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SUBJECT- IDT

Test Code –FNJ 7186

BRANCH - () (Date :)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.

Tel : (022) 26836666

Answer 1:**(1 mark x 30 = 30 marks)**

1. (c)
2. (d)
3. (a)
4. (c)
5. (a)
6. (b)
7. (a)
8. (a)
9. (c)
10. (a)
11. (d)
12. (c)
13. (c)
14. (d)
15. (d)
16. (b)
17. (a)
18. (d)
19. (d)
20. (d)
21. (a)
22. (b)
23. (a)
24. (c)
25. (c)
26. (c)
27. (b)
28. (b)
29. (b)
30. (c)

Answer 2:**(A) Computation of Input tax credit available with PQR Ltd. (amount in Rs.) :**

1. Goods used in construction of an additional floor of office building	[WN – 1]	Nil
2. Packing Materials used in a factory (Sine used in course of business hence, ITC shall be available)		6,000
3. Goods destroyed due to natural calamities	[WN – 2]	NIL
4. Goods used for repairing the office building and cost of such repairs is debited to P & L account	[WN – 3]	12,000
5. Paper for photocopying machine used in Administrative office (Since used in course of business hence, ITC shall be available)		950
6. Goods given as Gifts	[WN – 2]	Nil
7. Inputs used for tests or quality control check (Since used in course of business hence, ITC shall be available)		15,600
Total ITC available		34,550

Working Notes :

- (1) As per Section 17(5)(d), input tax credit shall not be available in respect of goods or services or both received by a taxable person for construction of an immovable property (other than plant or machinery) on his own account including when such goods or services or both are used in the course or furtherance of business. Hence, input tax credit shall not be available in respect of goods used in construction of an additional floor of office building.
- (2) Section 17(5)(h), input tax credit shall not be available in respect of goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples. Hence, no ITC shall be available in respect of goods destroyed due to natural calamities.
- (3) As per the explanation, the expression "Construction" includes re – construction, renovation, additions or alterations or repairs, to the extent of capitalization, to the immovable property. Goods used for revenue repairs are considered as an eligible input and credit shall be allowed on the same. **(5 Marks)**

(B)

In the given situation, three supplies are involved:

- (i) Services provided by Musicera Pvt. Ltd. to audiences by way of admission to music concert.
 - (ii) Services provided by Supriya (P) Ltd. to Musicera Pvt. Ltd. by way of organising the music concert.
 - (iii) Services provided by Hotel Dumdum to Supriya (P) Ltd. by way of accommodation in the Hotel lawns for organising the music concert.
 - (iv) The CGST and SGST or IGST liability in respect of each of the above supplies is determined as under:
- (i) As per the provisions of section 12(6) of the IGST Act, 2017, the place of supply of services provided by way of admission to, *inter alia*, a cultural event shall be the place where the event is actually held.

Therefore, the place of supply of services supplied by Musicera Pvt. Ltd. to audiences by way of admission to the music concert is the location of the Hotel Dumdum, i.e. Gurugram, Haryana.

Since the location of the supplier (Ludhiana, Punjab) and the place of supply (Gurugram, Haryana) are in different States, IGST will be leviable. Therefore, IGST leviable will be computed as follows:

Consideration for supply (400 tickets @ Rs. 5,000 per ticket) = Rs.
20,00,000
IGST @ 18% on value of supply = Rs. 20,00,000 x 18% = Rs.
3,60,000.

- (ii) Section 12(7)(a)(i) of IGST Act, 2017 stipulates that the place of supply of services provided by way of organization of, *inter alia*, a cultural event to a registered person is the location of such person.

Therefore, the place of supply of services supplied by Supriya (P) Ltd. to Musicera Pvt. Ltd. (Ludhiana, Punjab) by way of organising the music concert is the location of the recipient, i.e. Ludhiana (Punjab).

Since the location of the supplier (Delhi) and the place of supply (Ludhiana, Punjab) are in different States, IGST will be leviable. Therefore, IGST leviable will be computed as follows:

Consideration for supply = Rs. 10,00,000

IGST @ 18% on value of supply = Rs. 10,00,000 x 18% = Rs. 1,80,000

(iii) As per the provisions of section 12(3)(c) of the IGST Act, 2017, the place of supply of services, by way of accommodation in any immovable property for organizing, *inter alia*, any cultural function shall be the location at which the immovable property is located.

