



J.K. SHAH[®]
TEST SERIES
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SUGGESTED SOLUTION

CA INTERMEDIATE NOV'19

SUBJECT- TAXATION

Test Code - PIN 5077

BRANCH - () (Date :)

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ANSWER : 1

INCOME FROM SALARY	Rs.	Rs.
Basic pay		1,20,000
Project allowance	-	1,29,400
Education allowance :	6,600	-
Less : Exempt (Rs. 100 × 2 × 12):	2,400	4,200
Hostel allowance	7,800	
Less : Exempt (Rs. 300 × 12) :	3,600	4,200
Transport allowance	19,200	
Less : Exempt	Nil	19,200
Perquisite in respect of car		21,600
Perquisite in respect of free meals [not chargeable to tax]		Nil
Employer's contribution towards unrecognised provident fund (*not taxable even if it exceeds 12% of salary)		Nil*
Gross salary		2,98,600
Less : Standard	40,000	2,58,600
PROFITS AND GAINS OF BUSINESS OR PROFESSION		
Income from business	4,81,600	
Profits from a firm (exempt)	Nil	
Profit from an association of persons [See Note 2]	Nil	
Profit from a Hindu undivided family	Nil	4,81,600
INCOME FROM OTHER SOURCES		
Income from betting	2,400	
Fixed deposit interest from bank	14,000	
Savings bank interest	48,000	64,400
Gross total income		8,04,600
Less : Deduction under sections 80C to 80U		
Under section 80C [investment in NSC]		1,05,000
Under section 80D (i.e., own mediclaim insurance premium : Rs. 36,000 plus mediclaim premium on the life of his father : Rs. 30,500)		66,500
Under section 80G [i.e., 50% of Rs. 3,000]		1,500
Under section 80TTB(FD interest : Rs. 14,000 + savings bank interest : Rs. 48,000, Maximum deduction is Rs. 50,000)		50,000
Net income		5,81,600

Notes :

1. Prerequisite in respect of car is chargeable to tax in the hands of employee.
2. Share of profits from the association of persons is not included in the total income, as the association of persons is chargeable to tax at the maximum marginal rate.

(14 MARKS)**ANSWER : 2**

- A. Control and management of business A is situated in India. X (HUF) is, therefore, resident in India for all sources of income for the assessment year 2019 – 20**. The Karta of HUF is non – resident in India in 10 years immediately prior to the previous year 2018 – 19. X (HUF) is, therefore, resident but not ordinarily resident in India for the assessment year 2019 – 20.

	Rs.
Income of business A	46,000
Income of business B (Rs. 80,000, being earned and received outside India from a business which is controlled from outside India is not chargeable to tax in the case of resident but not ordinarily resident taxpayer)	36,000
Income of business C	38,000
Net income	1,20,000

(4 MARKS)

- B.

S.No.	Taxable/ Not Taxable	Amount liable to tax (Rs.)	Reason
(i)	Not Taxable	-	Share received by member out of the income of the HUF is exempt under section 10(2).
(ii)	Not Taxable	-	Pension received by Mr. Xavier, a former Central Government's employee who is a 'Param Vir Chakra' awardee, is exempt under section 10(18).
(iii)	Taxable	1,27,000	Agricultural income from a land in any foreign country is taxable in the case of a resident taxpayer as income under the head "Income from other sources". Exemption under section 10(1) is not available in respect of such income.

(iv)	Taxable	72,000	Agricultural income is exempt from tax as per section 10(1). Agricultural income means, <i>inter alia</i> , any rent or revenue derived from land which is situated in India and is used for agricultural purposes. In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. In effect, the land is not being put to use for agricultural purposes. Therefore, Rs. 72,000, being rent received from letting out of agricultural land for movie shooting, is not exempt under section 10(1). The same is chargeable to tax under the head "Income from other sources".
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(6 MARKS)

C.

(i) **Not allowable as deduction:** As per section 40A(7), no deduction is allowed in computing business income in respect of any provision made by the assessee in his books of account for the payment of gratuity to his employees except in the following two cases:

- (1) where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund or;
- (2) where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the previous year.

Therefore, in the present case, the provision made on the basis of actuarial valuation for payment of gratuity has to be disallowed under section 40A(7), since, no payment has been actually made on account of gratuity.

Note: It is assumed that such provision is not for the purpose of contribution towards an approved gratuity fund.

(ii) **Allowable as deduction:** As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A(3) is attracted even though the cash payment for the expense exceeds Rs. 10,000.

Therefore, in the given case, disallowance under section 40A(3) is not attracted since, cash payment for purchase of oil seeds is made directly to the farmer.

(4 MARKS)

ANSWER : 3

A.

