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CA INTERMEDIATE NOV'19

SUBJECT- TAXATION

**Test Code – CIM 8452**

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

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## PART A : DIRECT TAX

### ANSWER 1 MULTIPLE CHOICE QUESTIONS

(1\* 6 = 6 MARKS)

| Q.NO | ANSWER |
|------|--------|
| 1.1  | D      |
| 1.2  | B      |
| 1.3  | C      |
| 1.4  | C      |
| 1.5  | D      |
| 1.6  | B      |

### ANSWER 2 MULTIPLE CHOICE QUESTIONS

(2\* 6 = 12 MARKS)

| Q.NO | ANSWER |
|------|--------|
| 2.1  | C      |
| 2.2  | B      |
| 2.3  | A      |
| 2.4  | B      |
| 2.5  | A      |
| 2.6  | B      |

### ANSWER 3

#### Computation of Taxable Income of Mr. Jagdish for the A.Y.2019-20

| Particulars   | Rs.             | Rs.      |
|---|-----------------|----------|
| <b>Salaries</b>   |                 |          |
| Basic Salary = Rs. 51,000 x 12  | 6,12,000        |          |
| Dearness Allowance (DA) = Rs. 10,000 x 12   | 1,20,000        |          |
| House Rent Allowance (HRA) = Rs. 4,000 x 12      Rs. 48,000   |                 |          |
| Less: Least of the following exempt u/s 10(13A) <u>Rs. 10,800</u>   |                 |          |
|   | 37,200          |          |
| (i) HRA actually received = Rs. 4,000 x 12 = <b>Rs. 48,000</b>  |                 |          |
| (ii) Rent paid (-) 10% of salary [Rs. 84,000 (i.e., Rs. 7,000 x 12) (-) Rs. 73,200 (10% of salary i.e., 10% of Rs. 7,32,000 (Basic Salary + DA))] = <b>Rs. 10,800</b> |                 |          |
| (iii) 50% of salary [50% of Rs. 7,32,000 (Basic Salary + DA)] = <b>Rs. 3,66,000</b>   |                 |          |
| <b>Gross Salary</b>   | 7,69,200        |          |
| Less: Standard deduction u/s 16(ia)   | 40,000          |          |
|   |                 | 7,29,200 |
| <b>Income from house property</b>   |                 |          |
| Gross Annual Value [Rs. 46,000 x 9] <sup>1</sup>  | 4,14,000        |          |
| Less: Municipal tax paid during the P.Y. 2018-19  | <u>27,000</u>   |          |
| Net Annual Value  | 3,87,000        |          |
| Less: Deduction u/s 24 [30% of Net Annual Value]  | <u>1,16,100</u> |          |
|   |                 | 2,70,900 |

|  |                  |                         |
|--|------------------|-------------------------|
| <b>Profits and gains of business or profession</b>   |                  |                         |
| Profits from share business  | 1,70,000         |                         |
| Less: Securities transaction tax paid deductible u/s 36(1)(xv)                                   | <u>30,000</u>    | 1,40,000                |
| <b>Capital Gains</b>   |                  |                         |
| Full value of consideration  | 2,00,000         |                         |
| Less: Cost of acquisition of bonus shares allotted on or after 1.4.2001                          | <u>Nil</u>       |                         |
| <b>Long-term capital gains</b> (since bonus shares are held for a period of more than 24 months) |                  | 2,00,000                |
| <b>Income from Other Sources</b>   |                  |                         |
| Dividend received from domestic company  | 13,00,000        |                         |
| Less: Exempt under section 10(34)  | <u>10,00,000</u> |                         |
| Dividend in excess of Rs. 10 lakh chargeable to tax u/s 115BBDA@10%                              | 3,00,000         |                         |
| Interest from saving bank account deposits with IDBI Bank  | 15,000           |                         |
| Lottery winnings [21,000 x 100/70]   | <u>30,000</u>    |                         |
|  |                  | <u>3,45,000</u>         |
| <b>Gross Total Income</b>  |                  | <b>16,85,100</b>        |
| <b>Less: Deduction under Chapter VI-A</b>  |                  |                         |
| <b>Section 80C</b>   |                  |                         |
| Deposits in PPF Rs. 2,00,000   |                  |                         |
| Restricted to Rs.1,50,000, being the maximum allowable deduction                                 | 1,50,000         |                         |
| <b>Section 80D</b>   |                  |                         |
| Medical insurance premium for wife and dependent son Rs. 31,000, restricted to                   | 25,000           |                         |
| <b>Section 80TTA</b>   |                  |                         |
| Interest on saving bank account deposit  | <u>10,000</u>    | <u>1,85,000</u>         |
| <b>Total Income</b>  |                  | <b><u>15,00,100</u></b> |