Therefore, the place of supply of services supplied by Hotel Dumdum (Gurugram, Haryana) to Supriya (P) Ltd. by way of accommodation in Hotel lawns for organising the music concert shall be the location of the Hotel Dumdum, i.e. Gurugram, Haryana.

Since the location of the supplier (Gurugram, Haryana) and the place of supply (Gurugram, Haryana) are in the same State, CGST and SGST will be leviable. Therefore, CGST and SGST leviable will be computed as follows:

Consideration for supply = Rs. 4,00,000

CGST @ 9% on value of supply = Rs. 4,00,000 x 9% = Rs. 36,000

SGST @ 9% on value of supply = Rs. 4,00,000 x 9% = Rs. 36,000

If the price for the entry ticket is fixed at Rs. 450, answer will change in respect of supply of service provided by way of admission to music concert, as mentioned in point (i) above. There will be no IGST liability if the consideration for the ticket is Rs. 450 as the inter-State services by way of right to admission to, *inter alia*, musical performance are exempt from IGST vide *Notification No. 9/2017 IT (R) dated 28.06.2017*, if the consideration for right to admission to the event is not more than Rs. 500 per person. However, there will be no change in the answer in respect of supplies mentioned in point (ii) and (iii) above. **(5 marks)**

Answer 3:

(A)

The goods to be moved to another State for replacement under warranty is not a 'supply'. However, rule 138(1) of the CGST Act, 2017, *inter alia*, stipulates that every registered person who causes movement of goods of consignment value exceeding Rs. 50,000:

- (i) in relation to a supply; or
- (ii) for reasons other than supply; or
- (iii) due to inward supply from an unregistered person,

shall, generate an electronic way bill (E-way Bill) before commencement of such movement.

CBIC vide Q 9. of FAQs on E-way Bill has also clarified that even if the movement of goods is caused due to reasons others than supply [**including replacement of goods under warranty**], **e-way bill is required to be issued.**

Thus, in the given case, since the consignment value exceeds Rs. 50,000, e-way bill is required to be mandatorily generated. Therefore, the claim of Power Electric Ltd. that e-way bill is not mandatorily required to be generated as the movement of goods is caused due to reasons other than supply, is not correct. **(4 marks)**

(B)

As per Section 25(4) of the CGST Act, 2017, a person who has obtained more than one registration, whether in one State or Union territory or more than one State or Union territory shall, in respect of each such registration, be treated as distinct person for the purposes of this Act.

As per provisions of Section 7 read with Para 2 of Schedule I, transfer of goods between two registered units of the same person (having the same PAN) will be treated as supply even if the transfer is made without consideration, as such persons will be treated as 'distinct persons' under the GST law.

The value of the supply would be the open market value of such supply. If this value cannot be determined, the value shall be the value of supply of goods of like kind and quality.

In this case, although goods of like kind and quality are available, the same may not be accepted as the 'like goods' since they are supplied by another manufacturer located in Rajasthan whose transportation cost are lower and thus less expensive in comparison to goods under consideration which were supplied from Karnataka.

Therefore, the value of the supply would be taken at 110% of the cost, i.e., Rs. 16,50,000 (i.e. 110% × 15,00,000). **(5 marks)**

(C) **Computation of assessable value and the total customs duty payable –**

CIF value		US \$	2,000
Less : Air freight		US \$	500
Insurance		US \$	100
FOB value		US \$	1,400
Add : Air Freight restricted @ 20% of FOB value		US \$	280
Insurance (actual amount)		US \$	100
CIF Value		US \$	1,780
CIF Value in Indian Rs. (CIF Value in US \$ × Rs. 66 per US \$/ Assessable Value	[A]	Rs.	1,17,480.00
Add : Basic Customs duty @ 10% of [A]	[B]	Rs.	11,748.00
Add : Social Welfare Surcharge @ 10% of [B]	[C]		1,174.80
Total for Integrated tax u/s 3(7) CTA, 1975	[D]	Rs.	1,30,402.80
Add : Integrated tax (@ 12% of Rs. 1,30,402.80 i.e. [D])	[E]	Rs.	15,648.34
Total cost of imported goods		Rs.	1,46,051.14
Total Customs duty [B + C+ E] (rounded off)		Rs.	28,571

Working Notes :

- (1) Rate of exchange notified by CBIC on the date of presentation of bill of entry has been considered.
- (2) Rate of duty as applicable on the arrival of aircraft which is latter than the date of submission of the bill of entry has been considered.
- (3) Since Air freight exceeds 20% of FOB value of goods, it shall be restricted to 20% of FOB value of goods. **(5 Marks)**

- (D) As per Section 129 E of the Customs Act, 1962, **7.5% of the penalty has to be paid as pre – deposit where only such penalty is in dispute for filing an appeal with the Commissioner (Appeals).**

Further, Circular No. 984/08/2014 – CX, dated 16- 09 – 2014 issued by CBIC has clarified that where penalty alone is in dispute and penalties have been imposed under different provisions of the Act, pre – deposit would be calculated based on the aggregate of all penalties imposed in the order sought to be appealed against.

