested the valuation and the matter was referred to Divisional Revenue Officer, who valued the house at ₹ 41,00,000. Accepting the said value, differential stamp duty was also paid and the transfer was completed.*

*The total income of Mohini and Ragini for the assessment year 2015-16, before considering the transfer of said house are ₹ 2,80,000 and ₹ 3,45,000, respectively. Ms. Mohini had purchased the house on 15<sup>th</sup> May 2010 for ₹ 25,00,000 and registration expenses were ₹ 1,50,000.*

<sup>6</sup> It has been assumed that:

- (i) cash discount @ 2% is given on invoice price and that the same has not been given effect to in the invoice price of ₹ 7,50,000 i.e., ₹ 7,50,000 is the pre-discount price and  
(ii) the sale is on ex-factory basis and delivery is complete at factory.

You are required to explain provisions of Income-tax Act, 1961 applicable to present case and also determine the total income of both Ms. Mohini and Ms. Ragini taking into account the above said transactions. Cost inflation indices for:

- (i) Financial Year 2010-11 : 711 and  
(ii) Financial Year 2014-15 : 1024 (8 Marks)
- (b) State whether the following services are covered under negative list of services under section 66D. Need not assign any reason.
- (i) Service provided by the Department of Post by way of speed post, express parcel post, life insurance and agency services provided to a person other than Government.
- (ii) Service provided by way of supply of farm labour relating to agriculture.
- (iii) Services by way of renting of residential dwellings for use as residence.
- (iv) Services of funeral, burial, crematorium or mortuary and transportation of the deceased.
- (v) Services relating to education as a part of an approved vocational education course.
- (vi) Service of transportation of passengers with or without accompanied belongings, by Railways in an air conditioned coach.
- (vii) Services by way of transportation of goods by road by a goods transportation agency.
- (viii) Selling of space or time slots for advertisement broadcast by FM Radio. (4 Marks)
- (c) Define the term "transaction value" as per Central Excise Act, 1944. (4 Marks)

### Answer

- (a) **Computation of total income of Ms. Mohini for A.Y. 2015-16**

Particulars	₹	₹
<b>Long-term capital gain</b>		
Full value of consideration	41,00,000	
(As per section 50C read with section 155(15), in case the actual sale consideration is less than the stamp duty value fixed by the stamp valuation authority (Sub-registrar, in this case), the stamp duty value shall be deemed as the full value of consideration.		
Where the assessee contests the stamp valuation, and the value is reduced by the Divisional Revenue Officer, such reduced value will be regarded as the full value of consideration accruing as a result of transfer.		

Hence, in this case, ₹ 41,00,000, being the valuation by Divisional Revenue Officer on which stamp duty is paid, would be deemed as full value of consideration, since the same is lower than the valuation by the Sub-registrar)		
Less: Indexed cost of acquisition [₹ 26,50,000 x 1024 / 711]	<u>38,16,596</u>	
		2,83,404
Other Income		<u>2,80,000</u>
<b>Total Income</b>		<b><u>5,63,404</u></b>
<i>Note: Cost of acquisition includes purchase price plus registration expenses i.e., ₹ 25,00,000 + ₹ 1,50,000</i>		

**Computation of total income of Ms. Ragini for A.Y. 2015-16**

Particulars	₹
<b>Income from other sources</b>	
<b>Immovable property received for inadequate consideration</b>	6,00,000
As per section 56(2)(vii), where an individual receives from a non-relative, any immovable property for a consideration which is less than the stamp duty value (or the value reduced by the Divisional Revenue Officer, as in this case) by an amount exceeding ₹ 50,000, then, the difference between such value and actual consideration of such property would be chargeable to tax as income from other sources.	
Therefore, ₹ 6,00,000 (i.e., ₹ 41,00,000 – ₹ 35,00,000) would be chargeable to tax as income from other sources.	
Other Income	<u>3,45,000</u>
<b>Total Income</b>	<b><u>9,45,000</u></b>

- (b) (i) No. Service provided by the Department of Post by way of speed post, express parcel post, life insurance and agency services provided to a person other than Government is not covered in the negative list of services.
- (ii) Yes. Service provided by way of supply of farm labour relating to agriculture is covered in the negative list of services.
- (iii) Yes. Services by way of renting of residential dwellings for use as residence are covered in the negative list of services.
- (iv) Yes. Services of funeral, burial, crematorium or mortuary and transportation of the deceased are covered in the negative list of services.
- (v) Yes. Services relating to education as a part of an approved vocational education course are covered in the negative list of services.