<sup>1</sup> In the absence of information relating to fair rent, the GAV in the above solution has been worked out on the assumption that the actual rent for 9 months exceeds the fair rent for the whole year. In the alternative, it is possible to assume that the fair rent is equal to actual rent. In such a case, GAV would be Rs. 5,52,000 i.e., Rs. 46,000 x 12, being fair rent for the whole year. The income from house property would be Rs. 3,67,500. The gross total income and total income would, accordingly, change to Rs. 17,81,700 and Rs. 15,96,700 respectively. The tax payable would be Rs.2,10,970.

(10 MARKS)

#### Computation of tax liability of Mr. Jagdish for A.Y. 2019-20

| Particulars  | Rs.    | Rs. |
|--|--------|-----|
| <b>Tax on total income of Rs. 15,00,100</b>  |        |     |
| Tax on long-term capital gains of Rs. 2,00,000@20% u/s 112   | 40,000 |     |
| Tax on lottery income of Rs. 30,000 @30% u/s 115BB   | 9,000  |     |
| Tax on dividend income of Rs. 3,00,000@10% u/s 115BBDA   | 30,000 |     |
| Tax on other income of Rs. 9,70,100 [Rs. 15,00,100 – Rs. 2,00,000, capital gains – Rs. 30,000, lottery income – Rs. 3,00,000, dividend income] |        |     |

|  |        |                        |
|--|--------|------------------------|
| Upto Rs. 2,50,000                                    | Nil    |                        |
| Rs. 2,50,001 – Rs. 5,00,000 [i.e., Rs. 2,50,000@5%]  | 12,500 |                        |
| Rs. 5,00,001 – Rs. 9,70,100 [i.e., Rs. 4,70,100@20%] | 94,020 |                        |
|  |        | 1,85,520               |
| Add: Health and education cess@4%                    |        | 7,421                  |
| <b>Tax liability</b>                                 |        | 1,92,941               |
| Less: Tax deducted at source <sup>2</sup>            |        |                        |
| TDS on lottery income                                |        | <u>9,000</u>           |
| <b>Tax Payable</b>                                   |        | <b><u>1,83,941</u></b> |
| Tax Payable (rounded off)                            |        | 1,83,940               |

<sup>2</sup> It is presumed that commercial building is let out to an individual/HUF whose turnover does not exceed limit specified in section 44AB during the immediately preceding F.Y. Hence, TDS u/s 194-I is not attracted. Also, TDS u/s 194-IB is not attracted since monthly rent does not exceed Rs.50,000.

(4 MARKS)

#### ANSWER 4(A)

##### Determination of residential status

An individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

- (i) He has been in India during the previous year for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If the individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Mr. Rajesh Sharma, an Indian citizen, has not satisfied either of the basic conditions for being a resident, since he was in India for only 59 days during the previous year 2018 -19. Hence, he is non-resident in India for A.Y.2019-20.

(2 MARKS)

##### Computation of total income of Mr. Rajesh Sharma for A.Y.2019-20

| Particulars |  | Amount<br>(Rs.) |
|-------------|--|-----------------|
| (1)         | Short-term capital gain on sale of shares of an Indian listed company is chargeable to tax in the hands of Mr. Rajesh Sharma, since it has accrued and arisen in India even though the sale proceeds were credited to bank account in Singapore. | 58,000          |

|                     |   |               |
|---------------------|---|---------------|
| (2)                 | Dividend of Rs. 48,000 received from Singapore based company transferred to his bank account in Singapore is not taxable in the hands of the non-resident since the income has neither accrued or arisen in India nor has it been received in India.<br>Since dividend is not taxable in India, interest paid for investment is not allowable as deduction. | Nil           |
| (3)                 | Interest on fixed deposit with Punjab National Bank, Delhi credited to his savings bank account is taxable in the hands of Mr. Rajesh Sharma as Income from other sources, since it has<br>accrued and arisen in India and is also received in India. He would not be eligible for deduction under section 80TTB, since he is a non-resident.               | 9,500         |
| <b>Total Income</b> |   | <b>67,500</b> |

(3 MARKS)