Thus, in the given case, quantum of pre – deposit will be 7.5% of Rs. 11,00,000 [Rs. 10,00,000 under section 114 A of the Customs Act, 1962 plus Rs. 1,00,000 under section 117 of the Customs Act, 1962] which is Rs. 82,500. **(3 marks)**

- (E) **Power of Settlement Commission to order provisional attachment to protect revenue [Section 127 D]:**

(1) **Provisional attachment – To protect interest of Revenue :** Where, during the Pendency of any processing before It, the Settlement Commission is of the opinion that for the purpose of protecting the interests of revenue it is necessary so to do, it may, by order, attach provisionally any property belonging to the applicant in the manner as may be prescribed.

(2) **Cessation of attachment Order :** Every provisional attachment made by the Settlement Commission shall cease to have effect from the date, the sums due to the Central Government for which such attachment is made are discharged by the applicant and evidence to that effect is submitted to the Settlement Commission.

(3 Marks)

Answer 4:

(A)

Computation of maximum amount of refund admissible to Kailash Global (P) Ltd.

Particulars	(Rs.)
Exports of product 'A' to UK [Note 1]	Nil
Domestic supplies of taxable product 'B' during the period [Note 2]	75,000
Supply of goods to Export Oriented Unit [Note 3]	Nil
Export of exempt supplies [Note 4]	<u>1,14,000</u>
Total refund claim admissible	1,89,000

(2 marks)

Notes:

- Export of goods is a zero rated supply in terms of section 16(1)(a) of the IGST Act, 2017. Further, Kailash Global (P) Ltd. exports goods without payment of tax under letter of undertaking in accordance with the provisions of section 16(3)(a) of the IGST Act, 2017. Therefore, as per clause (i) of first proviso to section 54(3) of the CGST Act, 2017, a registered person may claim refund, of any unutilised ITC in the case of zero rated supply at the end of any tax period. However, second proviso to section 54(3) lays down that refund of unutilized ITC is not allowed if the goods exported out of India are subjected to export duty.
- Refund of unutilised ITC is allowed in case of inverted duty structure, i.e. where the credit has accumulated on account of rate of tax on inputs being higher than

the rate of tax on output supplies (other than nil rated or fully exempt supplies) except supplies of goods or services or both as may be notified by the Government on the recommendations of the GST Council [Clause (ii) of the first proviso to section 54(3) of the CGST Act, 2017].

Rule 89(5) of the CGST Rules, 2017 stipulates that in the case of refund on account of inverted duty structure, refund of ITC is granted as per the following formula –

$$\text{Maximum Refund Amount} = \frac{\text{Turnover of inverted rated supply of goods and services} \times \text{Net ITC}}{\text{Adjusted Total Turnover}} - \text{Tax payable on such inverted rated supply of goods and services}$$

where-

“Net ITC” means ITC availed on inputs during the relevant period other than the ITC availed for which refund is claimed under sub-rules (4A) or (4B) or both.

“Adjusted total turnover” means the sum total of the value of:

- (a) the turnover in a State/ Union territory, as defined under section 2(112), excluding turnover of services; &
- (b) the turnover of zero-rated supply of services determined in terms of specified manner and non-zero-rated supply of services,

excluding:

- (i) the value of exempt supplies other than zero-rated supplies; and
- (ii) the turnover of supplies in respect of which refund is claimed under sub-rule (4A) or sub-rule (4B) or both, if any,

during the relevant period.

Tax payable on inverted rated supply of goods = Rs. 10,00,000 × 5% = Rs. 50,000

Here, Net ITC = Rs. 3,50,000, Adjusted Total Turnover = Rs. 28,00,000 [Rs.

