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CA INTERMEDIATE NOV'19

SUBJECT- TAXATION

Test Code – PIN 5078

BRANCH - () (Date :)

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ANSWER : 1

Computation of income of X for the assessment year 2019 – 20 –

	Rs.	Rs.
Income from house property [See Note 1]		3,36,000
Profit and gains of business or profession [see Note 2]		16,65,000
Income from other sources :		
- Interest on fixed deposit	70,000	
- Units (exempt)	Nil	
- Gift – in – kind (market value on the date of gift is considered)	1,40,000	2,10,000
Gross total income		20,11,000
Less : Deductions		
Under section 80C (Rs. 65,000 + Rs. 10,000)		75,000
Under section 80TTB (interest on bank fixed deposit) (maximum deduction : Rs. 50,000)		50,000
Net Income		18,86,000
Notes -		
Computation of income under the head ‘Income house property’-		
First property (let out) portion :		
		Rs.
Gross annual value		4,80,000
Less : Municipal taxes		Nil
Net annual value		4,80,000
Less : Standard deductions		1,44,000
Income under the head “Income from house property”		3,36,000
2. Computation of business Income -		
Net profit as per profit and loss account		15,81,000
Adjustment		
Add : Drawings		4,00,000
Add : Life insurance premium		65,000
Add : Contribution to provident fund		10,000
Less : Depreciation (Rs. 1,10,000 – Rs. 90,000)		(-) 20,000
Less : Rent		(-) 4,80,000
Less : Interest from deposits		(-) 70,000
Less : Interest on units (exempt)		(-) 15,000
Less : Gold coins		(-) 46,000
Add : Interest on loan		40,000
Business income		14,65,000

(14 MARKS)

ANSWER : 2

A. Computation of interest payable under section 234B by Mr. Sailesh

Particulars	Rs.
Tax on total income of Rs.10,80,000 [Business income of Rs.8,10,000 + Income from other sources of Rs.2,70,000]	1,36,500
<i>Add:</i> Health and education cess@4%	<u>5,460</u>
Tax on total income	1,41,960
<i>Less:</i> Tax deducted at source	<u>25,000</u>
Assessed Tax	<u>1,16,960</u>
90% of assessed tax	1,05,264
Advance tax paid	1,03,000
Interest under section 234B is leviable since advance tax of Rs.1,03,000 paid is less than Rs.1,05,264, being 90% of assessed tax	
Number of months from 1 st April, 2019 to 11 th December, 2019, being the date of processing of return	9
Interest under section 234B@1% per month or part of a month for 9 months on Rs.13,900 [i.e., difference between assessed tax of Rs.1,16,960 and advance tax of Rs.1,03,000 paid, being Rs.13,960 which is rounded off to Rs.13,900 under Rule 119A of Income-tax Rules, 1962]	1,251

Consequences for delay in filing return of income on or before the due date

Interest under section 234A and fee under section 234F would be attracted for filing return of income beyond the due date specified under section 139(1).

Interest under section 234A

Since Mr. Sailesh's accounts are audited under section 44AB, the due date for filing of return for A.Y. 2019-20, in his case, is 30.09.2019. Mr. Sailesh has filed his return on 11.12.2019 i.e., interest under section 234A will be payable for 3 months (from 1.10.2019 to 11.12.2019) @ 1% per month or part of month on the amount of tax payable on the total income, as reduced by TDS and advance tax paid i.e., Rs.13,960 rounded off to Rs.13,900 under Rule 119A of Income-tax Rules, 1962

Interest u/s 234A = Rs.13,900 x 1% x 3 = Rs.417

Fee for late filing of return under section 234F

Since Mr. Sailesh has furnished his return of income after the due date but before 31.12.2019 and his total income exceeds Rs.5 lakhs, a fee of Rs.5,000 will be payable by him.

(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 subject to fulfillment of other conditions specified in section 10AA.

