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CA INTERMEDIATE

SUBJECT- TAXATION

Test Code – PIN 5082

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- NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.
 (2) INTERNAL WORKING NOTES SHOULD ALSO BE CONSIDERED.
 (3) NEW QUESTION SHOULD BE ON NEW PAGE**

PART – I (DIRECT TAX)

ANSWER : 1

Income from salary	8,42,800
Income from house property	Nil
Income from other sources :	
• Bank interest on deposits in savings account	1,59,000
• Gift received on October 1, 2019 and gift received on March 1, 2020 [Rs. 25,000 + Rs. 26,000; as the aggregate amount exceeds Rs. 50,000, it is taxable]	51,000
Gross total income	10,52,800
Less : Deductions under sections 80C to 80U	
Under section 80C [contribution to RPF and insurance premium]	1,50,000
Under section 80G in respect of donation to the National Defence Fund (i.e. 100% of Rs. 3,200)	3,200
Under section 80TTA in respect of interest on deposits in savings bank account	10,000
Net income	8,89,000
Tax	90,420
Add : Surcharge (not applicable)	Nil
Tax and surcharge	90,420
Add : Health and education cess (4% of tax and surcharge)	3,617
Normal tax liability	94,040

Note :

1. COMPUTATION OF INCOME FROM SALARY

Basic salary	4,80,000
Bonus	1,30,000
Commission	1,48,000
House rent allowance : Rs. 1,20,000	
Less : Exempt from tax being the least of :	
(a) Rs. 2,40,000 (being 50% of salary, i.e. Rs. 4,80,000); (b) Rs. 1,20,000 (being the house rent allowance); or (c) Nil, being excess of rent paid (i.e., Nil) minus 10% of salary, Nil, being the least, is exempt from tax.	
Amount taxable	1,20,000
Employer's contribution in excess of 12% of salary (i.e., Rs. 62,400 – Rs. 57,600)	4,800
Gross salary	8,82,800
Less : Standard deduction	50,000
Income from salary	8,32,800

The perquisites in respect of use of computer and club facility are not chargeable to tax.

2. COMPUTATION OF INCOME FROM HOUSE PROPERTY - Since house is used for the purpose of own residence, nothing would be chargeable to tax under section 23(2)(a). Interest on capital borrowed to pay municipal tax is not deductible.

(14 MARKS)

ANSWER : 2

- A. An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A, exceeds the maximum amount not chargeable to tax i.e. Rs. 2,50,000 (for A.Y. 2020-21).

Computation of total income of Mr. Paras for A.Y. 2020-21

Particulars	Rs.
Income from other sources	
Interest earned from Non-resident (External) Account Rs. 2,88,000 [Exempt under section 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	NIL
Interest on fixed deposit with SBI	30,000
Interest on savings bank account	3,000
Gross Total Income	33,000
<i>Less:</i> Deduction under section 80TTA (Interest on saving bank account)	3,000
Total Income	30,000

Since the total income of Mr. Paras for A.Y.2020-21, before giving effect to the deductions under Chapter VI-A, is less than the basic exemption limit of Rs. 2,50,000, he is not required to file return of income for A.Y.2020-21.

Owning a shop having area of 150 sq.ft in Kerala would not make any difference to the answer.

Note: In the above solution, interest of Rs. 2,88,000 earned from Non-resident (External) account has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account. However, in case he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving effect to the deductions under Chapter VIA, would be Rs. 3,21,000 (Rs. 30,000 + Rs. 2,88,000 + Rs. 3,000), which is higher than the basic exemption limit of Rs. 2,50,000. Consequently, he would be required to file return of income for A.Y.2020-21. Here again, ownership of shop in Kerala is immaterial.

(5 MARKS)

B. Computation of deduction under section 10AA of the Income-tax Act, 1961

As per section 10AA, in computing the total income of Rudra Ltd. from its unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006 but before 1st April 2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with the

assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years.

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

(i) If Unit in SEZ was set up and began manufacturing from 22-05-2012:

Since A.Y. 2020-21 is the 8th assessment year from A.Y. 2013-14, relevant to the previous year 2012-13, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

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

$$= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 50\%$$

$$= \text{Rs. 22.50 lakhs}$$

(ii) If Unit in SEZ was set up and began manufacturing from 14-05-2016:

Since A.Y. 2020-21 is the 4th assessment year from A.Y. 2017-18, relevant to the previous year 2016-17, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

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

$$= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 100\%$$

$$= \text{Rs. 45 lakhs}$$

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction under section 10AA in respect of its export profits, in both the situations.