7,00,000 +

Rs. 10,00,000 + Rs. 5,00,000 + Rs. 6,00,000] and Turnover of inverted rated supply of

goods = Rs. 10,00,000

Thus, maximum refund amount under rule 89(5) = (Rs. 10,00,000 × Rs. 3,50,000) / Rs. 28,00,000 - Rs. 50,000 = Rs. 75,000

3. As per section 2(39) of the CGST Act, 2017, deemed exports means such supplies of goods as may be notified under section 147 of the CGST Act, 2017. Supplies to EOU is notified as deemed export under section 147 vide *Notification No. 48/2017 CT dated 18.10.2017*. In respect of supplies regarded as deemed exports, the application of refund can be filed by the supplier of deemed export supplies only in cases where the recipient does not avail of ITC on such supplies and furnishes an undertaking to the effect that the supplier may claim the refund [Third proviso to rule 89(1) of the CGST Rules, 2017]. Therefore, since in the given case, the recipient is claiming ITC, Kailash Global (P) Ltd. (supplier of deemed exports) cannot claim refund of ITC.

4. Section 16(2) of the IGST Act, 2017 stipulates that subject to the provisions of section 17(5) of the CGST Act, ITC may be availed for making zero-rated supplies, notwithstanding that such supply may be an exempt supply. Section 54(3) of the CGST Act, 2017 allows refund of ITC in the case of zero rated supply made without payment of tax.

Rule 89(4) of the CGST Rules, 2017 stipulates that in the case of zero-rated supply of goods or services or both without payment of tax under bond/LUT in accordance with the provisions of section 16(3) of the IGST Act, 2017, refund of ITC shall be granted as per the following formula:

$$\text{Refund Amount} = \frac{\text{(Turnover of zero-rated supply of goods + Turnover of zero-rated supply of services)}}{\text{Adjusted Total Turnover}} \times \text{Net ITC}$$

where-

“Net ITC” means ITC availed on inputs and input services during the relevant period other than the ITC availed for which refund is claimed under sub-rules (4A) or (4B) or both.

“Turnover of zero-rated supply of goods” means the value of zero-rated supply of goods made during the relevant period without payment of tax under bond/LUT, other than the turnover of supplies in respect of which refund is claimed under sub- rules (4A) or (4B) or both.

“Adjusted total turnover” means the same as explained in point 2 above.

Here, Turnover of zero rated supply of goods = Rs. 6,00,000, Net ITC = Rs. 5,32,000 (ITC on outdoor catering disallowed under section 17(5) of CGST Act, 2017) and Adjusted Total Turnover = Rs. 28,00,000 (as computed in point 2 above)

Thus, maximum refund amount under rule 89(4) = Rs. 6,00,000 × Rs. 5,32,000 / Rs. 28,00,000 = Rs. 1,14,000. **(4 marks)**

(B)

As per section 73 of the CGST Act, 2017, a show cause notice can be issued by the proper officer if it appears to him that:

- tax has not been paid; or
- tax has been short paid; or
- tax has been erroneously refunded; or
- input tax credit has been wrongly availed or utilized,
- for any reason other than the reason of fraud or any wilful misstatement or suppression of facts to evade tax.

The notice should be issued **at least 3 months prior to the time limit specified for passing the order** determining the amount of tax, interest and any penalty payable by defaulter [Sub-section (2) of section 73].

The order referred herein has to be **passed within three years from the due date for**

furnishing the annual return for the financial year to which the tax not paid or short paid or input tax credit wrongly availed or utilised relates to or within three years from the date of erroneous refund [Sub-section (10) of section 73].

Thus, **the time-limit for issuance of show cause notice is 2 years and 9 months from the due date of filing annual return for the financial year to which the demand pertains or from the date of erroneous refund.** As per section 44(1) of the CGST Act, 2017, the due date of filing annual return for a financial year is 31st day of December following the end of such financial year. **(5 marks)**

(C) The admissibility or otherwise of duty drawback in the aforesaid cases is discussed hereunder –

- (1) **Drawback Admissible Rs. 50,000** : The amount of drawback i.e. 40% of 2,00,000 i.e. Rs. 80,000 shall be restricted to 1/3rd of the Market price of the goods i.e. 1/3rd of 1,50,000 i.e. Rs. 50,000. Hence, the amount of drawback admissible shall be Rs. 50,000.
- (2) **Drawback Inadmissible** : In this case the market price of the goods Rs. 55,000 is less than the amount of drawback i.e. 2,000 kgs. × Rs. 30 i.e. Rs. 60,000. Hence, no drawback shall be allowed.
- (3) **Drawback Inadmissible** : No drawback shall be allowed in this case, as the export value i.e. F.O.B. value of the goods is less than the value of imported materials used therein.
- (4) **Drawback Admissible Rs. 16,800** : Minimum value – addition of 40% of imported material i.e. 40% of Rs. 3 lakhs amounts to Rs. 1,20,000. Since FOB value of the goods is Rs. 4,20,000 i.e. the criteria of minimum value – addition has been achieved, so, drawback allowable = 4% of Rs. 4,20,000 = Rs. 16,800. **(5 marks)**