	House I Rs.	House II Rs.
Gross annual value		
Step I – Reasonable expected rent of the property [MV or FR, whichever is higher, but subject to maximum of SR]	66,000	1,00,000
Step II – Rent received / receivable after deducting unrealized rent	18,000	1,17,000

but before adjusting loss due to vacancy		
Step III – Amount computed in Step I or Step II, whichever is higher	66,000	1,17,000
Step IV – Loss due to vacancy	Nil	Nil
Step V – Gross annual value is Step III minus Step IV	66,000	1,17,000
Less : Municipal tax	10,000	17,000
Net annual value	56,000	1,00,000
Less : Deductions under section 24		
Standard deduction (30% of Rs. 56,000 or Rs. 1,00,000)	16,800	30,000
Interest on borrowed capital	2,000	40,000
Income from property	37,200	30,000
Income from property		67,200
Business income		12,80,000
Gross total income		13,47,200
Less : Deduction under section 80C (contribution to public provident fund)		1,50,000
Net income		11,97,200
Income tax on net income		1,69,160
Add : Surcharge (applicable only if net income exceeds Rs. 50 lakh)		Nil
Tax and surcharge		1,69,160
Add : Health and education cess (4% tax and surcharge)		6,766
Tax liability (rounded off)		1,75,930

Notes :

- In this case, House II is self – occupied up to June 30, 2018. It is let out with effect from July 1, 2018. AS the property having a single, residential unit is self – occupied for a part of the year (not for the whole year) and let out for the remaining part of the year, the benefit of section 23(2)(a) is not available. It is covered by situation given in para 69.1 – 4. The income will have to be computed as if the property is let out. Similarly, the income of House I will be calculated as if the property is let out.
- It has been assumed that there is no unrealized rent.

(8 MARKS)

- B.** For the assessment year 2017 – 18, X has availed of an exemption of Rs. 29,90,000 under section 54F. This exemption was given to X on the basis of his investment in a residential property at Ranchi. This property was purchased on June 1, 2017. Under section 54F, the new property should not be transferred within 3 years (otherwise exemption would be taken back). In this case, X was supposed to retain Ranchi property up to May 31, 2020. However, he has transferred Ranchi property on September 17, 2018. Consequently, the exemption under section 54F will be taken back and the quantum of exemption will become long – term capital gain chargeable to tax for the previous year 2018 – 19. Income of X for the assessment year 2019 – 20 shall be calculated as follows –

	Rs.
Short – term capital gain on transfer of Ranchi property	
Full value of consideration (stamp duty value is taken, as it exceeds 105% of sale consideration)	46,30,000
Less : Cost of acquisition	45,00,000
Short term capital gain	1,30,000
Long term capital gain (Ranchi property is transferred within 3 years and exemption under section 54F will be taken back)	29,90,000
Income from other sources	40,000
Net income	31,60,000

Tax liability – X is resident in India. His net income is Rs. 31,60,000. Long – term capital gain is Rs. 29,90,000. Income other than long – term capital gain is Rs. 1,70,000. Exemption limit is Rs. 2,50,000. In this case, he cannot avail of full exemption limit from other income. The deficiency of Rs. 80,000 shall be deducted from long – term capital gain and, consequently, on long – term capital gain of Rs. 29,10,000 X will have to pay tax at the rate of 20%. Tax liability including health and education cess comes to Rs. 6,05,280.

(6 MARKS)

ANSWER : 4

A.

	Rs.
Loss of Business A for the previous year 2018 – 19	(-) 1,20,000
Profit of Business B for the previous year 2018 – 19	1,35,000
Profit of Business C for the period April 1, 2018 to April 10, 2018	Nil
Interest on debentures held as stock – in – trade	1,48,000
Current business profit	1,63,000
Less : Brought forward loss of Business A, Business c and Business D [i.e., (Rs. 1,45,000 + Rs. 1,16,000 + Rs. 1,04,000) subject to the maximum of Rs. 1,63,000]	1,63,000
Income under the head “Profit and gains of business or profession”	Nil
COMPUTATION OF NET INCOME	
Income from house property	1,17,000
Profit and gains of business or profession	Nil
Capital gains (Loss of Rs. 1,46,000 will be carried forward for set off against long – term capital gain)	Nil
Income from other sources	
Interest on bonds held as investment	1,60,000
Dividend from foreign company	1,80,000
Gross total income	4,57,000
Less : Deduction under sections 80C to 80U	Nil
Net Income	4,57,000

Notes :

- As debentures are held by X as stock – in – trade, interest income is a part of business profits. Interest income can, therefore, be utilized for claiming set off of brought forward business losses. This rule is, however, not applicable in the case of interest on bonds as bonds are held by X as investment.
- Though Business D was not in existence during the previous year 2018 – 19, yet the brought forward business loss of the year 2017 – 18 can be set off against the income of the assessment year 2019 – 20.

(10 MARKS)

B. The proviso to section 234C contains the provisions for payment of advance tax in case of capital gains and casual income.