### ANSWER 4(B)

#### Computation of income chargeable under the head "Capital Gains" for A.Y.2019 -20

| Particulars  | Rs. (In lakhs) | Rs. (In lakhs) |
|--|----------------|----------------|
| <b>Capital Gains on sale of residential building</b>   |                |                |
| Actual sale consideration Rs. 810 lakhs  |                |                |
| Value adopted by Stamp Valuation Authority Rs. 870 lakhs   |                |                |
| Gross Sale consideration   |                | 870.00         |
| [Where the actual sale consideration declared by the assessee on the date is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 105% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.<br><br>However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement.<br><br>In this case, since advance of Rs. 80 lakh is received by cash, stamp duty value on the date of agreement cannot be adopted as the full value of consideration. Stamp duty value on the date of registration would be considered for determining the full value of consideration, since such value exceeds 105% of Rs. 810 lakhs] |                |                |
| Less: Brokerage@1% of sale consideration (1% of Rs. 810 lakhs)   |                | <u>8.10</u>    |

|  |               |               |
|--|---------------|---------------|
| Net Sale consideration   |               | 861.90        |
| Less: Indexed cost of acquisition  |               |               |
| - Cost of vacant land, Rs. 80 lakhs, plus registration and other expenses i.e., Rs. 8 lakhs, being 10% of cost of land [Rs. 88 lakhs × 280/113]  | 218.05        |               |
| -Construction cost of residential building (Rs. 100 lakhs x 280/122)   | <u>229.51</u> | <u>447.56</u> |
| Long-term capital gains <sup>1</sup> before exemption  |               | <b>414.34</b> |
| Less: Exemption under section 54   |               | 130.00        |
| The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India one year before or two years after the date of transfer of original asset.<br>Therefore, in the present case, the exemption would be available only in respect of the residential house acquired at Delhi and not in respect of the residential house in UK   |               |               |
| Less: Exemption under section 54EC   |               | 50.00         |
| Amount deposited in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.7.2019), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of Rs. 50 lakhs, whether such investment is made in the current financial year or subsequent financial year.<br>Therefore, in the present case, exemption can be availed only to the extent of Rs. 50 lakh out of Rs. 97 lakhs, even if the both the investments are made on or before 13.7.2019 (i.e., within six months after the date of transfer). |               |               |
| Long term capital gains chargeable to tax  |               | <b>234.34</b> |

**Note:** Advance of Rs. 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head “Income from other sources”, in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.

<sup>1</sup>Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain

**(7 MARKS)**

#### **ANSWER 4(C)**

#### **Fee for default in furnishing return of income u/s 234F**

Where a person, who is required to furnish a return of income under section 139, fails to do so within the prescribed time limit under section 139(1), he shall pay, by way of fee, a sum of –

| Fee   | Circumstances   |
|---|---|
| Rs.5,000  | If the return is furnished on or before the 31 <sup>st</sup> December of the assessment year; |
| Rs.10,000   | In any other case   |
| <b>Note</b> - However, if the total income of the person does not exceed Rs. 5 lakhs, the fees payable shall not exceed Rs. 1,000 |   |

(2 MARKS)

**ANSWER 5(A)**

**Computation of total income of Ms. Geeta for the A.Y.2019-20**

| Particulars   | Rs.           | Rs.                      | Rs.       |
|---|---------------|--------------------------|-----------|
| <b>Income from salary (computed)</b>  |               |                          | 41,20,000 |
| <b>Income from house property</b>   |               |                          |           |
| <b>(i) House property at Delhi (Let out)</b>  |               |                          |           |
| Rent received (taken as Annual Value in the absence of information relating to Fair Rent and Municipal Value)                   | 5,00,000      |                          |           |
| <b>Less: Deduction u/s 24</b>   |               |                          |           |
| (a) 30% of Annual Value [30% of Rs. 5 lakh]   | 1,50,000      |                          |           |
| (b) Interest on loan for purchase of property   | 7,50,000      |                          |           |
| for repairs of property [Rs. 1,50,000/2]  | <u>75,000</u> |                          |           |
|   | 9,75,000      | (4,75,000)               |           |
| <b>(ii) House property at Jaipur (Let out)</b>  |               |                          |           |
| Rent received (taken as Annual Value in the absence of information relating to Fair Rent and Municipal Value)                   | 3,20,000      |                          |           |
| <b>Less: Deduction u/s 24</b>   |               |                          |           |
| 30% of Annual Value = 30% of Rs.3,20,000  | <u>96,000</u> |                          |           |
|   |               | 2,24,000                 |           |
| <b>(iii) House property at Mumbai (Self-occupied)</b>   |               |                          |           |
| Annual value of self-occupied property  | Nil           |                          |           |
| <b>Less: Deduction u/s 24(b)</b>  |               |                          |           |
| Interest on loan for purchase and repairs (to be restricted to Rs. 30,000, since loan for purchase was taken prior to 1.4.1999) | <u>30,000</u> | <u>(30,000)</u>          |           |
| <b>Loss from house property [(i) + (ii) + (iii)]</b>  |               | <b><u>(2,81,000)</u></b> |           |