(D) **Determination of taxable value of supply (amount in Rs.) –**

Fees charged for yoga camp conducted by a charitable trust	[WN – 1]	Nil
Amount charged by business correspondent for the services provided to the rural branch of a bank with respect to Savings Bank Accounts	[WN – 2]	Nil
Amount charged by cord blood bank for preservation of stem cells	[WN – 3]	Nil
Amount charged for service provided by commentator to a recognized sports body	[WN – 4]	4,25,000
Value of taxable supply		4,25,000

Working Notes :

- (1) Services by an entity registered under section 12AA of the Income – tax Act, 1961 by way of charitable activities are exempt from GST. The activities relating to advancement of yoga are included in the definition of charitable activities. So, such activities are exempt from GST.
- (2) Services by business facilitator or a business correspondent to a banking company with respect to accounts in its rural area branch have been exempted from GST.
- (3) Services provided by cord blood banks by way of preservation of stem cells or any other service in relation to such preservation are exempt from GST.
- (4) Services provided to a recognized sports body only by an individual as a player, referee, umpire, coach or team manager for participation in a sporting event organized by a

recognized sports body are exempt from GST. Thus, services provided by commentators are liable to GST.

Answer 5:

(A)

As per section 10(3) of the CGST Act, 2017 read with *Notification No. 8/2017 CT dated 27.06.2017* as amended, the option availed of by a registered person to pay tax under composition scheme shall lapse with effect from the day on which his aggregate turnover during a financial year exceeds Rs. 1 crore [Rs. 75 lakh in case of Special Category States except Uttarakhand and Jammu and Kashmir].

As per section 2(6) of the CGST Act, 2017, aggregate turnover means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis), exempt supplies, exports of goods or services or both and inter-State supplies of persons having the same PAN, to be computed on all India basis but excludes CGST, SGST/UTGST, IGST and GST Compensation Cess.

In the given case, the firm is registered under the composition scheme in the State of Maharashtra. The aggregate turnover of the firm exceeds Rs. 1 crore on 03.10.20XX [aggregate of both taxable and exempt turnover from 01.04.20XX to 03.10.20XX, i.e. Rs. 1,00,05,000 (Rs. 97,65,000 + Rs. 1,03,000 + Rs. 33,250 + Rs. 58,750 + Rs. 45,000)]

The inward supplies of goods transportation services in respect of which the firm has to pay tax under reverse charge have not been included in the aggregate turnover in terms of section 2(6) of the CGST Act, 2017. The tax is payable under reverse charge on such services as the applicable rate of tax on such services is given as 5% and not 12%, in which case the GTA would have been liable to pay tax under forward charge [*Notification No. 13/2017 CT (R) dated 28.06.2017 as amended*].

Thus, the firm will have to pay tax under regular scheme (Section 9 of the CGST Act, 2017) from 03.10.20XX.

Output tax liability of B & D Company under composition scheme

During the period when the firm pays tax under composition scheme, i.e. from 01.04.20XX to 02.10.20XX, tax will be payable on quarterly basis and no ITC will be available [Section 10(4) read with sub-sections (2) and (7) of section 39 of the CGST Act, 2017]. Further, since the firm is trading in goods, tax will be payable @ ½% [Effective rate - 1% (½% CGST + ½% SGST)] of the turnover of **taxable** supplies of goods (i.e. 'P') in the State [Section 10(1) read with rule 7 of CGST Rules, 2017].