Advance tax is payable by an assessee on his/its total income, which includes capital gains and casual income like income from lotteries, crossword puzzles, etc.

Since it is not possible for the assessee to estimate his capital gains, or income from lotteries etc., it has been provided that if any such income arises after the due date for any instalment, then, the entire amount of the tax payable (after considering tax

deducted at source) on such capital gains or casual income should be paid in the remaining instalments of advance tax, which are due.

Where no such instalment is due, the entire tax should be paid by 31st March of the relevant financial year.

No interest liability on late payment would arise if the entire tax liability is so paid.

(4 MARKS)

ANSWER : 5

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

ANSWER : 6

	Y Ltd. Rs.	Z Ltd. Rs.
Taxable value of supply of goods / services	26,80,000	5,00,000
Add : GST -		
- IGST @ 18% of Rs. 5,00,000	-	90,000
- CGST @ 9% of Rs. 26,80,000	2,41,200	-
- SGST (Tamil Nadu) @ 9% of Rs. 26,80,000	2,41,200	-
Total amount charged by X Ltd.	31,62,400	5,90,000

	IGST Rs.	CGST Rs.	SGST Rs.
Tax on outward supply	90,000	2,41,200	2,41,200
Less : Input tax credit of IGST (balance IGST : Rs. 92,000 – Rs. 90,000 = Rs. 2,000)	90,000	-	-
Balance	Nil	2,41,200	2,41,200
Less : IGST	-	2,000	-
Balance	Nil	2,39,200	2,41,200
Less : CGST	-	5,000	-
Balance	Nil	2,34,200	2,41,200
Less : SGST (balance SGST : Rs. 9,00,000 – Rs. 2,41,200 = Rs. 6,58,800)	-	-	2,41,200
Balance payable through electronic cash ledger	Nil	2,34,200	Nil
Balance available in electronic credit ledger on August 31, 2018	Nil	Nil	6,58,800

Note – On purchase of Honda City car, input tax credit is not available (as seating capacity of motor vehicle is not more than 13 persons.)

ANSWER : 7

- A. (i) Computation of net GST Payable for the financial year 20XX – XY

Particulars	Value (Rs.)	CGST (Rs.)	SGST (Rs.)
Tax liability			
Intra – State supplies made to registered persons	10,00,000	90,000	90,000
Intra State supplies made to unregistered persons	2,00,000	18,000	18,000
Total (A)		1,08,000	1,08,000
Input Tax credit			
Supply of iron in lots by M/s Hard Limited [Note – 1]	10,00,000	-	-
Supply of IT engineering service [Note – 2]	11,00,000	99,000	99,000
Total (B)		99,000	99,000
Net GST payable (A) – (B)		9,000	9,000

Notes : -

- Section 16 of CGST Act, 2017 provides that where the goods against an invoice are received in lots or installments, the registered person shall be entitled to take credit upon receipt of the last lot or installment. Although 900 tonnes of iron are received in financial year 20XX – XY, the last lot of iron has been received after FY 20XX – XY only, i.e. on 5, April 20XY, thus no input tax credit is available in FY 20XX – XY. In view of above provisions, full input tax credit in respect of transaction (a) will be claimed in financial year 20XY – 20YZ i.e. on receipt of last installment.
- Section 16 of CGST Act, 2017 inter alia provisions full input tax credit of Rs. 1,98,000/- can be claimed in financial year 20XX – XY.

(3 MARKS)

- (ii) Section 16 of CGST Act, 2017 provides that where a recipient fails to pay to the supplier of goods or services or both, other than the supplies on which tax is payable on reverse charge basis, the amount towards the value of supply along with tax payable thereon within a period of 180 days from the date of issue of invoice by the supplier, an amount equal to the input tax credit availed by the recipient shall be added to his output tax liability, along with interest thereon, in the prescribed manner. However, the recipient shall be entitled to avail of the credit of input tax on payment made by him of the amount towards the value of supply of goods or services or both along with tax payable thereon.

Since the full amount of value alongwith tax payable thereon has not been paid by M/s Comfortable (P) Ltd. to M/s Dynamic Infotech P) Ltd. within a period of 180 days from the date of issue of invoice, the proportionate amount of input tax credit availed needs to be reversed. However, the reversal will be done in the financial year 20XY – YZ during when the time period of 180 days expire.

Input tax credit to be reversed in financial year 20XY – YZ

Particulars	Amount (Rs.)
Total value of procurement of IT engineering service	11,00,000
Add : Total GST on the above value @ 18% [CGST + SGST]	1,98,000
Value including GST	12,98,000
Amount paid for the said service including GST	7,08,000

[Rs, 4,13,000 + Rs. 2,95,000] Amount [Value alongwith tax payable thereon] not paid for the said service	5,90,000
ITC to be reversed [Rs. 5,90,000 × 18/118]	90,000

(3 MARKS)

- B. Section 15(2) mandates the addition of certain elements in the value of supply. Clause (c) of section 15(2) specifies that amount charged for anything done by the supplier in respect of the supply at the time of or before delivery of goods or supply of services shall be included in the value of supply.