- (vi) No. Service of transportation of passengers with or without accompanied belongings, by Railways in an air conditioned coach is not covered in the negative list of services.
- (vii) No. Services by way of transportation of goods by road by a goods transportation agency are not covered in the negative list of services.
- (viii) No. Selling of space or time slots for advertisement broadcast by FM Radio is not covered in the negative list of services.
- (c) As per section 4 of the Central Excise Act, 1944, transaction value means the price actually paid or payable for the goods, when sold, and includes in addition to the amount charged as price,--
- any amount that the buyer is liable to pay to, or on behalf of, the assessee, by reason of, or in connection with the sale, whether payable at the time of the sale or at any other time, including, but not limited to,
  - any amount charged for, or to make provision for, advertising or publicity, marketing and selling organization expenses, storage, outward handling, servicing, warranty, commission or any other matter;
  - but does not include the amount of duty of excise, sales tax and other taxes, if any, actually paid or actually payable on such goods.

**Question 6**

- (a) (i) Compute the eligible deduction under Chapter VI-A for the Assessment year 2015-16 of Ms. Roma, who has a gross total income of ₹ 15,00,000 for the assessment year 2015-16 and provides the following information about her investments/payments during the year 2014-15:

Sl. No.	Particulars	Amount (₹)
1.	Life Insurance premium paid (Policy taken on 01-01-2012 and sum assured is ₹ 1,50,000)	35,000
2.	Public Provident Fund contribution	90,000
3.	Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000
4.	Payment to L.I.C. Pension Fund	25,000
5.	Mediclaime Policy taken for self, wife and dependent children, premium paid	20,000
6.	Medical Insurance premium paid for parents (Senior Citizen)	25,000

- (ii) Mr. Ramesh gifted a sum of ₹ 5 lacs to his brother's minor son on 16-4-2014. On 18-4-2014, his brother gifted debentures worth ₹ 6 lacs to Mrs. Ramesh. Son of



Mr. Ramesh's brother invested the amount in fixed deposit with Bank of India @ 9% p.a. interest and Mrs. Ramesh received interest of ₹ 45,000 on debentures received by her.

Discuss the implications under the provisions of the Income-tax Act, 1961. (4 Marks)

- (b) Ms. Vasundhara, a service provider, who pays service tax regularly, was of the opinion that a particular service rendered by her was not liable to service tax. She, therefore, did not charge service tax in her bill. She received the payment for the bill amount without service tax. However, it was later confirmed that service tax is payable on said service. How will service tax liability of Ms. Vasundhara be determined in such a case?

(4 Marks)

- (c) Explain the term "Price cum duty" as per Central Excise Act, 1944.

(4 Marks)

**Answer**

- (a) (i) **Computation of eligible deduction under Chapter VI-A of Ms. Roma for Assessment Year 2015-16**

Particulars	₹	₹
<b>Deduction under section 80C</b>		
- Life insurance premium paid ₹ 35,000 (deduction restricted to 20% of the sum assured since the policy was taken before 1.4.2012) ₹ 1,50,000 x 20%	30,000	
- Public Provident Fund	90,000	
- Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	<u>20,000</u>	
	1,40,000	
<b>Deduction under section 80CCC for payment towards LIC pension fund</b>	<u>25,000</u>	
	<u>1,65,000</u>	
As per section 80CCE, aggregate deduction under, <i>inter alia</i> , section 80C and 80CCC, is restricted to		1,50,000
<b>Deduction under section 80D</b>		
- Payment of medical insurance premium of ₹ 20,000 towards medical policy taken for self, wife and dependent children restricted to	15,000	
- Medical insurance premium paid ₹ 25,000 for parents, being senior citizen, restricted to	<u>20,000</u>	<u>35,000</u>
<b>Eligible deduction under Chapter VI-A</b>		<u>1,85,000</u>