|   |               |                   |                   |          |
|---|---------------|-------------------|-------------------|----------|
| As per section 71(3A), loss from house property to be set-off against salary income to the extent of  |               |                   | <u>(2,00,000)</u> |          |
| <b>Profits and gains of business or profession</b>  |               |                   | <b>39,20,000</b>  |          |
| Speculation profit (assumed as business income)   |               | 2,30,000          |                   |          |
| Salary received as partner of firm is taxable in her hands since the entire salary was allowed as deduction in the hands of the firm  |               | <u>50,000</u>     |                   |          |
|   |               | 2,80,000          |                   |          |
| Set-off of loss from textile business to the extent of  |               | <u>(2,80,000)</u> |                   | Nil      |
| <b>Note</b> – Share of loss of Rs. 1,60,000 incurred by the firm in which she is partner cannot be set-off against salary received as partner of firm or any other income, since loss from an exempt source cannot be set-off against profit from a taxable source. |               |                   |                   |          |
| <b>Capital Gains</b>  |               |                   |                   |          |
| Long-term capital gains on sale of equity shares computed in accordance with section 112A   |               | 8,95,000          |                   |          |
| Less: Set-off of brought forward short-term capital loss as per section 74 <sup>1</sup>   |               |                   |                   |          |
| B/f Short-term capital loss on sale of gold   | 2,75,000      |                   |                   |          |
| B/f Short-term capital loss u/s 111A  | <u>25,000</u> |                   |                   |          |
|   |               | <u>3,00,000</u>   |                   |          |
|   |               | 5,95,000          |                   |          |
| Less: Set-off of balance loss of textile business <sup>2</sup><br>[Rs. 7,50,000 – Rs.2,80,000 – Rs.73000]   |               | <u>(3,97,000)</u> |                   | 1,98,000 |

<sup>1</sup>As per section 74, B/f short-term capital loss can be set-off against long-term capital gain taxable u/s 112A. It is assumed that the eight year period for set-off of losses has not expired.

<sup>2</sup> Permitted as per section 71(2)

| Particulars  | Rs.             | Rs.              |
|--|-----------------|------------------|
| <b>Income from Other Sources</b>   |                 |                  |
| Interest on fixed deposit  | 73,000          |                  |
| Less: Set off balance loss of textile business to the extent of  | <u>(73,000)</u> |                  |
|  | Nil             |                  |
| Lottery income (assumed as Gross Income)   | <u>75,000</u>   | <u>75,000</u>    |
| <b>Gross Total Income</b>  |                 | <b>41,93,000</b> |
| Less: <b>Deduction under Chapter VI-A</b>  |                 |                  |
| <b>Under section 80C</b>   |                 |                  |
| <b>Life insurance premium paid</b>   |                 |                  |
| Life insurance premium paid to insure the life of her son allowable as deduction even if he is major, resides abroad and is not dependent on her | 15,000          |                  |
| <b>Repayment of housing loan</b>   |                 |                  |
| Rs. 2,50,000, for house property in Delhi, not allowable since loan is taken from a friend   | Nil             |                  |



|   |        |                         |
|---|--------|-------------------------|
| Rs. 50,000 for house property in Mumbai, allowable since loan is taken from a bank for purchase of property       | 50,000 |                         |
| Rs. 75,000, for house properties in Mumbai and Delhi, not allowable since loan is taken for repairs of properties | Nil    |                         |
|   |        | 65,000                  |
| <b>Total Income</b>   |        | <b><u>41,28,000</u></b> |

(9 MARKS)

**Loss to be carried forward to A.Y.2020-21:**

| Particulars   | Rs.    |
|---|--------|
| <b>Loss from house property</b> (Rs. 2,81,000 - Rs.2,00,000)  | 81,000 |
| As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of Rs. 2,00,000 only. As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. Such loss can be carried forward for a maximum of eight assessment years. |        |

