INTERMEDIATE (IPC) MAY 2014

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

TAXATION

Total No. of Questions – **7** Total No. of Printed Pages – **12**

Time Allowed – **3** Hours Maximum Marks – **100**

LST

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 note.

All questions pertaining to the Income Tax relate To Assessment Year 2014-15, unless Stated otherwise in the question.

Marks

1. (A) From the following details compute the total income of Kamal, A resident individual aged 54 years for the year ended 31-3-2014. Tax payable need not be calculated. **10**

		₹
1.	Salary including Dearness Allowance	5,00,000
2.	Bonus	15,000
3.	Salary to servant provided by Employer	12,000
4.	Bill paid by Employer for Gas, Electricity and water provided free of cost at his flat	14,500
5.	Cost of Laptop provided by the employer (Used both for official and personal purposes)	40,000

Following additional information is provided :

(1) Kamal purchased a flat in a Cooperative Housing Society in Delhi for ₹ 10,75,000 in April, 2010 by taking loan from State Bank of India amounting to ₹ 5,00,000 @ 15% per annum interest, ₹ 65,000 from his own savings and a deposit from a Nationalized Bank to whom this flat was given on lease for 10 years at a monthly lease rental of ₹ 5,500. The outstanding amount of loan is ₹ 1,60,000.

(2) Municipal Taxes paid by Kamal ₹ 4,500 P.A.

(3) Insurance in respect of the said flat ₹ 1,275

(4) Kamal earned a profit of ₹ 15,000 in shares speculation business and incurred a loss of ₹ 20,200 in speculation business of cotton.

(5) In the year 2008-09, he had gifted ₹ 50,000 to his wife and ₹ 30,000 to his son who was aged 11 years then. These amounts were advanced to Mr. Mohan @ 15% per annum interest.

(6) Kamal received a gift of ₹ 25,000 each from his four friends on the occasion of his birthday.

(7) He contributed ₹ 10,500 to Public Provident Fund and ₹ 6,000 to Unit Linked Insurance plan.

(8) He deposited ₹ 60,000 in tax saver deposit with a Nationalised Bank in the name of his married son.

(9) He has taken a policy on life for his married daughter on 1-4-2013 and paid a premium of ₹ 25,000. The sum assured for policy is ₹ 2,00,000.

Marks

(B) Farm Heroes is engaged in providing services for the last five years. The value of taxable services provided by Farm Heroes during the preceding financial year was ₹ 45 lakhs. It has received the following sums (Exclusive of service tax) in the month of January 2014. Calculate the value of taxable services and tax payable thereon for the month of January 2014. **5**

		₹
(1)	Supply of farm labour	55,000
(2)	Testing of soil of farm land	1,65,000
(3)	Value of Services provided free	50,500
(4)	Processing of raw material to make it fit for production and this process is not liable to Excise Duty	6,35,000
(5)	Advance Received for such services (As mentioned in (4) above) to be provided in May 2014.	2,13,000

(C) Mr. Vijay a registered dealer from Gujarat, submits the following information pertaining to the month of January 2014. **5**

(1) Purchase of Raw material A for ₹ 3,50,000 which was exempt from levy of VAT and utilized for production of X.

(2) Purchase of Raw material B for ₹ 7,60,000 on which VAT is paid @ 1% and utilized for the production of product Y.

(3) Purchase of Raw material C for ₹ 10,00,000 on which VAT is paid @ 12.5% and utilized 50% each for production of product Z and product E.

Particulars of Sales are :

(A) Sold X for ₹ 5,00,000 in Gujarat on which VAT is leviable at 4%.

(B) Sold Y for ₹ 6,00,000 in Gujarat on which VAT is leviable at 0%.

(C) Sold Z for ₹ 4,00,000 in Delhi @ CST 2%.

(D) Sold E for ₹ 12,00,000 which is exempt from levy of VAT.

Assuming there is no opening and closing inventory, calculate the amount of VAT payable for the relevant month.

2. (A) JK Ltd., a manufacturing company purchased the following Plant and Machinery. **8**

Date of Acquisition and Installation	Actual Cost (in ₹ Crores)
25-05-2013	90.00
31-08-2013	20.00
15-04-2014	120.00

From the above information compute the amount of depreciation available u/s 32(1), additional depreciation, if any and deduction u/s 32 AC for the Assessment Years 2014-15 and 2015-16.

What will be the consequences if asset acquired on 31-08-2013 is sold on 01-05-2016 ?

Marks

(B) Raj Associates is a consultancy firm. During the financial year 2013-14, it received ₹ 18 lakh as professional fee on which tax has been deducted u/s 194 J. You are required to compute the value of taxable service and service tax liability of Raj Associates for the year 2013-14 assuming that the receipt is inclusive of Service Tax. **4**

(C) Mr. Javed, A manufacturer sells goods to Mr. Kabir for ₹ 5,000 who sells it to Mr. Hakim a wholesaler for ₹ 5,500. The wholeseller sells goods to a retailer Mr. Mohan for ₹ 6,000 who inturn sells it to end user for ₹ 7,000. **4**

Compute the VAT liability, input credit availed and tax payable by the manufacturer, wholeseller and retailer under invoice method assuming :

(1) VAT Rate is 12.5%

(2) Above prices are excluding VAT component.

3. (A) Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2013-14 : **8**

		₹
1.	Reimbursement of following Medical Expenses incurred by Ms. Rakhi.	
(A)	On treatment of her self employed daughter in a private clinic	4,000
(B)	On treatment of herself by Family doctor	8,000
(C)	On treatment of her Mother-in-law dependent on her, in a Nursing Home	5,000

Marks

2.	Payment of premium on Mediclaim Policy taken on her health.	7,500
3.	Medical Allowance	2,000 Per month
4.	Medical Expenses Reimbursed on her Son's treatment in a Government Hospital	5,000
5.	Expenses incurred by company on the treatment of her minor son abroad.	1,05,000
6.	Expenses in relation to Foreign Travel and stay of Rakhi and her son abroad for Medical Treatment.	1,20,000
	(Limit prescribed by RBI for this is ₹ 2,00,000)	

Discuss about the taxability of above benefits and allowances in the hands of Rakhi.

(B) Explain the provisions regarding adjustment of Excess amount of Service Tax paid in case of renting of Immovable Property Service, owing to Property Tax Payment. **4**

(C) State the circumstances under which VAT registration can be cancelled. **4**

Marks

4. (A) Nisha has two houses, both of which are self occupied. The particulars of these are given below : 8

Particulars	(Value in ₹) House – I	(Value in ₹) House – II
Municipal Valuation per annum	1,20,000	1,15,000
Fair Rent per annum	1,50,000	1,75,000
Standard rent per annum	1,00,000	1,65,000
Date of completion	31-03-1999	31-03-2001
Municipal taxes payable during the year (paid for House II only)	12%	8%
Interest on money borrowed for repair of property during current year	–	55,000

Compute Nisha's income from the House Property for the Assessment Year 2014-15 and suggest which house should be opted by Nisha to be assessed as self occupied so that her Tax liability is minimum.