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

(i) If Unit in SEZ was set up and began manufacturing from 22-05-2011:

Since A.Y. 2019-20 is the 8th assessment year from A.Y. 2012-13, relevant to the previous year 2011-12, 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.

$$\begin{aligned} &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\% \\ &= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 50\% = ₹ 22.50 \text{ lakhs} \end{aligned}$$

(ii) If Unit in SEZ was set up and began manufacturing from 14-05-2015:

Since A.Y. 2019-20 is the 4th assessment year from A.Y. 2016-17, relevant to the previous year 2015-16, 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.

$$\begin{aligned} &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\% \\ &= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 100\% = ₹ 45 \text{ lakhs} \end{aligned}$$

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. (Rs.)	Unit in DTA (Rs.)	Unit in SEZ (Rs.)
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

(5 MARKS)

C. The clubbing provisions under section 64(1)(viii) are attracted in case of transfer of any asset, directly or indirectly, otherwise than for adequate consideration, to any person to the extent to which the income from such asset is for the immediate or deferred benefit of son's wife. Such income shall be included in computing the total income of the transferor-individual.

Therefore, income of Rs. 36,000 meant for the benefit of daughter-in-law is chargeable to tax in the hands of transferor i.e., Mrs. Kasturi in this case.

The contention of Mrs. Kasturi is, hence, not valid in law

(4 MARKS)

ANSWER : 3

A.

Computation of written down value of block of assets of Venus Ltd. as on 31.3.2019

Particulars	Plant & Machinery (Rs. in lacs)	Computer (Rs. in lacs)
Opening written down value (as on 01.04.2018)	20	Nil
<i>Add:</i> Actual cost of new assets acquired during the year		
New machinery purchased on 1.9.2018	10	-
New car purchased on 1.12.2018	8	-
Computer purchased on 3.1.2019	-	4
	38	4

Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Closing Written Down Value (as on 31.03.2019)	38	4

Computation of Depreciation for A.Y. 2019-20

	Particulars	Plant & Machinery (Rs. in lacs)	Computer (Rs. in lacs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	<u>Normal Depreciation</u>		
	- Opening WDV of plant and machinery (Rs. 20 lacs x 15%)	3.00	-
	- New Machinery purchased on 1.9.2018 (Rs. 10 lacs x 15%)	1.50	-
	(A)	4.50	-
	<u>Additional Depreciation</u>		
	New Machinery purchased on 1.9.2018 (Rs. 10 lakhs x 20%)	2.00	-
	Balance additional depreciation in respect of new machinery purchased on 31.10.2017 and put to use for less than 180 days in the P.Y. 2017-18 (Rs. 10 lakhs x 20% x 50%)	1.00	
	(B)	3.00	
II.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any		
	<u>Normal Depreciation</u>		
	New car purchased on 1.12.2018 [Rs. 8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2019 [Rs. 4 lacs x 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80

Total Depreciation (A+B+C)**8.10****0.80****Notes:**

- (1) As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005, by an assessee engaged, *inter alia*, in the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed in respect of, *inter alia*,–

- (i) any office appliances or road transport vehicles;
- (ii) any machinery or plant installed in, *inter alia*, office premises.

In view of the above provisions, additional depreciation cannot be claimed in respect of -

- (i) Car purchased on 1.12.2018 and
- (ii) Computer purchased on 3.1.2019, installed in office.

- (2) As per third proviso to section 32(1)(ii), balance 50% of additional depreciation on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding previous year.

Hence, in this case, the balance 50% additional depreciation (i.e., Rs. 1 lakhs, being 10% of Rs. 10 lakhs) in respect of new machinery which had been purchased during the previous year 2017-18 and put to use for less than 180 days in that year can be claimed in P.Y. 2018-19 being immediately succeeding previous year.