The tax liability for the quarters ended June, 20XX, September, 20XX and December, 20XX under composition scheme will be computed as under-

Particulars	Quarter ended 30.06.20XX (Rs.)	Quarter ended 30.09.20XX (Rs.)	Quarter ended 31.12.20XX (Rs.)
Turnover of 'P' (Taxable supplies)	40,00,000	30,00,000	1,75,000 [1,00,000 + 31,250 + 43,750]
CGST @ 0.5% [A1]	20,000	15,000	875
SGST @ 0.5% [B1]	20,000	15,000	875

Inward supply on which tax is payable under reverse charge [Service of goods transportation availed from a GTA @ 5%]	60,000 [(1,40,000/7) x 3]	60,000 [(1,40,000/7) x 3]	Nil [Paid on 10 th day for goods transported between 11 th to 20 th day of the month, so the same will be assessed under regular scheme]
CGST @ 2.5% [A2]	1,500	1,500	-
SGST @ 2.5% [B2]	1,500	1,500	-
Total CGST [A1 + A2]	21,500	16,500	875
Total SGST [B1 + B2]	21,500	16,500	875
Total CGST liability for the period from 01.04.20XX to 02.10.20XX	38,875 [21,500 + 16,500 + 875]		
Total SGST liability for the period from 01.04.20XX to 02.10.20XX	38,875 [21,500 + 16,500 + 875]		

(8 marks)

(B) Computation of Customs duty payable by Mrs. A (amount in Rs.) :

1. Personal effects like clothes of Mrs. A	Exempt
2. Used Personal effects of Infant	Exempt
3. Laptop	Exempt
4. Travel souvenirs	Exempt
5. Wine (upto 2 liters can be accommodated in GFA)	5,000
6. Mobile	20,000
7. Digital camera	60,000
8. Cigars (upto 25 nos. Can be accommodated in GFA)	1,340
Total dutiable goods imported (that can be accommodated in GFA)	86,340
Less : General Free Allowance under Rule 3	50,000
Balance goods on which duty is payable	36,340
Customs duty @ 38.5% (inclusive of SWS)	13,991

(5 Marks)

(C) Generation and maintenance of electronic records [Rule 57] :

- (1) **Back up of e – records:** Proper electronic back – up of records shall be maintained and preserved in such manner that, in the event of destruction of such records due to accidents or natural causes, the information can be restored within a reasonable period of time.
- (2) **Production of hard copy or soft copy on demand:** The registered person maintaining electronic records shall produce, on demand, the relevant records or documents, duly authenticated by him, in hard copy or in any electronically readable format.
- (3) **Audit trail etc. to be produced:** Where the accounts and records are stored electronically by any registered person, he shall, on demand, provide the details of such files, passwords of such files and explanation for codes used, where necessary, for access and any other information which is required for such access along with a sample copy in print form of the information stored in such files.

(D) **Presumption of culpable mental state [Section 138 A]** : The relevant provisions are as under –

- (1) **“Culpable mental state”** includes intention, motive knowledge of a fact, and belief in, or reason to believe, a fact.
- (2) **Presumption of criminal or guilty mind unless otherwise proved** : In any prosecution for an offence under this Act which requires a culpable mental state on the part of the accused, the Court shall presume the existence of such mental state but it shall be a defence for the accused to prove the fact that he had no such mental state with respect to the act charged as an offence in that prosecution.

A fact is said to be proved only when the Court believes it to exist beyond reasonable doubt and not merely when its existence is established by a preponderance of probability.

- (3) **Mens Rea** : Presence of guilty mind (mens rea) is an essential ingredient of any criminal offence, unless statute clearly excludes “Mens rea” in the commission of an offence. “Mens rea” is not essential for imposing penalty in departmental adjudication unless specified in the Act.

(4 Marks)

Answer 6:

(A)

S. No.	Particulars	ITC (Rs.)
(i)	Computation of amount of ITC credited to Electronic Credit Ledger, for the month of October, 20XX	
(a)	Machinery ‘U’ - ‘A’ [Note 1]	36,000
(b)	Machinery ‘V’ [Note 2]	18,000
(c)	Machinery ‘W’ [Note 3]	-
(d)	Machinery ‘X’ - [Note 4]	36,000
(e)	Machinery ‘Y’ [Note 5]	-
(f)	Machinery ‘Z’ [Note 6]	-
(g)	Raw Material used for manufacturing ‘Alpha’ [Note 7]	27,000
(h)	Raw Material used for manufacturing ‘Beta’ [Note 7]	-
(i)	Raw Material used for manufacturing ‘Gama’ [Note 7]	<u>18,000</u>
	ITC credited to Electronic Credit Ledger, for the month of October, 20XX	1,35,000
(ii)	Computation of common credit for the month of October, 20XX	
(a)	Value of ‘A’ for Machinery ‘U’ purchased on 01.10.20XX	36,000
(b)	Value of ‘A’ for Machinery ‘X’ purchased 3 years before 01.10.20XX and used for effecting both taxable and exempt supplies from 01.10.20XX	36,000
(c)	Value of ‘A’ for Machinery ‘Y’ purchased 4 years before 01.10.20XX and used for effecting both taxable and exempt supplies from 01.10.20XX [Note 8]	14,400
	Total common credit for the month of October, 20XX – Tc [Note 9]	86,400