Since AKJ Foods Pvt. Ltd. does the testing before the delivery of goods, the charges therefor will be included in the value of the consignment. Therefore, AKJ Foods Pvt. Ltd.'s argument is not correct. The testing fee should be added to the price to arrive at value of the consignment.

(4 MARKS)

ANSWER : 8

- A.
1. Preservation of wildlife – Preservation of wildlife service supplied by a charitable trust is not chargeable to GST. It is covered by Exemption Notification (Entry 1).
 2. Musical performance – Service by way of right to admission to a musical performance is exempt from GST vide Exemption Notification (Entry 81). However, the exemption is available if consideration for admission is not more than Rs. 500 per person. In this case, the entire amount is subject to GST.
 3. Fees charged by trade union – Fees charged by trade union from its members is not subject to levy of GST. Exemption is given by Exemption Notification (Entry 77).

(3 MARKS)

- B. **Eligible person** : An eligible person is as follows –

- **Supply of Goods** : A registered person, who is in the business of supply of goods, can opt for Composition Scheme. However, a manufacturer of the following goods is not eligible for Composition Scheme –
 - Ice – cream and other edible ice, whether or not containing cocoa.
 - Pan masala.
 - Tobacco and manufactured tobacco.
- **Supply of food** - If the taxpayer is engaged in supply of services [being supply of food/ any other article for human consumption /any drink (other than alcoholic liquor) for cash, deferred or any other valuable consideration], then he can opt for Composition Scheme, if other conditions are satisfied.
- **Supply of any other service** - If the taxpayer is engaged in supply of any other service, he cannot opt for Composition Scheme. As a result, a manufacturer/ trader (who is also engaged in supply of services) is unable to opt for the Composition Scheme even if his turnover from supply of services is very small as compared to the supply of goods. With a view to enable such taxpayer to avail of the benefit of Composition Scheme, the relevant provision has been amended (with effect from February 1, 2019). However, after the amendment, one can opt for Composition Scheme only if the value supply of services does not exceed 10 per cent of the turnover in the preceding financial year in a State /Union Territory or Rs. 5 lakh, whichever is higher.
For this purpose, “value of supply of services” does not include value of supply of exempt services (by way of extending deposits, loans or advances where consideration is represented by way of interest or discount). To put it differently, for calculating the

limit of Rs. 5 lakh or 10 percent of turnover, value of exempt supply of services (i.e., interest on loan or deposit) will not be considered.

(3 MARKS)

C. Amendment of registration :

Where there is any change in any of the particulars furnished in the application for registration, the registered person shall, within a period of 15 days of such change, submit an application electronically in Form GST REG – 14, along with the documents relating to such change.

- Within 15 days, the proper officer can issue electronically amendment order in Form GST REG – 15. This amendment order is possible where the change relates to –
 - Legal name of business.
 - Address of the principal place of business or any additional place (s) of business.
 - Addition, deletion or retirement of partners or directors, Karta, Managing Committee Board of Trustees, Chief Executive Officer or equivalent, responsible for the day to day affairs of the business.
- Where a change in the constitution of any business results in the change of the PAN of a registered person, the said person shall apply for fresh registration in Form GST REG – 01.
- Where the proper officer is of the opinion that the amendment sought is not warranted (or the documents furnished therewith are incomplete), he may, within a period of 15 working days serve a notice in (Form GST REG – 03. This show cause notice can be replied within a period of 7 working days (reply can be sent in Form GST REG – 04).
- The proper officer can reject the application (if the reply not satisfactory or if there is no reply).
- If the proper officer fails to take action within the time – limits given above, the certificate of registration shall stand amended to the extent applied for and the amended certificate shall be made available to the registered person on the common portal.

(4 MARKS)

ANSWER : 9

- A.** In the case of continuous supply of services, parameters for due date of issue of invoice are given by section 31(5). As per this section, if due date is ascertainable from the contract, invoice shall be issued on or before the due date. Installment 1 is due for payment on October 21, 2018(i.e., date of agreement: October 21, 2018). Other installments are linked to the completion of building. In case payment is linked to the completion of an event, the before the dates given below –

Event	Completion of milestone for payment	Invoice to be issued on or before the dates given below
Casting of first floor slab	November 2, 2018	November 2, 2018
Casting of second floor slab	December 8, 2018	December 8, 2018
Completion of flooring	April 8, 2019	April 8, 2019
Completion of building	June 9, 2019	June 9, 2019

(5 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.

(5 MARKS)

ANSWER : 10

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