(1 MARK)

**ANSWER 5(B)**

**Computation of Total Income of Mr. Arihant for A.Y. 2019-20**

| Particulars  | Rs.           | Rs.    | Rs.      |
|--|---------------|--------|----------|
| <b>Gross Total Income</b>  |               |        | 7,50,000 |
| <b>Less: Deduction under Chapter VI-A</b>  |               |        |          |
| Under section 80C  | 60,000        |        |          |
| - Life insurance premium of Rs. 70,000 (restricted to Rs. 60,000 i.e., 15% of Rs. 4,00,000, being the sum assured, since the policy has been taken on or after 01.04.2013, in respect of his handicapped son suffering from disability u/s 80U)                  |               |        |          |
| - Tax saver deposit of Rs. 90,000 in the name of his major son does not qualify for deduction under section 80C, since such deposit has to be made in the name of the assessee himself to qualify for deduction u/s 80C  | Nil           | 60,000 |          |
| Under section 80D  |               |        |          |
| - Medical insurance premium for self and his wife, pertaining to the previous year 2018-19 is Rs. 26,000, being 1/3rd of Rs. 78,000, the lumpsum premium, since the policy would be in force for three previous years. The said deduction would be restricted to | 25,000        |        |          |
| - Deduction in respect of medical expenditure of Rs. 54,000 for his father, being a senior citizen would be allowable, since no insurance policy is taken in his name, to the extent of  | <u>50,000</u> | 75,000 |          |

|   |  |        |                 |
|---|--|--------|-----------------|
| Under section 80G<br>- Contribution by a resident towards the Clean Ganga Fund, set up by the Central Government would be eligible for 100% deduction without any qualifying limit. |  | 25,000 | 1,60,000        |
| Total Income  |  |        | <u>5,90,000</u> |

(4 MARKS)

#### ANSWER 6(A)

##### Computation of interest payable under section 234B by Mr. Chandra Prakash

| Particulars  | Rs.             |
|--|-----------------|
| Tax on total income of Rs. 15,05,000 [Business income of Rs. 12,00,000 ( <b>See Note below</b> ) + Income from other sources of Rs. 3,05,000]  | 2,64,000        |
| Add: Health and Education cess @4%   | <u>10,560</u>   |
| <b>Tax on total income</b>   | <b>2,74,560</b> |
| Less: Tax deducted at source   | <u>55,000</u>   |
| <b>Assessed Tax</b>  | <b>2,19,560</b> |
| 90% of assessed tax  | 1,97,604        |
| Advance tax paid on 14-3-2019  | 1,45,000        |
| Interest under section 234B is leviable since advance tax of Rs.1,45,000 paid is less than Rs.1,97,604, being 90% of assessed tax  |                 |
| Number of months from 1 <sup>st</sup> April, 2019 to 15 <sup>th</sup> December, 2019, being the date of payment of self-assessment tax   | 9               |
| Interest under section 234B@1% per month or part of a month for 9 months on Rs. 74,500 [i.e., difference between assessed tax of Rs. 2,19,560 and advance tax of Rs.1,45,000 paid being Rs. 74,560 which is rounded off to Rs. 74,500 <sup>1</sup> ] | 6,705           |
| Interest under section 234B rounded off  | 6,710           |
| <b>Note:</b> The presumptive income computed under section 44AD would be Rs. 12 lakhs, being 8% of Rs. 45 lakhs and 6% of Rs. 140 lakhs.   |                 |

<sup>1</sup> Rounded off under Rule 119A of Income-tax Rules, 1962

(5 MARKS)

#### ANSWER 6(B)

Mr. Sharma has furnished his return of income for A.Y.2019-20 on 25.9.2019, i.e., after 31<sup>st</sup> July 2019, being the due date specified under section 139(1). Hence, the return is a belated return under section 139(4).

As per section 80 read with section 139(3), specified losses, which have not been determined in pursuance of a return of loss filed within the time specified in section 139(1), cannot be carried forward to the subsequent year for set-off against income of that year. The specified losses include, *inter alia*, business loss but does not include loss from house property and unabsorbed depreciation.

Accordingly, business loss of Rs. 9,80,000 of Mr. Sharma for A.Y. 2019-20, not determined in pursuance of a return of loss, filed within the time specified in section 139(1), cannot be carried forward to A.Y.2020-21.