Working Note:

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

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

(2.5*2 = 5 MARKS)

- C. Capital gain of X – Capital gain taxable in the hands of X will be Rs. 4,00,000 (after claiming exemption of Rs. 50,00,000 under section 54EC).

Capital gain of A – Capital gain generated by A before exemption under section 54EC is Rs. 57,00,000. He has invested Rs. 50,00,000 in NHAI bonds within 6 months from the transfer of house property. He can claim exemption of Rs. 50,00,000 separately. Taxable capital gain generated by A is Rs. 7,00,000 which will be clubbed in the hands of X [income of X (after including long – term capital gain of Rs. 4,00,000) is higher than that of Mrs. X]

Computation of income of X, Mrs. X and A –

	X	Mrs. X	A
	Rs.	Rs.	Rs.
Salary	-	13,80,000	-
Business income	10,00,000	-	-
Capital gain	-	-	-
Residential house property transferred by A [Rs. 7,00,000 – Rs. 1500 being exemption under section 10(32)]	6,98,500	-	-
Plot transferred by X	4,00,000	-	-
Net income	20,98,500	13,80,000	-

(4 MARKS)

ANSWER : 3

A.

	Rs.	Rs.
Profit as per Profit and Loss Account		17,34,000
Add : Inadmissible expenditure :		
Salary to staff (salary paid to a relative to the extent it is treated as excessive or unreasonable)	3,000	
Reserve for losses	2,000	
Interest on capital	3,500	
Depreciation on patent right (amount deductible is 25% of Rs. 17,000 i.e., Rs. 4,250); therefore, amount inadmissible is Rs. 17,000 – Rs. 4,250)	12,750	
Depreciation on know – how (50% of 25% of Rs. 60,000, as it is put to use for less than 180 days, is deductible which comes to Rs. 7,500 ; amount not deductible is Rs. 52,500)	52,500	
Outstanding sales tax and excise duty [Rs. 3,000 paid on or before July, 31, 2020 is deductible.		
The balance is not deductible for the previous year ending March 31, 2020 for detailed study]	10,000	83,750
		18,17,750
Less : Provision for depreciation on plant and machinery (i.e., Rs. 29,700 – Rs. 28,000)		1,700
		18,16,050
Less : Short – term capital gain on sale of investment		31,000
Business income		17,85,050
COMPUTATION OF NET INCOME		
Profits and gains of business or profession		17,85,050
Capital gains		31,000
Income from other sources		12,000

Gross total income		18,28,050
Less : Deduction under section 80C [payment of insurance premium]		1,03,200
Net Income		17,24,850
Tax		3,27,455
Add : Surcharge (surcharge is applicable if net income exceeds Rs. 50 lakh)		Nil
Tax and surcharge		3,27,455
Add : Health and education cess(4% of tax and surcharge)		13,098
Tax liability (rounded off)		3,40,550

Notes :

1. Expenditure on training of employees is a deductible expenditure, Likewise, commission for securing a business order is deductible.
2. Advertisement expenditure (being expenditure of revenue nature) is fully deductible under section 37(1).
3. Compensation payable for terminating service of an employee is deductible.

(8 MARKS)

- B.** Agricultural land situated in a rural area in India is not a “capital asset”. This rule is applicable even if land is meant for agricultural purposes although it is not actually used for agricultural purpose. Nothing is, therefore, taxable on transfer of agricultural land in Tamil Nadu. Capital gain on transfer of Delhi land and shares in A Ltd. will be calculated as follows

	Delhi agricultural land	Shares
	Rs.	Rs.
Full value of consideration (stamp duty value is not taken, as it does not exceed 105% of sale consideration)	12,15,000	42,00,000
Less : Indexed cost of acquisition [Rs. 4,00,000 × 289 / 129]	5,70,000	8,96,124
Balance	6,45,000	33,03,876
Less : Exemption under section 54B (i.e., deposit made up to September 30, 2019)	1,00,000	-
Capital gain chargeable to tax	5,45,000	33,03,876
Tax @ 20%(a)	1,09,000	6,60,775
Tax @ 10% (i.e., 10% of (rs. 42,00,000 – Rs. 4,00,000) (b)	-	3,80,000
Income – tax [(a) or (b), whichever is lower in the case of listed security]	1,09,000	3,80,000
Add : Health and education cess	4,360	15,200
Tax on Capital gain	1,13,360	3,95,200