(B) What do you mean by Bundled Service ? Explain by giving an example of the same. 4

(C) How VAT can be said to be non beneficial as compared to single last point system ? Also explain any other three deficiencies of VAT system in India. 4

Marks

5. (A) Mr. Roy, aged 55 years owned a Residential House in Ghaziabad. It was acquired by Mr. Roy on 10-10-1986 for ₹ 6,00,000. He sold it for ₹ 53,00,000 on 4-11-2013. The stamp valuation authority of the state fixed value of the property at ₹ 65,00,000. The Assessee paid 2% of the sale consideration as brokerage on the sale of the said property. **8**

Mr. Roy Acquired a Residential House property at Kolkata on 10-12-2013 for ₹ 10,00,000 and deposited ₹ 7,00,000 on 10-4-2014 and ₹ 5,00,000 on 15-6-2014 in the capital gains bonds of Rural Electrification Corporation Ltd. He deposited ₹ 4,00,000 on 6-7-2014 and ₹ 3,00,000 on 1-11-2014 in the capital gain deposit scheme in a Nationalized Bank for construction of an additional floor on the residential house property in Kolkata.

Compute the Capital Gain chargeable to Tax for the Assessment Year 2014-15 and Income Tax chargeable thereon assuming Mr. Roy has no other income.

Cost inflation index for Financial Year 1986-87 = 140 and for Financial Year 2013-14 = 939.

(B) State with reasons, whether the following statements are True or False. **4**

(1) Mr. Vikas, an individual, has not provided any service in the half year period of April to September. He need not file any return for this period.

(2) Mr. Sumeet has filed his Service Tax return belatedly. He wants to revise the same. He can file a revised return.

Marks

(C) State with reasons whether the following statements are true or false with regards to input tax credit of VAT : **4**

(1) It is always mandatory to issue a tax invoice under VAT provisions.

(2) VAT usually increases the price as the tax is payable on the first sales price.

(3) VAT Rate on sale of Lottery tickets is 4%.

(4) It is permitted to issue 'Tax Invoice' inclusive of VAT.

6. (A) Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the previous year 2012-13. **4**

		₹
(1)	Income from Salary	15,000
(2)	Income from Business (before providing depreciation)	66,000
(3)	Long term capital gain on sale of Land	10,800
(4)	Loss on maintenance of Race Horses	15,000
(5)	Loss from Gambling	9,100

The other details of unabsorbed depreciation and brought forward losses pertaining to Assessment Year 2013-14 are as follows :

		₹
(1)	Unabsorbed depreciation	11,000
(2)	Loss from Speculative business	22,000
(3)	Short term capital loss	9,800

Compute the Gross total income of Mr. Garg for the Assessment Year 2014-15 and the amount of loss, if any, that can be carried forward, or not.

Marks

(B) Ria, Roma and Raj, three new retail investors, have made the following investments in equity shares/units of equity oriented fund of Rajiv Gandhi equity savings scheme for the previous year 2013-14 as below : 4

	Ria ₹	Roma ₹	Raj ₹
Investment in listed Equity Shares	50,000	23,000	–
Investment in equity oriented funds	10,000	12,000	55,000
Gross total income	10,80,000	11,50,000	12,60,000

Calculate the amount of deduction allowable under section 80 CCG in all the three cases for the Assessment Year 2014-15.

What would be the Tax-treatment in the hands of Raj, if he sells his investments in the Financial Year 2014-15 ?

(C) Mr. X provides some taxable services to Mr. Y. In the course of providing such services, Mr. X. incurs some expenditure such as travelling, Telephone, etc. and includes these amounts in the value of taxable services. 4

Discuss whether Service Tax has to be charged on these items of expenditures.

Will your answer be different if Mr. X indicates these items separately in the invoice ?

(D) "Invoices are crucial documents for Administering VAT." Discuss. 4

Marks

7. (A) Answer any **two** of the following three sub divisions. 2×2 =4

(1) What are the provisions relating to tax deduction at source in respect of :

(A) ABC and Co. Ltd. Paid ₹ 19,000 to one of its Directors as sitting fees on 01-01-2014.

(B) Mr. X sold his House to Mr. Y on 01-02-2014 for ₹ 60 lacs ?

(2) (A) Mr. Vineet submits his return of income on 12-09-2014 for AY 2014-15 consisting of income under the head house property and other sources. On 21-01-2015, he realized that he had not claimed deduction under section 80 TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income, since one year has not elapsed from the end of the relevant Assessment Year. Discuss. 2×2 =4

(B) Where the Karta of an Hindu undivided family is absent from India, the return of income can be signed by any male member of the family ? Give reasoning for the statement to be true or false.

(3) Who is liable to pay Advance Tax ? What is the procedure to compute the Advance Tax payable ? 2×2 =4

(B) Ajit who entered into a roll over contract, approached ABC Bank Ltd. for selling US $ 4,6000 at the rate of ₹ 60 per US dollar. RBI Reference rate at that time was ₹ 60.50 per US Dollar. However, the rate of exchange declared by CBEC for the day is ₹ 61.50 per US dollar. Calculate the value of taxable service with reference to rule 2B of the service tax (Determination of value) Rules, 2006 and Service Tax payable thereon. 4

Marks

(C) Mr. X furnishes the following particulars for the month of December 2013. Compute the VAT payable and input tax carried forward to Next period, if any. 4

	₹
Inputs purchased during the month (from within state) (inclusive of VAT 12.5%)	2,25,000
Raw Material purchased intra state (including CST 2%)	51,000
Transportation charges	35,000
Balance of VAT Credit as on 1-12-2013	6,700

90% of the stock was sold during the month at the profit of 20% on cost. Assume there was no opening stock of goods. The VAT Rate on sale is 4%.

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 2014-15, unless stated otherwise in the question.

Question 1

(A) From the following details compute the total income of Kamal, a resident individual aged 54 years for the year ended 31-3-2014. Tax payable need not be calculated.

		₹
1	*Salary including dearness allowance*	*5,00,000*
2	*Bonus*	*15,000*
3	*Salary to servant provided by employer*	*12,000*
4	*Bill paid by employer for gas, electricity and water provided free of cost at his flat*	*14,500*
5	*Cost of laptop provided by the employer (Used both for official and personal purposes)*	*40,000*

Following additional information is provided:

(1) Kamal purchased a flat in a Cooperative Housing Society in Delhi for ₹ 10,75,000 in April, 2010 by taking loan from State Bank of India amounting to ₹ 5,00,000 @ 15% per annum interest, ₹ 65,000 from his own savings and a deposit from a Nationalized Bank to whom this flat was given on lease for 10 years at a monthly lease rental of ₹ 5,500. The outstanding amount of loan is ₹ 1,60,000.

(2) Municipal taxes paid by Kamal ₹ 4,500 p.a.

(3) Insurance in respect of the said flat ₹ 1,275

(4) Kamal earned a profit of ₹ 15,000 in shares speculation business and incurred a loss of ₹ 20,200 in speculation business of cotton.

(5) In the year 2008-09, he had gifted ₹ 50,000 to his wife and ₹ 30,000 to his son who was aged 11 years then. These amounts were advanced to Mr. Mohan @ 15% per annum interest.

The Suggested Answers for Paper 4: Taxation are based on the provisions of tax laws as amended by the Finance Act, 2013 and applicable for A.Y. 2014-15 (in the case of Income-tax), which is the assessment year relevant for May, 2014 examination.