However, the loss of Rs. 50,000 from house property and unabsorbed depreciation of Rs. 3,25,000 pertaining to A.Y.2019-20, can be carried forward to A.Y.2020-21 for set-off, even though Mr. Sharma has filed the return of loss for A.Y.2019-20 belatedly.

**(3 MARKS)**

**ANSWER 6(C)**

| Chargeability  | Amount liable to tax (Rs.) | Reason  |
|----------------|----------------------------|---|
| Partly taxable | 96,000                     | Any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt provided he is not in receipt of any daily allowance. The exemption is 70% of such allowance (i.e., Rs. 12,600 per month being, 70% of Rs. 18,000, in the present case) or Rs. 10,000 per month, whichever is less. Hence, Rs. 1,20,000 (i.e., Rs. 10,000 x 12) is exempt. Balance Rs. 96,000 (Rs. 2,16,000 – Rs. 1,20,000) is taxable in the hands of Mr. Uttam Prakash. |

**(2 MARKS)**

**ANSWER 6(D)**

- (i) On payment of sitting fees to the director** - Talent Private Limited is required to deduct tax at source @10% on sitting fees of Rs. 12,000 paid to its director, since the threshold limit of Rs. 30,000 u/s 194J is not applicable in respect of fees paid to a director of a company.
- (ii) On payment of call centre service charges** - Since Radha Limited is engaged only in the business of operation of call centre, Shyam Limited is required deduct tax at source@2% on the amount of Rs. 70,000 u/s 194J on 18.3.2019 i.e., at the time of credit of call centre service charges to the account of Radha Limited, since the said date is earlier than the payment date i.e., 28.3.2019.

**(2\*2 = 4 MARKS)**

## PART B : INDIRECT TAX

### ANSWER 7

### MULTIPLE CHOICE QUESTIONS

(1\* 6 = 6 MARKS)

| Q.NO | ANSWER |
|------|--------|
| 7.1  | A      |
| 7.2  | D      |
| 7.3  | A      |
| 7.4  | C      |
| 7.5  | B      |
| 7.6  | C      |

### ANSWER 8

### MULTIPLE CHOICE QUESTIONS

(2\* 3 = 6 MARKS)

| Q.NO | ANSWER |
|------|--------|
| 8.1  | C      |
| 8.2  | D      |
| 8.3  | B      |

### ANSWER 9

#### Computation of net GST payable in cash of Mr. Himanshu for September, 2018

| Particulars  | Value (Rs.) | CGST (Rs.) | SGST(Rs.) | IGST (Rs.) |
|--|-------------|------------|-----------|------------|
| <b><u>Total tax liability</u></b>  |             |            |           |            |
| Intra-State outward supplies of goods                                    | 25,00,000   | 2,25,000   | 2,25,000  |            |
| Inter-State outward supplies of goods                                    | 5,00,000    |            |           | 90,000     |
| Total tax liability (A)  |             | 2,25,000   | 2,25,000  | 90,000     |
| <b><u>Input Tax Credit (ITC)</u></b>                                     |             |            |           |            |
| Brought forward ITC  |             | 95,000     | 60,000    | 50,000     |
| Intra-State purchase of goods from registered dealer [Note-1]            | 14,00,000   | 1,26,000   | 1,26,000  |            |
| Inter-State purchase of goods from registered dealer [Note-1 and Note 4] | 3,00,000    | -          | -         | 54,000     |
| Intra-State purchase of goods from unregistered dealer [Note-2]          | 2,00,000    | -          | -         | -          |
| Purchase of car used for business purpose [Note-3]                       | -           | -          | -         | -          |
| Total ITC (B)  |             | 2,21,000   | 1,86,000  | 1,04,000   |
| Net GST liability = (A)-(B)  |             | 4,000      | 39,000    | (14,000)   |

|   |  |            |               |            |
|---|--|------------|---------------|------------|
| Less: Set off from IGST credit [Note-5] |  | 4,000      | 10,000        |            |
| <b>Net GST payable in cash</b>          |  | <b>Nil</b> | <b>29,000</b> | <b>Nil</b> |

(6 MARKS)

**Notes:**

- Every registered person is entitled to take credit of input tax charged on any inward supply of goods used/intended to be used in the course/furtherance of his business.
- Intra-State supplies received by a registered person from any unregistered supplier, are exempt from the whole of the tax leviable thereon under reverse charge till 30.09.2019. Since no tax has been paid, so no credit is available.
- Input tax paid on capital goods cannot be availed as ITC if depreciation has been claimed on such tax component. Moreover, ITC on motor vehicle (car) is blocked under section 17(5) of CGST Act, 2017.
- A registered person is entitled to avail input tax in respect of any supply of goods to him only if he has actually received the said goods. Since goods worth Rs. 1,00,000 have not been received by Mr. Himanshu in the month of September 2018, credit in respect of same cannot be claimed in the said month.
- Input tax credit of IGST has been used to pay IGST, CGST and SGST in that order.