**Note** – It has been assumed that the medical insurance premium was paid by a mode other than cash.

- (ii) In the given case, Mr. Ramesh gifted a sum of ₹ 5 lacs to his brother's minor son on 16.4.2014 and simultaneously, his brother gifted debentures worth ₹ 6 lacs to Mr. Ramesh's wife on 18.4.2014. Mr. Ramesh's brother's minor son invested the gifted amount of ₹ 5 lacs in fixed deposit with Bank of India.

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

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted<sup>7</sup>.

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

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

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

In the hands of Mr. Ramesh, interest received by his spouse on debentures of ₹ 5 lacs alone would be included and not the entire interest income on the debentures of ₹ 6 lacs, since the cross transfer is only to the extent of ₹ 5 lacs.

Hence, only proportional interest (i.e., 5/6<sup>th</sup> of interest on debentures received) ₹ 37,500 would be includible in the hands of Mr. Ramesh.

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

- (b) Section 68 of the Finance Act, 1994 casts the liability to pay service tax upon the service provider. Liability of a service provider does not get extinguished if he fails to realize or charge service tax from service receiver.

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<sup>7</sup> It was so held by the Apex Court in *CIT vs. Keshavji Morarji* (1967) 66 ITR 142.

In such a case, the amount received from the service receiver is taken to be inclusive of service tax and service tax is computed by making back calculations.

Accordingly, service tax @ 12% plus education cess @ 2% and secondary and higher education cess @ 1% payable by Ms. Vasundhara shall be ascertained in the following manner:-

$$\text{Effective service tax payable} = \frac{\text{Amount received} \times 12.36}{112.36(100 + 12.36)}$$

- (c) Price cum duty is the sum total of price actually paid for the goods sold and money value of the additional consideration flowing from buyer to seller in connection with sale of such goods. Such price cum duty after excluding sales-tax and other taxes actually paid, is deemed to be inclusive of the excise duty payable on such goods [Section 4(1) of the Central Excise Act, 1944].

Price charged (exclusive of sales tax/local taxes) will be taken as price-cum-duty in the following cases:-

- (i) If the assessee has collected less duty from the buyer than what is due; or
- (ii) If the assessee has not collected any duty from the buyer even though the product is liable to duty; or
- (iii) If the assessee has paid duty on lesser value due to receipt of additional consideration.

#### Question 7

- (a) Briefly explain any **two** of the following three sub-divisions:
- (i) Explain the term "return of loss" under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required? (4 Marks)
  - (ii) Mr. Madan sold his house property in Surat as well as his rural agricultural land for a consideration of ₹ 65 lakhs and 20 lakhs, respectively, to Mr. Raman on 01-10-2014. He has purchased the house property for ₹ 40 lakhs and the land for ₹ 15 lakhs, in the year 2011. There was no difference in the stamp valuation. You are required to determine TDS implications, if any, assuming both persons are resident Indians. (4 Marks)
  - (iii) What is the difference between TDS and TCS under the Income-tax Act, 1961? (4 Marks)
- (b) Ashok, a taxable service provider, outsourced a part of work by engaging Suresh, a subcontractor. Service tax is charged and paid by Ashok for the total work. Whether Suresh, the sub contractor, is liable to charge and pay any service tax? (4 Marks)
- (c) RSL Pvt. Ltd. purchased a pollution control equipment on 20-6-2010 for ₹ 15,00,000 (including excise duty of ₹ 1,85,400); and took the CENVAT credit of 50% of the excise duty paid in the financial year 2010-11 and balance credit of 50% in the financial year 2011-12.