(iii)	Computation of common credit attributable to exempt supplies, for the month of October, 20XX	
(a)	ITC attributable to a month on common capital goods during their useful life – T _m [Note 10]	1,440
(b)	ITC at the beginning of October, 20XX on all common capital goods whose useful life remains during the tax period - T _r [Note 11]	2,340
(c)	Common credit attributable to exempt supplies, for the month of October 20XX – T_e = T _r x Turnover of exempt supplies during October 20XX / Total turnover of XYZ Pvt. Ltd. during October 20XX = 2,340 x $\frac{10,00,000}{25,00,000}$	936
(iv)	Computation of GST liability of the company for October 20XX payable through Electronic Cash Ledger	
	IGST payable on 'Alpha' [Rs. 9,00,000 x 18%]	1,62,000
	IGST payable on 'Beta' [Exempt]	Nil
	IGST payable on 'Gama' [Rs. 6,00,000 x 18%]	<u>1,08,000</u>
	Total IGST payable on outward supply	2,70,000
	Common credit attributable to exempt supplies for the month of October, 20XX [Note 12]	<u>936</u>
	Total output tax liability of October, 20XX	2,70,936
	Less: ITC available in the Electronic Credit Ledger	<u>1,35,000</u>
	IGST payable from Electronic Cash Ledger	1,35,936

Notes:

- (1) ITC in respect of capital goods used commonly for effecting taxable supplies and exempt supplies denoted as 'A' shall be credited to the electronic credit ledger [Rule 43(1)(c) of the CGST Rules, 2017].
- (2) ITC in respect of capital goods used or intended to be used exclusively for effecting supplies other than exempted supplies but including zero rated supplies shall be credited to the electronic credit ledger [Rule 43(1)(b) of the CGST Rules, 2017].
- (3) ITC in respect of capital goods used or intended to be used exclusively for effecting exempt supplies shall not be credited to electronic credit ledger [Rule 43(1)(a) of the CGST Rules, 2017].
- (4) Where any capital goods earlier used exclusively for effecting exempt supplies is subsequently **also** used for effecting taxable supplies, the value of 'A' shall be arrived at by reducing the ITC at the rate of 5% for every quarter or part thereof and the amount 'A' shall be credited to the electronic credit ledger [Proviso to rule 43(1)(c) of the CGST Rules, 2017].
Thus, 'A' shall be computed as under-
= Rs. 90,000 – Rs. 54,000 (Rs. 90,000 × 5% × 12 quarters)
- (5) Machinery 'Y' is being used for effecting both taxable and exempt supplies from

01.10.20XX. Prior to that it was exclusively used for effecting taxable supplies. Therefore, ITC in respect of such machinery would have already been credited to the electronic credit ledger.

- (6) Machinery 'Z' is being used for effecting both taxable and exempt supplies from October 1, two years prior to 01.10.20XX. Therefore, ITC in respect of such machinery would have already been credited to the electronic credit ledger.
- (7) ITC in respect of inputs used for effecting taxable supplies will be credited in Electronic Credit Ledger. ITC in respect of inputs used for effecting exempt supplies will not be credited in the electronic credit ledger [Rule 42 of CGST Rules, 2017].
- (8) Where any capital goods earlier used exclusively for effecting taxable supplies is subsequently **also** used for effecting exempt supplies, the value of 'A' arrived at by reducing the input tax at the rate of 5% for every quarter or part thereof shall be added to the common credit (aggregate value 'Tc' – Refer Note 9 below) [Proviso to rule 43(1)(d) of the CGST Rules, 2017].

Thus, 'A' shall be computed as under-

$$\begin{aligned} &= \text{Rs. } 72,000 - \text{Rs. } 57,600 \text{ (Rs. } 72,000 \times 5\% \times 16 \text{ quarters)} \\ &= \text{Rs. } 14,400 \end{aligned}$$

- (9) The aggregate of the amounts of 'A' credited to the electronic credit ledger, to be denoted as 'Tc', shall be the common credit in respect of capital goods for a tax period [Rule 43(1)(d) of the CGST Rules, 2017].