(6) Kamal received a gift of ₹ 25,000 each from his four friends on the occasion of his birthday.

(7) He contributed ₹ 10,500 to Public Provident Fund and ₹ 6,000 to Unit Linked Insurance plan.

(8) He deposited ₹ 60,000 in tax saver deposit with a Nationalised Bank in the name of his married son.

(9) He has taken a policy on life for his married daughter on 1-4-2013 and paid a premium of ₹ 25,000. The sum assured for policy is ₹ 2,00,000. *(10 Marks)*

(B) Farm Heroes is engaged in providing services for the last five years. The value of taxable services provided by Farm Heroes during the preceding financial year was ₹ 45 lakhs. It has received the following sums (exclusive of service tax) in the month of January 2014. Calculate the value of taxable services and tax payable thereon for the month of January, 2014.

		₹
(1)	*Supply of farm labour*	*55,000*
(2)	*Testing of soil of farm land*	*1,65,000*
(3)	*Value of services provided free*	*50,500*
(4)	*Processing of raw material to make it fit for production and this process is not liable to excise duty*	*6,35,000*
(5)	*Advance received for such services [As mentioned in (4) above] to be provided in May, 2014.*	*2,13,000*

(5 Marks)

(C) Mr. Vijay a registered dealer from Gujarat, submits the following information pertaining to the month of January, 2014:

(1) Purchase of raw material A for ₹ 3,50,000 which was exempt from levy of VAT and utilized for production of X.

(2) Purchase of raw material B for ₹ 7,60,000 on which VAT is paid @ 1 % and utilized for the production of product Y.

(3) Purchase of raw material C for ₹ 10,00,000 on which VAT is paid @ 12.5% and utilized 50% each for production of product Z and product E.

Particulars of Sales are:

(A) Sold X for ₹ 5,00,000 in Gujarat on which VAT is leviable at 4%.

(B) Sold Y for ₹ 6,00,000 in Gujarat on which VAT is leviable at 0%.

(C) Sold Z for ₹ 4,00,000 in Delhi @ CST of 2%.

(D) Sold E for ₹ 12,00,000 which is exempt from levy of VAT.

Assuming there is no opening and closing inventory, calculate the amount of VAT payable for the relevant month. *(5 Marks)*

Answer

(A) Computation of total income of Kamal for the A.Y. 2014-15

Particulars	**₹**	**₹**
Salaries		
Salary including dearness allowance		5,00,000
Bonus		15,000
Perquisites:		
(i) Salary of servant provided by employer [As per Rule 3(3), the actual cost to employer is the value of perquisite]	12,000	
(ii) Free gas, electricity and water [As per Rule 3(4), the amount paid by employer on this account is the value of perquisite]	14,500	
(iii) Facility of Laptop provided by employer is an exempt perquisite, whether the same is used for personal or official purpose or both [Rule 3(7)(vii)].	Nil	26,500
		5,41,500
Income from house property		
Gross Annual Value (GAV) (Lease rental is taken as GAV, in the absence of other information) (₹ 5,500 × 12)	66,000	
Less: Municipal taxes paid	4,500	
Net Annual Value (NAV)	61,500	
Less: Deductions under section 24		
(i) 30% of NAV ₹ 18,450		
(ii) Interest on loan from State Bank of India@15% of ₹ 1,60,000 ₹ 24,000	42,450	19,050
Profits and gains of business or profession		
Income from share speculation business	15,000	
Less: Loss from cotton speculation business	20,200	
Net loss from speculation business to be carried forward	(5,200)	
[As per section 73, any loss from speculation business can be set-off only against income from another speculation business. Hence, the net loss from speculation business in the current year has to be carried forward to the next year for		

set-off against speculative business income for that year. Such loss can be carried forward for a maximum of four succeeding assessment years]		
Income from Other Sources		
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Kamal, since as per section 64(1A) all income of a minor child is includible in the hands of the parent (₹ 30,000 x 15%)	4,500	
[During the P.Y.2013-14, Kamal's son is still a minor]		
Less: Exempt under section 10(32)	1,500	
	3,000	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of Mr. Kamal as per section 64(1) [₹ 50,000 x 15%]	7,500	
(iii) Gift of ₹ 25,000 each received from four friends on the occasion of his birthday [taxable under section 56(2)(vii), since the aggregate amount received during the year exceeds ₹ 50,000]	1,00,000	1,10,500
Gross Total Income		**6,71,050**
Less: Deduction under section 80C		
- Contribution to Public Provident Fund	10,500	
- Unit Linked Insurance Plan	6,000	
- Tax saver deposit with Nationalized bank in the name of his married son does not qualify for deduction under section 80C. The deposit has to be in Mr. Kamal's own name.	Nil	
- Life Insurance Premium [paid to insure life of married daughter is allowable]		
[In respect of policies taken on or after 1.4.2012, the deduction is restricted to 10% of minimum capital sum assured. Hence, in this case, deduction is restricted to 10% of ₹ 2,00,000]	20,000	36,500
Total Income		**6,34,550**

Notes:

(1) No separate deduction is available for insurance of ₹ 1,275, while computing income under the head "Income from house property".

(2) It is assumed that ₹ 1,60,000 is the loan outstanding at the beginning of the year and there is no principal repayment of housing loan during the year qualifying for deduction under section 80C. Interest under section 24 has, accordingly, been calculated at the rate 15% of ₹ 1,60,000.

(3) It is assumed that Mr. Kamal's total income, before including minor's income, is higher than that of his spouse.

(B) Computation of value of taxable services and service tax payable by Farm Heroes for January, 2014

Particulars	₹
Supply of farm labour [Covered in negative list of services under services relating to agriculture or agricultural produce and thus, not liable to service tax]	Nil
Testing of soil of farm land [Since, services relating to agriculture or agricultural produce by way of testing are covered in negative list of services, testing of soil of farm land will also be covered under negative list of services and thus, not be liable to service tax]	Nil
Value of services provided free [Free services are not liable to service tax as there is no consideration involved]	Nil
Processing of raw material to make it fit for production [A process which is liable to excise duty under section 3 of Central Excise Act, 1944 is covered under negative list of services. Therefore, since the given process is not liable to excise duty, it will not be covered in negative list of services and thus, be liable to service tax.]	6,35,000
Advance received for processing of raw material to make it fit for production is also exigible to service tax. It is immaterial that the services are to be provided in May, 2014. It is assumed that such advance is received from different set of client(s) than the ones covered in item (4) of the question.	2,13,000
Value of taxable services	**8,48,000**
Service tax @ 12% [As value of taxable services provided by Farm Heroes during the preceding financial year was ₹ 45,00,000, it is not eligible to small service providers' exemption in the FY 2013-14.]	1,01,760
Add: Education cess @ 2%	2,035
Add: Secondary and higher education cess @ 1%	1,018
Total service tax payable	**1,04,813**

(C) Computation of Net VAT payable for the month of January, 2014

Particulars	₹	₹
Output VAT payable:		
On sale of goods 'X' (₹ 5,00,000 × 4%)	20,000	
On sale of goods 'Y' (₹ 6,00,000 × 0%)	Nil	
On sale of goods 'E' (Exempt from VAT)	Nil	
Total **(A)**		20,000
Input tax credit available:		
Raw material 'A' (Exempt)	Nil	
Raw material 'B' [Input tax credit is not available on goods utilized in manufacture of goods Y the sale of which is exempt]*	Nil	
Raw material 'C' (₹ 10,00,000 × 12.5% x 50%) [Goods utilized in manufacture of exempted goods (E) are not eligible for input tax credit but goods utilized in manufacture of finished goods sold in the course of inter-State trade (Z) are eligible for input tax credit.]	62,500	
Total **(B)**		62,500
Net VAT payable = (A)-(B)		**Nil**

*Since, rate of VAT leviable on sale of goods 'Y' is 0%, it is assumed to be an exempt sale.