After using such equipment, sold it as scrap for ₹ 50,000 excluding excise duty, on 31<sup>st</sup> December, 2014. Examine whether:

- (i) RSL Pvt. Ltd. was correct in availing the CENVAT credit on the said equipment in financial years 2010-11 and 2011-12?
- (ii) on selling of above equipment in the financial year 2014-15, it needs to pay the amount of excise duty earlier availed as CENVAT credit? (4 Marks)

### Answer

- (a) (i) (1) A return of loss is a return which shows certain losses. Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

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

Following losses are covered by section 139(3):

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

- (2) The following losses can be carried forward even if return of loss has not been filed as required under section 139(3) –

- loss from house property to be carried forward under section 71B; and
- loss from specified business to be carried forward under section 73A.

- (ii) As per section 194-IA, any person, being a transferee, responsible for paying to a resident transferor any sum by way of consideration for transfer of any immovable property (other than rural agricultural land) is required to deduct tax at source @ 1% of such sum, if the consideration for transfer is ₹ 50 lakhs or more. The deduction of tax at source has to be made at the time of credit of such sum to the account of the transferor or at the time of payment of such sum, whichever is earlier.

Accordingly, in this case, since the sale consideration of house property exceeds ₹ 50 lakh, Mr. Raman, the transferee, is required to deduct tax at source at 1% of ₹ 65 lakhs, being the consideration for transfer of house property.

The tax to be deducted under section 194-IA would be ₹ 65,000, being 1% of ₹ 65 lakh.

Since TDS provisions under section 194-IA are attracted in respect of transfer of any immovable property, other than rural agricultural land, no tax is required to be

deducted by Mr. Raman from the sale consideration payable for transfer of rural agricultural land.

**(iii) Difference between TDS and TCS**

	<b>TDS</b>	<b>TCS</b>
(1)	TDS is tax deduction at source	TCS is tax collection at source.
(2)	Person responsible for paying is required to deduct tax at source at the prescribed rate.	Seller of certain goods is responsible for collecting tax at source at the prescribed rate from the buyer. Person who grants licence or lease (in respect of any parking lot, toll plaza, mine or quarry) is responsible for collecting tax at source at the prescribed rate from the licensee or lessee, as the case may be.
(3)	Generally, tax is required to be deducted at the time of credit to the account of the payee or at the time of payment, whichever is earlier. However, in case of payment of salary and payment in respect of life insurance policy, tax is required to be deducted at the time of payment.	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 jewellery or bullion, tax collection at source is required at the time of receipt of sale consideration in cash.

- (b)** Yes, Suresh, the sub-contractor is liable to charge and pay service tax.

The fact that services provided by such sub-contractors are used by the main service provider for completion of his work does not in any way alter the fact of provision of taxable service by the sub-contractor.

In essence, Suresh, the sub-contractor has to be treated like any other service provider and service tax liability has to be determined accordingly.

The fact that Ashok, the main contractor has paid the service tax on the total work, will not absolve Suresh from his exigibility or liability to pay service tax. Suresh has to charge and pay service tax in respect of the taxable services rendered by him to Ashok.

- (c) (i)** Yes, RSL Pvt. Ltd. was correct in availing the CENVAT credit on the said equipment in two equal installments in Financial Years (FYs) 2010-11 and 2011-12.

As per the definition of capital goods under rule 2(a) of the CENVAT Credit Rules, 2004, pollution control equipment is eligible capital goods.

Further, (assuming that RSL Pvt. Ltd. is not eligible for SSI exemption) CENVAT credit of only upto 50% of the excise duty paid is available in respect of the eligible capital goods in the year of purchase [Rule 4 of the CENVAT Credit Rules, 2004]. Thus, RSL Pvt. Ltd. is justified in taking 50% of the CENVAT credit of duty paid on the pollution control equipment in FY 2010-11 and balance in FY 2011-12.

- (ii) Since the pollution control equipment is sold as scrap, RSL Pvt. Ltd. is required to pay an 'amount' equal to excise duty leviable on transaction value of scrap, i.e. 12.36% of ` 50,000 [Rule 3 of the CENVAT Credit Rules, 2004].

Thus, RSL Pvt. Ltd. is required to pay an 'amount' of ₹ 6,180 and not the amount of excise duty earlier availed as CENVAT credit.

**Note:** It has been assumed that RSL Pvt. Ltd. is not eligible for SSI exemption.