Note : At the time of transfer of shares, securities transaction tax is not applicable (as shares are not transferred in a recognized stock exchange). Tax computation under section 112A is not possible (fair market value as on January 31, 2019 is therefore, not relevant). Tax is calculated within the parameters of section 112. Under this section, in the case of listed securities, one can pay tax on long – term capital gains @ 10% if the benefit of indexation is not taken. This rule is applicable whether securities are transacted in a stock exchange or otherwise.

(6 MARKS)

ANSWER : 4**A.**

Business Profits		2,34,000
Less : Current scientific research expenditure		1,06,000
		1,28,000
Less : Current depreciation allowance		1,08,000
		20,000
Less : Brought forward business loss of the previous year :		
1996 – 97		
2013 – 14	Rs. 9,000	9,000
		11,000
(*not admissible beyond 8 assessment years)		
Less : Unabsorbed depreciation of the previous year 1996 – 97 and 2013 – 14 to the extent of business profits		11,000
Business profits		Nil
Income from house property		2,60,000
Less : Unabsorbed depreciation of 1996 – 97 and 2013 – 14 to the extent not adjusted against		
Business profits (i.e. Rs. 13,000 + Rs. 3,500 – Rs. 11,000)		5,500
Gross total income		2,54,500
Less : Deductions under section 80C to 80U		Nil
Net income		2,54,500

Note : While brought forward business loss cannot be set off against current not – business incomes, unabsorbed depreciation can be set off against current business as well as non – business income.

(7 MARKS)

- B.** As the turnover of Ashwin for F.Y. 2018 – 19, i.e. Rs. 205 lakh, has exceeded the monetary limit of Rs. 100 lakh prescribed under section 44AB, he has to comply with the tax deduction provisions during the financial year 2019 – 20, subject to, however, the exemptions provided for under the relevant sections for applicability of TDS provisions.

Interest paid to UCO Bank

TDS under section 194A is not attracted in respect of interest paid to a banking company.

Contract payment of Rs. 24,000 to Raj for 2 contracts of Rs. 12,000 each

TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed Rs. 30,000 in a single payment or Rs. 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.

Shop Rent paid to one payee - Tax has to be deducted under section 194 – I as the rental payment exceeds Rs. 1,80,000.

Commission paid to Balu - No, tax has to be deducted under section 194 – H in this case as the commission does not exceed Rs. 15,000.

(4 MARKS)

C.

- (i) **True** : Section 139A(2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.
- (ii) **False** : Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

(3 MARKS)

ANSWER : 5

1. B
2. A
3. C
4. B
5. C
6. A
7. A
8. B
9. B
10. C
11. D
12. D

PART – II (INDIRECT TAX)

ANSWER : 6

Computation of net GST liability of Mr. Ekaant

Particulars	Value (Rs.)	CGST (Rs.)	SGST (Rs.)	IGST (Rs.)
Total tax liability				
Value of intra – State legal consultancy services i.e. inward supplies liable to reverse charge mechanism (to be paid in cash) (A) [Note – 1]	1,00,000	9,000	9,000	-
Value of inter – State outward supplies (B1)	30,00,000	-	-	5,40,000
Value of intra – State outward supplies to registered as well as unregistered persons (B2) (Rs. 50,00,000 + Rs. 15,00,000)	65,00,000	5,85,000	5,85,000	-
Total (B) = (B1) + (B2)		5,85,000	5,85,000	5,40,000
Input tax Credit				
Brought forward ITC		2,00,000	2,00,000	5,00,000
Value of intra – State inward supplies from registered person [Note – 2]	10,00,000	90,000	90,000	-
Value of intra – State inward supplies from registered person [Note – 2]	5,00,000	-	-	90,000
Value of intra – State inward supplies from unregistered person [Note 3]	2,00,000	-	-	-
IGST credit of capital goods [Note – 2]	-	-	-	1,50,000
Credit on other inward supplies purchased in	-	45,000	45,000	-

the month of July less credit on membership of a club [Note – 2 & 4]				
Credit of legal consultancy services [Note – 2]		9,000	9,000	-
Total (C)		3,44,000	3,44,000	7,40,000
Net liability (B) – (C)		2,41,000	2,41,000	(2,00,000)
Less : set off from IGST credit [Note – 5]		2,00,000	-	-
Liability after set off (D)		41,000	2,41,000	Nil
Net GST liability to be paid in cash (A) + (D)		50,000	2,50,000	Nil