Question 2

(A) JK Ltd., a manufacturing company purchased the following plant and machinery:

Date of Acquisition and Installation	Actual Cost (in ₹ Crores)
25-05-2013	*90.00*
31-08-2013	*20.00*
15-04-2014	*120.00*

From the above information compute the amount of depreciation available under section 32(1), additional depreciation, if any, and deduction under section 32AC for the Assessment Years 2014-15 and 2015-16.

What will be the consequences if asset acquired on 31-08-2013 is sold on 01-05-2016?

(8 Marks)

(B) Raj Associates is a consultancy firm. During the financial year 2013-14, it received ₹ 18 lakh as professional fee on which tax has been deducted u/s 194J. You are required to

compute the value of taxable service and service tax liability of Raj Associates for the year 2013-14 assuming that the receipt is inclusive of service tax. *(4 Marks)*

(C) Mr. Javed, a manufacturer sells goods to Mr. Kabir for ₹ 5,000 who sells it to Mr. Hakim a wholesaler for ₹ 5,500. The wholeseller sells goods to a retailer Mr. Mohan for ₹ 6,000, who in turn sells it to end user for ₹ 7,000.

Compute VAT liability, input tax credit availed and tax payable by the manufacturer, wholesaler and retailer under invoice method assuming:

(1) VAT rate is 12.5%

(2) Above prices are excluding VAT component. *(4 Marks)*

Answer

(A) Computation of depreciation allowance under section 32 for the A.Y. 2014-15

Particulars	**₹ in crores**	
WDV as on 01.04.2013		Nil
Add: New Plant and Machinery acquired and installed during the P.Y.2013-14 (₹ 90 crores + ₹ 20 crores)		110.00
		110.00
Less: Asset sold during the year		Nil
WDV as on 31.3.2014 (before charging depreciation)		110.00
Less: Depreciation for P.Y.2013-14@15% on WDV of ₹ 110 crore	16.50	
Additional Depreciation for the P.Y.2013-14 @ 20% of ₹110 crore, being the new plant and machinery acquired and installed during the P.Y.2013-14 (put to use for more than 180 days)	22.00	38.50
WDV as on 1.4.2014		**71.50**

Computation of depreciation allowance under section 32 for the A.Y. 2015-16

Particulars	**₹ in crores**	
WDV as on 1.4.2014		71.50
Add: New Plant and Machinery acquired and installed during the P.Y.2014-15		120.00
		191.50
Less: Asset sold during the year		Nil
WDV as on 31.3.2015 (before charging depreciation)		**191.50**
Less: Depreciation for P.Y.2014-15@15% on WDV of ₹ 191.50 crore as on 31.3.2015	28.73	

Additional Depreciation for the P.Y.2014-15 @ 20% of ₹ 120 crore, being the new plant and machinery acquired and installed during the P.Y.2014-15 (put to use for more than 180 days)	24.00	
		52.73
WDV as on 1.4.2015		**138.77**

Computation of deduction under section 32AC for the A.Y.2014-15

Particulars	₹ in crores
New plant and machinery acquired and installed on 25.5.2013	90
New plant and machinery acquired and installed on 31.8.2013	20
Aggregate investment in new plant and machinery during the P.Y.2013-14	**110**
Deduction under section 32AC is allowable @15% of ₹ 110 crore, since the aggregate investment exceeds ₹ 100 crores *[See Note 1]*	**16.50**

Computation of deduction under section 32AC for the A.Y.2015-16

Particulars	₹ in crores
New plant and machinery acquired and installed during the P.Y.2013-14	110
New plant and machinery acquired and installed during the P.Y.2014-15 (on 15.4.2014)	120
Aggregate investment in new plant and machinery during the period from 1.4.2013 to 31.3.2015	**230**
Total deduction under section 32AC @15% of aggregate investment of ₹ 230 crore	34.50
Less: Deduction allowed under section 32AC during the A.Y.2014-15	16.50
Deduction under section 32AC for the A.Y.2015-16 *[See Note 2]*	**18.00**

Consequence on sale of new plant and machinery

The new plant and machinery in respect of which deduction has been claimed under section 32AC cannot be sold for a period of 5 years from the date of installation.

If it is sold, the deduction allowed earlier would be deemed as income chargeable to tax under the head "Profits and gains of business or profession" of the previous year in which such new plant and machinery is sold. Therefore, if the new plant and machinery acquired on 31.8.2013 is sold on 1.5.2016 (i.e., before the expiry of 5 years), then, the deduction of ₹ 3 crores (15% of ₹ 20 crores) allowed under section 32AC in the P.Y.2013-14, would be deemed as business income of P.Y.2016-17 (A.Y.2017-18).

This would be in addition to the taxability of gains arising on account of transfer of such plant and machinery.

Notes:

1. A manufacturing company would be entitled to deduction under section 32AC@15% of aggregate investment in new plant and machinery acquired and installed during the period from 1.4.2013 to 31.3.2015, if such investment exceeds ₹ 100 crore.
2. For A.Y. 2015-16, deduction is allowable @15% of total investment made during the period from 1.4.2013 to 31.3.2015, as reduced by the amount of deduction allowed for A.Y. 2014-15.
3. Deduction under section 32AC is in addition to depreciation and additional depreciation allowable under section 32. However, such deduction will not be reduced to arrive at the written down value of the block of assets.

(B) Computation of value of taxable service and service tax liability of Raj Associates

Particulars	₹
Amount received (Net)	18,00,000
Add: Tax deducted at source under section 194J of the Income-tax Act, 1961 @ 10% [₹ 18,00,000 x 10/90]	2,00,000
Gross amount (including service tax)	20,00,000
Value of taxable service = ₹ 20,00,000 x 100/112.36 (rounded off)	**17,79,993**
Service tax liability = ₹ 20,00,000 x 12.36/112.36 (rounded off)	**2,20,007**

(C) Computation of VAT liability, input tax credit availed and net tax payable under invoice method

Particulars	VAT liability (₹) [A]	Input tax credit availed (₹) [B]	Net tax payable (₹) [A]- [B]
Sale by manufacturer (Mr. Javed) to Mr. Kabir at ₹ 5,000	625 (₹ 5,000 @ 12.5%)	Nil	625
Sale by Mr. Kabir to wholesaler (Mr. Hakim) at ₹ 5,500	687.50 (₹ 5,500 @ 12.5%)	625	62.50
Sale by wholesaler (Mr. Hakim) to retailer (Mr. Mohan) at ₹ 6,000	750 (₹ 6,000 @ 12.5%)	687.50	62.50
Sale by retailer (Mr. Mohan) to end user at ₹ 7,000	875 (₹ 7,000 @ 12.5%)	750	125

