



**J.K. SHAH<sup>®</sup>**  
**TEST SERIES**  
Evaluate Learn Succeed

**SUGGESTED SOLUTION**

CA INTERMEDIATE NOV'19

SUBJECT- INDIRECT TAXATION

Test Code - **CIM 8288**

**BRANCH - () (Date :)**

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

Tel : (022) 26836666

**Answer 1:**

**(A)**

- (a) Supply of services
- (b) Supply of goods
- (c) Supply of services
- (d) Supply of goods

**(1 mark x 4 = 4 marks)**

**(B)**

In the earlier indirect tax regime, a manufacturer of excisable goods charged excise duty and value added tax (VAT) on intra-State sale of goods. However, the **VAT dealer** on his subsequent **intra-State sale of goods** charged VAT (as per prevalent VAT rate as applicable in the respective State) **on value comprising of (basic value + excise duty charged by manufacturer + profit by dealer)**. Further, in respect of tax on services, service tax was payable on all 'services' other than the Negative list of services or otherwise exempted.

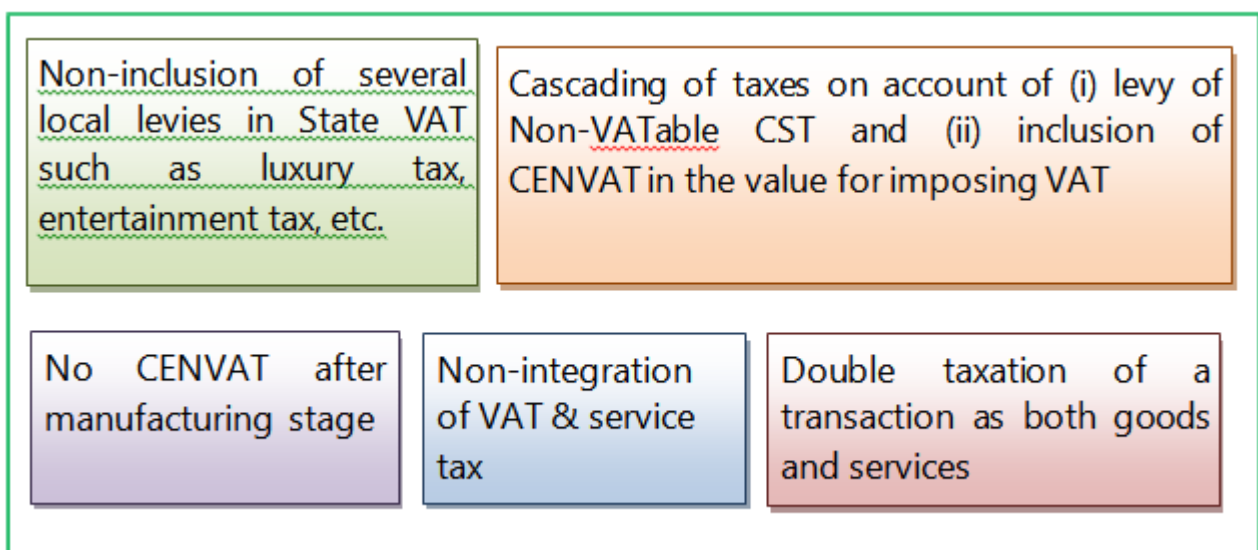
The earlier indirect tax framework in India **suffered from various shortcomings**. Under the earlier indirect tax structure, the **various indirect taxes being levied were not necessarily mutually exclusive**.

To illustrate, when the goods were manufactured and sold, both central excise duty (CENVAT) and State-Level VAT were levied. Though CENVAT and State-Level VAT were essentially value added taxes, set off of one against the credit of another was not possible as CENVAT was a central levy and State-Level VAT was a State levy.

Moreover, **CENVAT was applicable only at manufacturing level and not at distribution levels**. The erstwhile sales tax regime in India was a combination of origin based (Central Sales Tax) and destination based **multi-point system of taxation** (State-Level VAT).

Service tax was also a value added tax and credit across the service tax and the central excise duty was integrated at the central level.

Despite the introduction of the principle of taxation of value added in India - at the Central level in the form of CENVAT and at the State level in the form of State VAT - its application remained piecemeal and fragmented on account of the following reasons:



A **comprehensive tax structure covering both goods and services** viz. Goods and Service Tax (GST) addresses these problems. Simultaneous introduction of GST at both Centre and State levels has **integrated taxes on goods and services** for the purpose of **set-off relief** and **ensures that both the cascading effects of CENVAT and service tax are removed** and a continuous chain of set-off from the original producer's point/ service provider's point upto the retailer's level/ consumer's level is established. **(6 marks)**