(2 MARKS)

**ANSWER 10(A)**

Section 10 of the CGST Act, 2017 provides that a registered person, whose aggregate turnover in the preceding financial year did not exceed Rs. 1.5 crore (Rs. 75 lakh in Special Category States except Assam, Himachal Pradesh and Jammu and Kashmir), may opt to pay, in lieu of the tax payable by him, an amount calculated at the specified rates. However, if, inter alia, such registered person is engaged in the supply of services other than restaurant services, he shall not be eligible to opt for composition levy.

In the given case, since Mr. Ajay is a supplier of repair services, he is not eligible for composition scheme even though his aggregate turnover in the preceding FY does not exceed Rs. 1.5 crore. Therefore, he has to discharge his tax liability under regular provisions at the applicable rates.

However, with effect from 01.04.2019, Notification No. 2/2019 CT (R) dated 07.03.2019 has provided an option to a registered person whose aggregate turnover in the preceding financial year is upto Rs. 50 lakh and who is not eligible to pay tax under composition scheme, to pay tax @ 3% [Effective rate 6% (CGST+ SGST/UTGST)] on first supplies of goods and/or services upto an aggregate turnover of Rs. 50 lakh made on/after 1st April in any FY, subject to specified conditions.

Thus, in view of the above-mentioned provisions, Mr. Ajay is eligible to avail the benefit of concessional payment of tax under Notification No. 2/2019 CT (R) dated 07.03.2019 as his aggregate turnover in the preceding FY does not exceed Rs. 50 lakh and he is not eligible to opt for the composition scheme.

Thus, the amount of tax payable by him under Notification No. 2/2019 CT (R) dated 07.03.2019 is Rs. 2,10,000 [6% of Rs. 35 lakh].

A registered person cannot opt for Notification No. 2/2019 CT (R) dated 07.03.2019, if inter alia, he is engaged in making any inter-State outward supplies. However, there is no restriction on inter-State procurement of goods. Hence, answer will remain the same even if Mr. Ajay procures few items from neighbouring State of Madhya Pradesh.

(6 MARKS)

**ANSWER 10(B)**

A registered person [other than an insurer/banking company/financial institution, including an NBFC] supplying taxable services shall issue a tax invoice before or after the provision of service, but within a period of 30 days from the date of supply of service.

Thus, in the given case, invoice has to be issued within 30 days of 5<sup>th</sup> June 2018 (date of supply of service), i.e. on or before, 5<sup>th</sup> July 2018. **(2 MARKS)**

**ANSWER 10(C)**

The cash available in any minor head of a major head cannot be utilised for any other minor head of the same major head.

Therefore, in the given case, amount of Rs. 10,000 available under minor head 'tax' of major head 'SGST' cannot be utilised for payment of liability of Rs.2,000 under minor head 'interest' of the same major head. **(2 MARKS)**

**ANSWER 11(A)**

- (i) Section 17(5) of the CGST Act, 2017, *inter alia*, blocks input tax credit in respect of motor vehicles for transportation of persons having approved seating capacity of not more than 13 persons (including the driver), except when they are used for making further supply of such motor vehicles.

Being a dealer of cars, "Hans Premium" has purchased the cars for further supply. Therefore, ITC on such cars is allowed even though seating capacity is less than 13.

- (ii) Section 17(5) of the CGST Act, 2017 *inter alia*, blocks input tax credit in respect of outdoor catering services. However, ITC is available on such services, when the same are provided by an employer to its employees under a statutory obligation.