Question 3

(A) Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2013-14:

			₹
1	*Reimbursement of following medical expenses incurred by Ms. Rakhi*		
	(A)	*On treatment of her self employed daughter in a private clinic*	*4,000*
	(B)	*On treatment of herself by family doctor*	*8,000*
	(C)	*On treatment of her mother-in-law dependent on her, in a nursing home*	*5,000*
2	*Payment of premium on Mediclaim Policy taken on her health*		*7,500*
3	*Medical Allowance*		*2,000 per month*
4	*Medical expenses reimbursed on her son's treatment in a government hospital*		*5,000*
5	*Expenses incurred by company on the treatment of her minor son abroad*		*1,05,000*
6	*Expenses in relation to foreign travel and stay abroad of Rakhi and her son for medical treatment* *(Limit prescribed by RBI for this is ₹ 2,00,000)*		*1,20,000*

Discuss about the taxability of above benefits and allowances in the hands of Rakhi.

(8 Marks)

(B) Explain the provisions regarding adjustment of excess amount of service tax paid in case of renting of immovable property service owing to property tax payment. *(4 Marks)*

(C) State the circumstances under which VAT registration can be cancelled. *(4 Marks)*

Answer

(A) Tax treatment of medical benefits, allowances and mediclaim premium in the hands of Ms. Rakhi

	Particulars
1.	**Reimbursement of medical expenses incurred by Ms. Rakhi**
	(A) The amount of ₹ 4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic qualifies for exclusion from perquisite, subject a maximum of ₹ 15,000 as per clause (v) of the first proviso to section 17(2), since daughter falls within the definition of "family", even though she is not a dependent. As per the definition of family, the condition of dependency is relevant only for parents, brothers

	and sisters of the individual and not for spouse and children. (B) The amount of ₹ 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor qualifies for exclusion from perquisite, subject to a maximum of ₹ 15,000 under clause (v) of the first proviso to section 17(2). (C) The amount of ₹ 5,000 reimbursed by her employer for treatment of her dependant mother-in-law in a nursing home **does not qualify for exclusion** upto ₹ 15,000, since mother-in-law does not fall within the definition of “family”, even though she is dependent on Ms. Rakhi. Therefore, the amount of ₹ 12,000, being the aggregate of sum specified in (A) and (B) above, reimbursed by the employer would be excluded from perquisite [since the same is less than the maximum permissible limit of ₹ 15,000]. However, the sum of ₹ 5,000 specified in (C) above is a taxable perquisite.
2.	Medical insurance premium of ₹ 7,500 paid by the employer for insuring health of Ms. Rakhi is an exempt perquisite as per clause (iii) of the first proviso to section 17(2).
3.	Medical allowance of ₹ 2,000 per month i.e., ₹ 24,000 p.a. is a fully taxable allowance.
4.	As per clause (ii)(a) of the first proviso to section 17(2), reimbursement of medical expenses of ₹ 5,000 on her son’s treatment in a hospital maintained by the Government is an exempt perquisite.
5. & 6.	As per clause (vi) of the first proviso to section 17(2), the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions – (i) Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India **[₹ 1,05,000, in this case];** (ii) Expenditure on travel and stay abroad of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment **[₹ 1,20,000, in this case].** The conditions subject to which the above expenditure would be exempt are as follows - (i) The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India; (ii) The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed ₹ 2 lakh. Assuming that the limit of ₹ 2 lakh prescribed by RBI pertains to both expenditure on medical treatment of minor son as well as expenditure on stay abroad of Ms. Rakhi and her minor son, such expenditure would be excluded from perquisite

	subject to a maximum of ₹ 2 lakh. If such expenditure is less than ₹ 2 lakh, it would be fully excluded. The foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed ₹ 2 lakh.

(B) As per rule 6(4C) of the Service Tax Rules, 1994, in case of renting of immovable property service, the person liable to pay tax may adjust any amount paid by him in excess of the amount required to be paid towards service tax liability for a month/quarter, on account of non-availment of deduction of property tax paid from the gross amount charged for such service for the said period at the time of payment of service tax.

The excess amount paid by the assessee can be adjusted against his service tax liability within 1 year from the date of payment of such property tax.

Details of such adjustment shall be intimated to jurisdictional Superintendent of Central Excise within a period of 15 days from the date of such adjustment.

(C) VAT registration can be cancelled in following cases:

(i) discontinuance of business; or

(ii) disposal of business; or

(iii) transfer of business to a new location; or

(iv) when annual turnover of a manufacturer/trader dealing in designated goods falls below the specified limit.

Question 4

(A) Nisha has two houses, both of which are self-occupied. The particulars of these are given below:

	(Value in ₹)	
Particulars	**House - I**	**House - II**
Municipal Valuation per annum	1,20,000	1,15,000
Fair Rent per annum	1,50,000	1,75,000
Standard rent per annum	1,00,000	1,65,000
Date of completion	31-03-1999	31-03-2001
Municipal taxes payable during the year (paid for House II only)	12%	8%
Interest on money borrowed for repair of property during current year	-	55,000

Compute Nisha's income from house property for the Assessment Year 2014-15 and suggest which house should be opted by Nisha to be assessed as self-occupied so that her tax liability is minimum. *(8 Marks)*

(B) What do you mean by 'Bundled Service'? Explain by giving an example of the same. *(4 Marks)*

(C) How VAT can be said to be non beneficial as compared to single stage last point system? Also explain three other deficiencies of VAT system in India. *(4 Marks)*

Answer

(A) In this case, Nisha has more than one house property for self-occupation. As per section 23(4), Nisha can avail the benefit of self-occupation (i.e., benefit of "Nil" Annual Value) only in respect of one of the house properties, at her option. The other house property would be treated as "deemed let-out" property, in respect of which the annual letting value would be the gross annual value. Nisha should, therefore, consider the most beneficial option while deciding which house property should be treated by her as self-occupied.

OPTION 1 [House I – Self-occupied and House II – Deemed to be let out]

If House I is opted to be self-occupied, Nisha's income from house property for A.Y.2014-15 would be –

Particulars	Amount in ₹
House I (Self-occupied) [Annual value is Nil]	Nil
House II (Deemed to be let-out) ***[See Working Note below]***	54,060
Income from house property	**54,060**

OPTION 2 [House I – Deemed to be let out and House II – Self-occupied]

If House II is opted to be self-occupied, Nisha's income from house property for A.Y.2014-15 would be –

Particulars	Amount in ₹
House I (Deemed to be let-out) ***[See Working Note below]***	70,000
House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for **repair of self-occupied property**, the interest deduction would be restricted to ₹ 30,000, irrespective of the date of borrowal].	(30,000)
Income from house property	**40,000**
Since Option 2 is more beneficial, Nisha should opt to treat House - II as Self-occupied and House I as Deemed to be let out, in which case, her income from house property would be ₹ 40,000 for the A.Y. 2014-15.	