**Answer 2:**

**Computation of Taxable Supply**

S. No.	Particulars	Amount (Rs.)
(i)	Amount charged for Service provided to recognized sports body as selector of National Team <b>(Note 1)</b>	50,000
(ii)	Commission received as an insurance agent from Insurance Company. <b>(Note 2)</b>	-
(iii)	Amount charged as business correspondent for the services provided to the Urban	15,000
(iv)	Service to foreign diplomatic mission located in India. <b>(Note 4)</b>	28,000
(v)	Funeral Services <b>(Note 5)</b>	-
(vi)	Services Received from GTA <b>(Note 6)</b>	45,000
	<b>Taxable Value of supply</b>	<b>1,38,000</b>

**(6 marks)**

**Notes**

1. Services provided by an individual as a player, referee, umpire, Coach or team manager for participation in a sporting event organized by a recognized sports body. Since Mr. Nagarajun is a selector (not covered under any of the exception), it is taxable.
2. Services supplied by an **Insurance Agent** to any person carrying on insurance business are taxable on reverse charge basis on the recipient, and hence is not taxable in the hands of the supplier.
3. Services by the following persons in respective capacities –
  - (a) business facilitator or a business correspondent to a banking company with respect to accounts in its rural area branch,
  - (b) any person as an intermediary to a business facilitator or a business correspondent with respect to services mentioned in entry (a), or
  - (c) business facilitator or a business correspondent to an insurance company in a **rural area**.

Since the services are provided to Urban branch of a nationalized bank, **it is taxable**.
4. Services by a foreign diplomatic mission located in India are exempted. Since the services are provided to foreign diplomatic, the service is taxable.
5. Funeral Services are exempt.
6. In case of supply of services by a Goods Transport Agency (GTA) in respect of transportation of goods, CGST or IGST will be payable by the recipient of services under reverse charge only when GTA **has not paid CGST @6% or IGST @ 12% [Notification No. 22/2017]** **(4 marks)**

**Answer 3:**

**(A)**

- (i) Works contracts and catering services shall be treated as supply of services as both are specified under Sl. No. 6 (a) and (b) in Schedule – II of the model GST law.
- (ii) Development, design, programing, customization, adaptation, upgradation, enhancement, implementation of information technology software shall be treated as supply of services as listed in Sl. No. 5(2)(d) of Schedule – II of the model GST law.

**(2 marks x 2 = 4 marks)**

(B)

- (i) No, customer who buys goods from registered person who is under composition scheme is not eligible for composition input tax credit because a composition scheme supplier cannot issue a tax invoice.
- (ii) **Sec. 10(3)** – The permission granted to a registered person u/s 9(1) shall lapse with effect from the day on which his aggregate turnover during a financial year exceeds the limit specified u/s 9(1).
- (iii) All registered persons having the same Permanent Account Number (PAN) have to opt for composition scheme. If one registered person opts for normal scheme, others become ineligible for composition scheme. **(2 marks x 3 = 6 marks)**

Answer 4:

(A)

Customer	Nature of Services provided	Amount Charged	Taxability
A	Transportation of milk	20000	Exempt. Transportation of milk by goods transport agency is exempt.
B	Transportation of books on a consignment transported in a single goods carriage	3000	GST is payable. Exemption is available for transportation of goods only where the consideration for transportation of goods on a consignment transported in a single goods carriage does not exceed Rs. 1,500.
C	Transportation of chairs for a single consignee in the goods carriage	600	Exempt. Transportation of goods where consideration for transportation of all goods for a single consignee does not exceed Rs. 750 is exempt.

**(1 mark x 3 = 3 marks)**

(B)

Computation of value of taxable supply

Particulars	Rs.
Fees charged for yoga camp conducted by a charitable trust registered under section 12AA of the income tax Act, 1961.	<b>Nil</b>
Amount charged by business correspondent for the service provided to the rural branch of a bank with respect to Saving Bank Accounts	<b>Nil</b>
Amount charged by cord blood bank for prevention of stem cells	<b>Nil</b>
Amount charged for service provided by commentator to a recognized sport body	<b>520000</b>

**(4 marks)**

(c)

- i) Section 7 of the CGST Act, *inter alia*, provides that supply **must be made for a consideration** except the activities specified in Schedule I and in course or furtherance of business. Since, both these elements are missing, donation of clothes and toys to children living in slum area would not amount to supply under section 7 of the CGST Act.

ii) Schedule I of CGST Act, inter alia, stipulates that **import of service by a taxable person from a related person located outside India, without consideration is treated as supply** if it is provided in the course or **furtherance of business**. In the given case, Raman has received legal services from his brother free of cost in a personal matter and not in course or furtherance of business. Hence, Services provided by Raman's brother to him would not be treated as supply under section 7 of the CGST Act.

iii) In the above case, if it is business unit, services provided by Raman's brother to him would be treated as supply under section 7 of the CGST Act as the same are provided in course or furtherance of business though received from a related person.

**(1 mark x 3 = 3 marks)**

**Answer 5:**

**(1 mark x 10 = 10 Marks)**

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