Thus, in view of the above-mentioned provisions, Sun & Moon packers Pvt. Ltd. can avail ITC in respect of outdoor catering services availed by it as the same is being provided under a statutory obligation. **(2\*2 = 4 MARKS)**

**ANSWER 11(B)**

- (i) Services provided to a recognized sports body 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 vide Notification No. 12/2017 CT(R) dated 28.06.2017. Thus, GST is payable in case of services provided to a recognized sports body as curator of national team.
- (ii) Services by way of public conveniences such as provision of facilities of bathroom, washrooms, lavatories, urinal or toilets are not liable to GST as it is specifically exempt as per Notification No. 12/2017 CT(R) dated 28.06.2017. Thus, GST is not payable in this case.

**(2 MARKS)**

**ANSWER 11(C)**

Raghav is eligible for higher threshold limit of turnover for registration, i.e. Rs. 40 lakh as he is exclusively engaged in intra-State supply of goods. However, since Raghav is engaged in supplying readymade garments from a Special Category State i.e. Tripura, the threshold limit gets reduced to Rs. 10 lakh. Thus, Raghav is liable to get registered under GST as his turnover

exceeds Rs.10 lakh. Further, he is required to obtain registration in both Assam and Tripura as he is making taxable supplies from both the States **(2 MARKS)**

**ANSWER 11(D)**

Service by an unincorporated body or a registered non-profit entity, to its own members by way of share of contribution up to an amount of Rs. 7,500 per month per member for sourcing of goods/services from a third person for the common use of its members in a housing society or residential complex, is exempt.

In the given case, monthly contribution per month per member received by Gokul Residents' Welfare Association exceeds Rs.7,500.

Therefore, exemption will be available up to Rs. 7,500 and GST would be payable on the amount in excess of Rs. 7,500 (viz. Rs. 1,500 in this case). **(2 MARKS)**

**ANSWER 12(A)**

**Computation of value of taxable supply**

| Particulars   | Rs.           |
|---|---------------|
| Price of the machine (Price Rs. 30,000 - Rs. 5,000 subsidy) [Note-1]      | 25,000        |
| Third party inspection charges [Note-2]                                   | 5,000         |
| Freight charges for delivery of the machine value [Note-3]                | 2,000         |
| Total   | 32,000        |
| Less: Discount @ 2% on Rs. 30,000 being price charged to BP Ltd. [Note-4] | <u>600</u>    |
| Value of taxable supply   | <u>31,400</u> |

Notes:-

1. Since subsidy is received from State Government, the same is deductible to arrive at taxable value under section 15 of the CGST Act, 2017.
2. Any amount that the supplier is liable to pay in relation to such supply but has been incurred by the recipient, is includible in the value of supply under section 15 of the CGST Act, 2017.
3. Since arranging freight is the liability of supplier, it is a case of composite supply and thus, freight charges are added in the value of principal supply.
4. Discount given before or at the time of supply if duly recorded in the invoice is deductible from the value of supply under section 15 of the CGST Act, 2017.

**(5 MARKS)**

**ANSWER 12(B)****Credit note is required to be issued by the Supplier:-**

- (i) If taxable value charged in the tax invoice is found to exceed the taxable value in respect of supply of goods and/or services, or
- (ii) If tax charged in the tax invoice is found to exceed the tax payable in respect of supply of goods and/or services, or
- (iii) if goods supplied are returned by the recipient, or
- (iv) if goods and/or services supplied are found to be deficient.

**Debit note is required to be issued by the Supplier:-**

- (i) if taxable value charged in the tax invoice is found to be less than the taxable value in respect of supply of goods and/or services or
- (ii) if tax charged in the tax invoice is found to be less than the tax payable in respect of supply of goods and/or services

**(5 MARKS)****OR****ANSWER 12(B)**

- (i) Casual taxable person means a person who occasionally undertakes transactions involving supply of goods and/or services in the course or furtherance of business, whether as principal, agent or in any other capacity, in a State/UT where he has no fixed place of business.
- (ii) No, a casual taxable person cannot opt for the composition scheme.
- (iii) A casual taxable person (CTP) is liable to obtain registration compulsorily under GST laws, at least 5 days prior to commencement of business.  
However, threshold limit of Rs. 20 lakh (Rs. 10 lakh in case of Special Category States other than Jammu & Kashmir) is available in case of CTP making taxable supplies of specified handicraft goods.
- (iv) The registration certificate issued to a casual taxable person will be valid for:
  - (a) the period specified in the registration application, or
  - (b) 90 days from the effective date of registrationwhichever is earlier.
- (v) Yes, the validity of registration certificate issued to a casual taxable person can be extended. It can be extended by a further period not exceeding 90 days.

**(5 MARKS)**