Working Note:

Computation of income from House I and House II assuming that both are deemed to be let out

Particulars	Amount in ₹	
	House I	**House II**
Gross Annual Value (GAV) Annual Letting Value (ALV) is the GAV of house property ALV = Higher of Municipal Value and Fair Rent but restricted to Standard Rent	1,00,000	1,65,000
Less: Municipal taxes (paid by the owner during the previous year)	Nil	9,200
Net Annual Value (NAV)	**1,00,000**	**1,55,800**
***Less:* Deductions under section 24**		
(a) 30% of NAV	30,000	46,740
(b) Interest on borrowed capital (allowed in full in case of deemed let out property)	-	55,000
Income from deemed to be let-out house property	**70,000**	**54,060**

(B) Bundled services

As per Explanation to section 66F(3) of the Finance Act, 1994, Bundled service means a bundle of provision of various services wherein an element of provision of one service is combined with an element or elements of provision of any other service or services.

Few examples of bundled service are:

(a) Service of stay in a hotel combined with service of laundering of certain specified items of clothing per day or providing complimentary breakfast.

(b) Transport of passengers by air combined with catering on board.

(c) Composite service of providing space for advertisement coupled with designing and preparation of the advertisement.

(d) A Boarding school providing service of education coupled with other services like providing dwelling units for residence and food.

(e) A residential dwelling which is used partly as a residence and partly for non-residential purpose like an office of a lawyer or the clinic of a doctor.

(f) Service by way of supply of food or any other article of human consumption or any drink, in a hotel together with renting of its premises.

Note-Any one example may be given in the answer.

(C) Since VAT is a multi-point tax levied at each stage of sale and not at last stage, it increases working capital requirements and interest burden on the same. Thus, to this extent, it can be said to be non-beneficial as compared to single stage-last point taxation system.

Other deficiencies of VAT system in India are as under:

(1) There is lack of uniformity in the rates of VAT in different States. Distortion occurs on account of different rates of VAT, composition schemes, exemptions etc.

(2) Central Sales Tax is not integrated with the State VAT. Therefore, purchases from other States are not at par with purchases within the State. Consequently, the advantage of neutrality gets confined only for purchases within the State.

(3) The increased compliance costs on account of detailed accounting and paper work required under VAT may not always be in commensuration with the benefit to traders and small firms.

(4) VAT, being a consumption tax, tends to be regressive since the proportion of income spent on consumption is large for the poor than the rich.

(5) Since number of dealers has gone up significantly under VAT, administrative cost to the States has also increased.

Question 5

(A) Mr. Roy, aged 55 years, owned a residential house in Ghaziabad. It was acquired by Mr. Roy on 10-10-1986 for ₹ 6,00,000. He sold it for ₹ 53,00,000 on 4-11-2013. The stamp valuation authority of the State fixed value of the property at ₹ 65,00,000. The assessee paid 2% of the sale consideration as brokerage on the sale of the said property.

Mr. Roy acquired a residential house property at Kolkata on 10-12-2013 for ₹ 10,00,000 and deposited ₹ 7,00,000 on 10-4-2014 and ₹ 5,00,000 on 15-6-2014 in the capital gains bonds of Rural Electrification Corporation Ltd. He deposited ₹ 4,00,000 on 6-7-2014 and ₹ 3,00,000 on 1-11-2014 in the capital gain deposit scheme in a Nationalized Bank for construction of an additional floor on the residential house property in Kolkata.

Compute the Capital Gain chargeable to tax for the Assessment Year 2014-15 and income-tax chargeable thereon assuming Mr. Roy has no other income.

Cost Inflation Index for Financial Year 1986-87: 140 and Financial Year 2013-14: 939 (8 Marks)

(B) State with reasons, whether the following statements are True or False.

(1) Mr. Vikas, an individual, has not provided any service in the half year period of April to September. He need not file any return for this period.

(2) Mr. Sumeet has flied his service tax return belatedly. He wants to revise the same. He can file a revised return. (4 Marks)

(C) State with reasons whether the following statements are True or False with regard to input tax credit of VAT:

(1) It is always mandatory to issue a tax invoice under VAT provisions.

(2) VAT usually increases the price as the tax is payable on the first sale price.

(3) VAT rate on sale of lottery tickets is 4%.

(4) It is permitted to issue 'Tax Invoice' inclusive of VAT. *(4 Marks)*

Answer

(A) Computation of Capital Gains chargeable to tax in the hands of Mr. Roy for the A.Y. 2014-15

Particulars	₹	₹
Gross Sale Consideration on transfer of residential house [As per section 50C, in case the actual sale consideration is lower than the stamp duty value fixed by the stamp valuation authority, the stamp duty value shall be deemed as the full value of consideration]		65,00,000
Less: Brokerage@2% of actual sale consideration of ₹ 53,00,000		1,06,000
Net Sale Consideration		63,94,000
Less: Indexed cost of acquisition [₹ 6,00,000 x 939/140]		40,24,286
Long-term capital gain		23,69,714
***Less:* Exemption under section 54**		
- Acquisition of residential house property at Kolkata on 10.12.2013 (i.e., within the prescribed time of two years from 4.11.2013, being the date of transfer of residential house at Ghaziabad).	10,00,000	
- Amount deposited in Capital Gains Accounts Scheme on or before the due date of filing return of income for construction of additional floor on the residential house property at Kolkata. Since Mr. Roy has no other source of income, his due date for filing return of income is 31st July, 2014 [Therefore, ₹ 4,00,000 deposited on 6.7.2014 will be eligible for exemption whereas ₹ 3,00,000 deposited on 1.11.2014 will not be eligible for exemption under section 54]	4,00,000	14,00,000

Exemption under section 54EC Amount deposited in capital gains bonds of RECL within six months from the date of transfer (i.e., on or before 3.5.2014) would qualify for exemption. Therefore, in this case, ₹ 7,00,000 deposited in capital gains bonds of RECL on 10.4.2014 would be eligible for exemption under section 54EC, whereas ₹ 5,00,000 deposited on 15.6.2014 would not qualify for exemption]		7,00,000
Long-term capital gain		**2,69,714**

Computation of tax liability of Mr. Roy for A.Y. 2014-15

Particulars	₹
Tax on ₹ 69,714 (i.e Long term capital gain ₹ 2,69,714 less basic exemption limit of ₹ 2,00,000) is charged @ 20% [Section 112] (Since long-term capital gains is the only source of income, the entire basic exemption limit can be exhausted against this income)	13,943
Less: Rebate under section 87A	2,000
	11,943
Add: Education cess@2% and Secondary & higher education cess @ 1%	358
Total tax Liability	**12,301**
Total tax liability (Rounded off)	**12,300**

Note: *As per the decision of Gauhati High Court in CIT vs Rajesh Kumar Jalan (2006) 286 ITR 274 and Punjab & Haryana High Court in CIT vs Jagriti Aggarwal (2011) 339 ITR 610, exemption under section 54 is allowable even if the amount of capital gain is deposited in Capital Gains Accounts Scheme after the due date specified under section 139(1) but before the period specified for filing a belated return under section 139(4).*

If we apply the above interpretation in this case, Mr. Roy would be eligible for exemption under section 54 in respect of ₹ 3,00,000 deposited in Capital Gains Accounts Scheme on 01.11.2014 also, since the said date falls within the time specified under section 139(4). On the basis of this interpretation, the long term capital gain chargeable to tax in the hands of Mr. Roy would be Nil and the consequent tax liability would also be Nil.