Notes :-

- Services supplied by an individual advocated to any business entity located in the taxable territory by way of legal services, directly or indirectly are taxable under reverse charge mechanism. Thus, tax is payable by the recipient (Mr. Ekaant) on said services to the Government.
Further, as per section 49(4) of the CGST Act, 2017, amount available in the electronic credit legal [ITC amount] may be used for making payment towards output tax. However, tax payable under reserve charge is not an output tax in terms of section 2(82) of the CGST Act, 2017. Therefore, tax payable under reverse charge cannot be set off against the input tax credit and thus, will have to be paid in cash.
- Every registered person is entitled to take credit of input tax charged on any inward supply of goods / and / or services which are used or intended to be used in the course or furtherance of his business in terms of section 16 of CGST Act, 2017 Further “Input tax” in relation to a registered person includes the tax payable under reverse charge mechanism in terms of section 2(62) of the CGST Act, 2017.
- Intra – State supplies received by a registered person from any unregistered supplier, are exempt from the whole of the central tax leviable thereon under section 9(4) till 30.09.2019 [Notification No. 8/2017 CT (R) dated 28.06.2017]. Since no tax has been paid, so no credit is available.
- Input tax credit is not allowed in respect of membership of a club in terms of section 17(5) of CGST Act, 2017.
- Input tax credit of IGST has been used to pay IGST and CGST in that order.

(8 MARKS)

ANSWER : 7

A. Computation of value of taxable supply and tax liability

	Particulars	Amount (Rs.)
	Price of the goods [Note 1]	2,00,000
(i)	Packing charges [Note – 2]	5,000
(ii)	Freight & Cartage [Note – 3]	2,000
(iii)	Transit Insurance [Note – 3]	1,500
(iv)	Extra Designing charges [Note – 4]	6,000
(v)	Taxes by Municipal Authority [Note – 5]	500
	Value of taxable supply	2,15,000
	CGST@ 9%	19,350
	SGST @ 9%	19,350

Notes :

- As per section 15(1) of the CGST Act, 2017, the value of a supply is the transaction value i.e. the price actually paid or payable for the said supply.
- All incidental expenses including packing charged by the supplier to the recipient are includible in the value of supply in terms of section 15(2) of the CGST Act, 2017.

3. The given supply is a composite supply involving supply of goods (stationery items) and services (transit insurance and freight) where the principal supply is the supply of goods. As per section 8(a) of the CGST Act, 2017, a composite supply is treated as a supply of the principal supply involved therein and charges to tax accordingly.
4. Any amount charged for anything done by the supplier in respect of the supply of goods or services or both at the time of , or before delivery of goods or supply of services; is includible in the value of supply vide section 15(2) of the CGST Act, 2017. Thus, extra designing charges are to be included in the value of supply.
5. The taxes by Municipal Authorities are includible in the value of supply in terms of section 15(2) of the CGST Act, 2017.
6. In the given case, Mr. Mehta is allowed a discount of Rs. 20,000 on the goods supplied to him in the month of November, 20XX. Since the said goods have already been delivered by Kamal Book Depot, this discount will be a post – supply discount. Further, value of supply shall not include any discount which is given after the supply has been effected, if –
 - (i) Such discount is established in terms of an agreement entered into at or before the time of such supply and specifically linked to relevant invoices ; and
 - (ii) Input tax credit as is attributable to the discount on the basis of document issued by the supplier has been reversed by the recipient of the supply [Section 15(3) of the CGST Act, 2017].

However, in the given case, post – supply discount given to Mr. Mehta will not be allowed as a deduction from the value of supply since the discount policy was not known before the time of such supply although the discount can be specifically linked to relevant invoice (invoice pertaining to stationery items supplied to Mr. Mehta in November, 20XX).