- * (10) ITC attributable to a month on common capital goods during their useful life (Tm) shall be computed in accordance with rule 43(1)(e) of CGST Rules, 2017 as under:

$$\begin{aligned} &= T_c \div 60 \\ &= \text{Rs. } 86,400 \div 60 \\ &= \text{Rs. } 1,440 \end{aligned}$$

- (11) Useful life of capital goods used commonly for effecting taxable supplies and exempt supplies shall be taken as five years from the date of the invoice for such goods [Rule 43(1)(c) of the CGST Rules, 2017]. Machinery 'Z' is used commonly for effecting taxable and exempt supplies from October 1, two years before 01.10.20XX. Hence, its useful life remains in the month of October 20XX and therefore, Tr will be aggregate of Tm (ITC pertaining to a month) for Machinery 'Z' and Tm for other machineries computed under point 3.(a).

Tm for machinery 'Z' will be computed as under:

$$\text{Rs. } 54,000 \div 60 = \text{Rs. } 900$$

$$T_r = T_m \text{ for machinery 'Z' } + T_m \text{ for other machineries}$$

$$T_r = \text{Rs. } 900 + \text{Rs. } 1,440 = \text{Rs. } 2,340$$

- (12) Common credit attributable to the exempt supplies (Te) along with the applicable interest (which is to be ignored in this case) shall, during every tax period of the useful life of the concerned capital goods, be added to the output tax liability of the person making such claim of credit [Rule 43(2)(h) of the CGST Rules, 2017].

**Note: In the above solution, common credit of capital goods whose remaining useful life is less than 5 years has also been divided by 60 to compute the Tm on the basis of strict*

interpretation of rule 43(1)(e). Owing to such an interpretation, the time period for reversal of credit increases and the amount of reversal every month decreases. However, an alternative view can be to compute T_m by dividing the common credit pertaining to capital goods whose remaining useful life is less than 5 years with the number of months in their remaining useful life. If such view is adopted, the time period for reversal of credit will decrease and the amount of reversal to be made every month will increase.

(10 marks)

(B) The **main objectives** of Special Economic Zone Act 2005.

- (a) Export of goods and services without taxes ;
- (b) Generation of additional economic activity ;
- (c) Promotion of exports of goods and services;
- (d) Promotion of investment from domestic and foreign sources;
- (e) Creation of employment opportunities;
- (f) Development of infrastructure facilities;
- (g) Providing exemption from duties and taxes on procurement;
- (h) Single window clearance it is expected that this will trigger a large flow of foreign and domestic investment in SEZs. In infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities.

The **SEZ Rules** provide for –

- (a) Simplified procedures for development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs;
- (b) Single window clearance for setting up of an SEZ;
- (c) Single window clearance for setting up a unit in a Special Economic Zone ;
- (d) Single Window clearance on matters relating to Central as well as State Governments;
- (e) Simplified compliance procedures;
- (f) Maintenance of documents with self certification;
- (g) Simplified compliance procedures and documentation with an emphasis on self certification.

(5 marks)

(C) According to Section 8B of Customs Tariff Act, 1975, in case of articles originating from a developing country (i.e. country notified by the Government of India for purpose of levy of such duty), this duty cannot be imposed under following circumstances –

- (a) If the imports of such article from developing country does not exceed 3% of the total imports of that article into India.
- (b) Where the article is originating from more than one developing countries (each with less than three percent import share), then the aggregate of imports from all such countries taken together does not exceed 9% of the total imports of that article into India.

Hence, the computation of Safeguard duty is as under –

Computation of Safeguard duty payable by X Ltd., Y Ltd. and Z Ltd. and A Ltd. :

Importer	Country of import	Rs. In crores	% of imports	
X Ltd.	Developing country	70	2.8%	
Y Ltd.	Developing country	82		3.28%
Z Ltd.	Developing country	52	2.08%	
A Ltd.	Developing country	50	2%	
Others	Developed country	2,246		
	Total	2,500	6.88%	3.28%

Safeguard duty is as follows:

Importer	Rs. In crores	Safeguard duty	
X Ltd.	70	30%	Nil
Y Ltd.	82	30%	24.6
Z Ltd.	52	30%	Nil
A Ltd.	50	30%	Nil

Articles originating from more than one developing countries (each with less than 3% import share), then the aggregate of imports from all such countries taken together does not exceed 9% (i.e. in the given case 6.88%) of the total imports of the article into India. Therefore, Safeguard duty is not applicable to X Ltd., Z Ltd., and A Ltd.

(5 Marks)