(B) **(1)** **False:** Even if no service has been provided during a half year and no service tax is payable, assessee has to file a Nil return within the prescribed time limit. Thus, although Mr. Vikas has not provided any service in the half year period of April to September, he is required to file a nil return for this period.

(2) **True**: Mr. Sumeet can file a revised return. Revised service tax returns may be filed within 90 days from the date of filing original return. Thus, even if the original return is filed belatedly, same could be revised by filing a revised return.

(C) (1) **True:** For passing on the benefit of input tax credit of VAT, it is mandatory for every registered dealer whose sale turnover exceeds the specified amount to issue a tax inovice inidcating the rate and amount of tax charged.

However, in case of small dealers or if the sale is to end consumer, other invoices are also permitted without the details of tax.

(2) **False:** VAT is not payable on first sale price but is a multi-point tax where tax is levied at each stage of sale and tax paid at earlier stage is allowed as set off. This reduces cascading effect of taxes and ultimately leads to decrease in prices.

(3) **False:** Lottery tickets are not covered under VAT.

(4) **False:** One of the requirements of the tax invoice is that rate and amount of tax charged in respect of taxable goods should be shown distinctly in the 'Tax Invoice', in order to claim input tax credit.

Question 6

(A) Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the previous year 2012-13[4].

		₹
(1)	*Income from Salary*	*15,000*
(2)	*Income from business (before providing depreciation)*	*66,000*
(3)	*Long term capital gain on sale of land*	*10,800*
(4)	*Loss on maintenance of race horses*	*15,000*
(5)	*Loss from gambling*	*9,100*

The other details of unabsorbed depreciation and brought forward losses pertaining to Assessment Year 2013-14 are as follows:

		₹
(1)	*Unabsorbed depreciation*	*11,000*
(2)	*Loss from Speculative business*	*22,000*
(3)	*Short term capital loss*	*9,800*

Compute the Gross total income of Mr. Garg for the Assessment Year 2014-15 and the amount of loss, if any, that can be carried forward or not. (4 Marks)

(B) Ria, Roma and Raj, three new retail investors, have made the following investments in equity shares/units of equity oriented fund of Rajiv Gandhi equity savings scheme for the previous year 2013-14 as below:

[4] To be read as previous year 2013-14

	Ria (₹)	*Roma (₹)*	*Raj (₹)*
Investment in listed equity shares	*50,000*	*23,000*	*-*
Investment in equity oriented funds	*10,000*	*12,000*	*55,000*
Gross total income	*10,80,000*	*11,50,000*	*12,60,000*

Calculate the amount of deduction allowable under section 80CCG in all the three cases for the Assessment Year 2014-15.

What would be the tax treatment in the hands of Raj, if he sells his investments in the Financial Year 2014-15? *(4 Marks)*

(C) Mr. X provides some taxable services to Mr. Y. In the course of providing such services, Mr. X. incurs some expenditure such as travelling, telephone, etc. and includes these amounts in the value of taxable services.

Discuss whether service tax has to be charged on these items of expenditure.

Will your answer be different if Mr. X indicates these items separately in the invoice?

(4 Marks)

(D) "Invoices are crucial documents for administering VAT". Discuss. *(4 Marks)*

Answer

(A) Computation of Gross Total Income of Mr. Garg for the A.Y. 2014-15

Particulars	**₹**	**₹**
(i) Income from salary		15,000
(ii) **Profits and gains of business or profession**	66,000	
Less : Unabsorbed depreciation brought forward from A.Y.2013-14	11,000	55,000
(Unabsorbed depreciation can be set-off against any head of income)		
(iii) **Capital gains**		
Long term capital gain on sale of land	10,800	
Less : Brought forward short term capital loss		
[Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains as per section 74(1)]	9,800	1,000
Gross total income		**71,000**

Amount of loss to be carried forward to A.Y.2015-16

	Particulars	**₹**
(1)	**Loss from speculative business [to be carried forward as per**	22,000

	section 73] [Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of ₹ 22,000 brought forward from A.Y.2013-14 has to be carried forward to A.Y. 2015-16 for set-off against speculative business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4), i.e., upto A.Y.2017-18]	
(2)	**Loss on maintenance of race horses [to be carried forward as per section 74A]** [As per section 74A(3), the loss incurred in the activity of owning and maintaining race horses in any assessment year cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2018-19]	15,000
(3)	**Loss from gambling can neither be set-off nor be carried forward**	

(B) Deduction under section 80CCG is available to:

(i) a new retail investor who complies with the conditions of the Rajiv Gandhi Equity Savings Scheme; and

(ii) whose gross total income for the financial year in which investment is made under the scheme is less than or equal to ₹ 12 lakh.

The question specifies that Ms. Ria, Ms. Roma & Mr. Raj are new retail investors. The gross total income of Ms. Ria and Ms. Roma does not exceed ₹ 12 lakh. Therefore, Ms. Ria and Ms. Roma would be eligible for deduction under section 80CCG. **However, since gross total income of Mr. Raj for the A.Y. 2014-15 exceeds ₹ 12 lakh, he is not eligible for deduction under section 80CCG for that year, even though he is a new retail investor.**

Computation of deduction under section 80CCG for A.Y. 2014-15

Particulars	Ms. Ria	Ms. Roma
Investment in listed equity shares	50,000	23,000
Investment in listed units of equity-oriented fund	10,000	12,000
Total Investment in eligible securities	**60,000**	**35,000**
Maximum amount of investment eligible for deduction under section 80CCG [Actual Investment or ₹ 50,000, whichever is lower]	50,000	35,000
Deduction under section 80CCG for A.Y. 2014-15 (50% of above)	25,000	17,500

Tax treatment on sale of investment by Mr. Raj in the Financial Year 2014-15

In the case of Mr. Raj, since no deduction under section 80CCG was allowed to him in the A.Y.2014-15 on account of his gross total income exceeding ₹ 12 lakh, no amount invested in that year can be subject to tax in A.Y.2015-16 on account of sale of investments before the expiry of time limit of three years from the date of acquisition.

(C) Yes, service tax shall be charged on the expenditure incurred by Mr. X in the course of provision of taxable services.

As per rule 5 of the Service Tax (Determination of Value) Rules, 2006, the expenditure or costs incurred by the service provider in the course of providing taxable service should be treated as consideration for the taxable service provided or to be provided and should be included in the value for the purpose of charging service tax on the said service.

Further, even if such expenditure or costs are separately indicated in the invoice or bill issued by the service provider, same shall be includible in the value of taxable service for discharging service tax liability. Therefore, even if Mr. X indicates these items separately in the invoice, such expenditure shall be included in the value of taxable service.

(D) Invoices are crucial documents for administering VAT as in the absence of invoices, VAT paid by the dealer at earlier stage cannot be claimed as set off.

Invoices should be preserved with full care. In case any original invoice is lost or misplaced, a duplicate authenticated copy must be obtained from the issuing dealer.

A VAT invoice:

(i) helps in determining the input tax credit;

(ii) prevents cascading effect of taxes;

(iii) facilitates multi-point taxation on the value addition;

(iv) promotes assurance of invoices;

(v) assists in performing audit and investigation activities effectively;

(vi) checks evasion of tax.