In case the expenses (i) to (v) given in above table are already included in the price of Rs. 2,00,000: since these expenses are includible in the value of supply by virtue of the reasons mentioned in explanatory notes above, no further addition will be required. Resultantly, the value of taxable supply will be Rs. 2,00,000 and CGST and SGST will be Rs. 18,000 and Rs. 18,000 respectively.

(6 MARKS)

B.

In GST since the returns are built from details of individual transactions, there is no requirement for having a revised return. Any need to revise a return may arise due to the need to change a set of invoices or debit/ credit notes. Instead of revising the return already submitted, the system allows changing the details of those transactions (invoices or debit/credit notes) that are required to be amended. They can be amended in any of the future GSTR- 1 in the tables specifically provided for the purposes of amending previously declared details.

As per section 39(9), omission or incorrect particulars discovered in the returns filed u/s 39 can be rectified in the return to be filed for the month/quarter during which such omission or incorrect particulars are noticed. Any tax payable as a result of such error or omission will be required to be paid along with interest. The rectification of errors/omissions is carried out by entering appropriate particulars in “Amendment Tables” contained in GSTR-1.

(4 MARKS)

ANSWER : 8

A.

1. Auto – rickshaw/e – rickshaw – Transport of passengers service by auto – rickshaw/ e – rickshaw, is exempt from GST vide Exemption Notification.
2. Wagons given on lease by Indian Railways Finance Corporation to Indian Railways – It is not subject to GST [it is covered by Exemption Notification.
3. Legal service – In this case, legal service is provided by a senior advocate to a firm of advocates. It is subject to GST. Exemption given by Exemption Notification is not applicable in this case.

(3 MARKS)

B.

1. X is a “casual taxable person”. “Casual taxable person” means a person who occasionally undertakes transactions involving supply of goods/ services in the course or furtherance of business (whether as principal, agent or in any other capacity) in a State / Union Territory where he has no fixed place of business. A casual taxable person making taxable supply in India has to compulsorily take registration under normal provisions. There is no threshold limit for registration. A casual taxable person cannot exercise the option to pay tax under Composition Scheme. X must supply for registration at least 5 days prior to the date of commencement of Trade Fair.
2. Y wants to opt for Composition Scheme with effect from January 10, 2019. If stock held by him on January 10, 2019 includes goods imported from other countries, he cannot opt for Composition Scheme. It appears from the information given in the problem that his stock includes only goods imported from Singapore. Consequently, law does not permit him to opt for Composition Scheme.

(4 MARKS)

C.

The time of supply cannot be determined vide the provisions of clauses (a) and (b) of section 13(2) as neither the invoice has been issued nor the date of provision of service is available as also the date of receipt of payment in the books of the supplier is also not available. Therefore, the time of supply will be determined vide clause (c) of section 13(2) i.e., the date on which the recipient of service shows receipt of the service in his books of account. Thus, time of supply will be 4th April, the date on which the Apartment Owners’ Association records the receipt of service in its books of account.

(3 MARKS)

ANSWER : 9

- A.** Yes. In terms of section 25(9) of the CGST Act, all notified UN bodies, Consulate or Embassy of foreign countries and any other class of persons so notified would be required to obtain a unique identification number (UIN) from the GST portal.

The structure of the said ID would be uniform across the States in conformity with GSTIN structure and the same will be common for the Centre and the States. This UIN will be needed for claiming refund of taxes paid on notified supplies of goods and services received by them, and for any other purpose as may be notified.

(5 MARKS)

B. Consideration received for a activity carried by a person from another person is chargeable to GST. It is not necessary that the supplier or service should receive consideration from the recipient of service. Consideration can be paid by any other person on behalf of the recipient of service. Consequently, even Rs. 16,40,000 received from holding company of recipient of service is chargeable to tax. GST liability in this case will be calculated as follows –

	Rs.
Consideration paid by A Ltd.	25,000
Consideration paid by holding company [since GST on this consideration is not additionally paid, taxable value of supply out of this consideration will be Rs. 13,89,830 (i.e., Rs. 16,40,000 × 100 + 118)]	13,89,830
Taxable value of supply	
Add : GST -	
- CGST (@ 9% of Rs. 14,14,830)	1,27,335
- SGST (Odisha) (@ 9% of Rs. 14,14,830)	1,27,335
Total	16,69,500

(5 MARKS)

ANSWER : 10

1. C
2. B
3. C
4. D
5. D
6. D
7. C
8. A
9. D
10. A