Question 7

*(A) Answer any **two** of the following three sub divisions.*

(1) What are the provisions relating to tax deduction at source in respect of:

(A) ABC and Co. Ltd. paid ₹ 19,000 to one of its Directors as sitting fees on 01-01-2014.

(B) Mr. X sold his house to Mr. Y on 01-02-2014 for ₹ 60 lacs? (2 x 2 = 4 Marks)

(2) (A) Mr. Vineet submits his return of income on 12-09-2014 for A.Y 2014-15 consisting of income under the head house property and other sources. On 21-01-2015, he realized that he had not claimed deduction under section 80TTA in respect of his

interest income on the savings bank account. He wants to revise his return of income, since one year has not elapsed from the end of the relevant assessment year. Discuss.

(B) Where the Karta of an Hindu undivided family is absent from India, the return of income can be signed by any male member of the family. Give reasoning for the statement to be true or false. *(2 x 2 = 4 Marks)*

(3) Who is liable to pay advance tax? What is the procedure to compute the advance tax payable? *(2 x 2 = 4 Marks)*

(B) Ajit, who entered into a roll over contract, approached ABC Bank Ltd. for selling US $ 46,000 at the rate of ₹ 60 per US dollar. RBI Reference Rate at that time was ₹ 60.50 per US Dollar. However, the rate of exchange declared by CBEC for the day is ₹ 61.50 per US dollar. Calculate the value of taxable service with reference to rule 2B of the Service Tax (Determination of Value) Rules, 2006 and service tax payable thereon.

(4 Marks)

(C) Mr. X furnishes the following particulars for the month of December, 2013. Compute the VAT payable and input tax credit carried forward to next period, if any.

	₹
Inputs purchased during the month (from within state) (inclusive of VAT 12.5%)	*2,25,000*
Raw material purchased intra state (including CST 2%)	*51,000*
Transportation charges	*35,000*
Balance of VAT credit as on 1-12-2013	*6,700*

90% of the stock was sold during the month at the profit of 20% on cost. Assume there was no opening stock of goods. The VAT rate on sale is 4%. *(4 Marks)*

Answer

(A) (1) (A) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of ₹ 30,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director.

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

(B) Section 194-IA, inserted with effect from 1st June 2013, requires every person, being a transferee, responsible for paying any sum as consideration for transfer of any immovable property (other than agricultural land), to deduct tax@1% of such sum, at the time of credit of such sum to the account of the resident transferor or at the time of payment of such sum to a resident transferor, whichever is earlier.

Such tax is required to be deducted at source where the consideration for transfer of immovable property is ₹ 50 lakhs or more.

In this case, since the consideration for transfer of house exceeds ₹ 50 lakhs, Mr.Y is liable to deduct tax at source@1% under section 194-IA on the consideration of ₹ 60 lakhs payable to Mr. X for the said transfer.

(2) (A) Since Mr. Vineet has income only under the heads "Income from house property" and "Income from other sources", he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2014-15 under section 139(1), in his case, is 31st July, 2014. Since Mr. Vineet had submitted his return only on 12.9.2014, the said return is a belated return under section 139(4).

As per section 139(5), only a return furnished under section 139(1) or in pursuance of a notice under section 142(1) can be revised. A belated return under section 139(4) cannot be revised. Therefore, Mr. Vineet cannot revise the return of income filed by him under section 139(4), to claim deduction under section 80TTA, even though the time limit of one year from the end of the relevant assessment year has not elapsed.

(B) **The statement is false.**

As per section 140(b), where the karta of a HUF is absent from India, any other **adult** member of the HUF, can sign the return of income.

Thus, a male member who is not an adult cannot sign the return of income. An adult member, whether male or female, can sign the return of income.

(3) **Persons liable to pay advance tax**

As per section 207(1), tax shall be payable in advance during any financial year in accordance with the provisions of sections 208 to 219, in respect of an assessee's current income i.e., the total income of the assessee which would be chargeable to tax for the assessment year immediately following that financial year.

In order to reduce the compliance burden on senior citizens having passive sources of income like interest, rent etc., section 207(2) provides exemption from payment of advance tax to a resident individual-

(1) not having any income chargeable under the head "Profits and gains of business or profession"; and

(2) of the age of 60 years or more at any time during the previous year.

As per section 208, the obligation to pay advance tax during a financial year arises in every case where such tax payable by the assessee during that year is ₹10,000 or more.

Procedure for computing advance tax payable [Section 209]

(1) An assessee has to first estimate his current income (under five heads of income after applying the provisions of aggregation of income and set-off or carry forward of losses and allowing deductions under Chapter VI-A).

(2) The assessee shall then compute the income-tax payable on his current income at the rates in force in the financial year.

(3) The tax so calculated shall be reduced by the amount of tax which has been actually deducted at source.

(4) Net agricultural income is also to be considered for the purpose of computing advance tax in case of specified classes of assessees.

The specified percentage of advance tax shall be paid by the assessee on his accord on or before the due date of each installment. A person who pays any installment or installments may, increase or reduce the amount of advance tax payable in subsequent installment(s) in accordance with his estimate of current income and the advance tax payable thereon [Sections 210(1) and (2)].

(B) As per rule 2B of the Service Tax (Determination of Value) Rules, 2006, when a currency is exchanged to Indian Rupees, the value of taxable service is equal to the difference in the selling rate and the Reserve Bank of India (RBI) reference rate for that currency at that time, multiplied by the total units of currency.

Hence, value of taxable service = (RBI reference rate for \$ – Selling rate for \$) × Total units

Value of taxable service is ₹ (60.50 - 60) × 46,000 = ₹ 23,000

Service tax payable = ₹ 23,000 × 12.36% = ₹ 2,842.80 = **₹ 2,843 (rounded off)**

(C) Computation of VAT payable and input tax credit to be carried forward to next period

Particulars	**₹**
Inputs purchased within the State (excluding VAT) = ₹ $2,25,000 \times \frac{100}{112.5}$ [Since VAT paid within the State is eligible for input tax credit, it will not form part of cost of inputs]	2,00,000

Raw material purchased (including CST) [Since CST is not eligible for input tax credit, it will form part of cost of inputs]	51,000
Transportation charges	35,000
Cost of production	2,86,000
Cost of goods sold $= ₹\ 2,86,000 \times \frac{90}{100}$ (Since there was no opening stock of goods, 90% of the goods produced during the year only must have been sold)	2,57,400
Profit @ 20% on cost $= ₹\ 2,57,400 \times \frac{20}{100}$	51,480
Total Sales	3,08,880
Computation of total input tax credit available	
Opening balance of input tax credit as on 01.12.2013	6,700
Add: VAT paid on purchase of inputs within the State	25,000
Total Input tax credit available	31,700
Computation of VAT payable and input tax credit to be carried forward	
Output VAT payable (rounded off) $= ₹\ 3,08,880 \times \frac{4}{100}$	12,355
Less: Input tax credit	31,700
Net VAT liability	Nil
Input tax credit to be carried forward to next period (rounded off)	19,345

Note: The words "intra state" given in the question may be read as "inter-state".