(8 MARKS)**B. Income computation for the assessment year 2019 – 20**

	Rs.
Sale consideration	18,00,000
Less : Indexed cost of acquisition (Rs. 1,55,000 × 280 ÷ 264)	1,64,394
Balance	16,35,606
Less : Exemption Under section 54EC (available only if capital gain arises on transfer of land or building or both)	Nil
Under section 54F (not available as deposit is made after the expiry of due date of submission of return of income for the assessment year 2019 – 20)	Nil
Long – term capital gain	16,35,606
Other income	8,00,000
Net income (rounded off)	24,35, 610

Note : Fair market value of shares on the date of transfer is not taken into consideration, as section 50CA is applicable only in the case of transfer of unlisted shares [see para 101.20].
Income computation for the assessment year 2022 – 23 - For the assessment year 2022 – 23, Rs. 10,20,000 will be chargeable to tax. Deemed long – term capital gain (because of non – utilization of deposit account) is not taxable, as initially exemption was not given under section 54F.

(6 MARKS)

ANSWER : 4

- A.** Mrs. X has generated long – term capital gain on transfer of silver which is taxable @ 20%. She has also earned short – term capital gain on transfer of shares (subject to securities transaction tax) which is taxable @15% under section 111A. However, such short – term capital gain given in the problem is Rs. 45,000, which is calculated after deducting securities transactions tax of Rs. 160. Securities transaction tax is not deductible under the head “Capital gain”. Consequently, taxable short – term capital gain is Rs. 45,160. Short – term capital gain on gold is taxable @30%. Income under the head “Capital gain” will be calculated as follows –

	Short – term gold (30%) Rs.	Long – term silver (20%) Rs.	Short – term silvers (15%) Rs.
Capital gain	6,000	10,000	45,160
Less : Short – term capital loss on transfer of painting : Rs. 17,800	6,000	10,000	1,800
Less : Brought forward capital loss (cannot be adjusted as return was submitted after due date)	-	-	-
Balance	Nil	Nil	43,360
<i>Computation of income -</i>			
		Rs.	Rs.
Speculative business income		11,32,000	
Less : Brought forward non – speculative loss		1,40,000	
Less : Brought forward loss form the activity of owning and maintaining camel races		6,000	9,86,000
Short – term capital gain under section 111A		_____	43,360
Gross total income			10,29,360
Less : Deduction under section 80C (not available)			Nil
Net income			10,29,360
Tax on net income			
Income – tax (15% of Rs. 43,360 and normal tax on the balance)		1,13,704	
Add : Health and education cess		4,548	
Tax liability (rounded off)		_____	1,18,250

(7 MARKS)

- B.** Section 64(1) of the Income – Tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Mrs. Kapoor received a gift of Rs. 2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Mrs. Kapoor’s husband for A.Y. 2019 – 20 is computed as under :

Particulars	Mrs. Kapoor's Capital Contribution	Capital Contribution Out of gift from husband	Total
	Rs.	Rs.	Rs.
Capital as at 1.4.2017	3,00,000	-	3,00,000
Investment on 10.04.2017 out of gift received from her husband	-	2,00,000	2,00,000
	3,00,000	2,00,000	5,00,000
Profit for F.Y. 2017 – 18 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2017	1,50,000		1,50,000
Capital employed as at 1.4.2018	4,50,000	2,00,000	6,50,000
Profit for F.Y. 2018 – 19 to be apportioned on the basis of capital employed as at 1.4.2018 (i.e., 45 : 20)	2,70,000	1,20,000	3,90,000

Therefore, the income to be clubbed in the hands of Mrs. Kapoor's husband for A.Y. 2019 – 20 is Rs. 1,20,000.

(4 MARKS)

C. Return of income to be verified by whom

	Person	Return of income to be verified by
(i)	Local authority	The principal officer
(ii)	Firm, having no managing partner	Any partner of the firm, not being a minor

(3 MARKS)

ANSWER : 5

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

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	CGST	SGST
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	2,39,000	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).

(8 MARKS)

ANSWER : 7

A. Computation of value of taxable supply and amount of GST payable

S.No.	Particulars	Rs.
(1)	Running a boarding school [Services provided by an educational institution to its students, faculty and staff are exempt.]	Nil
(2)	Fees from prospective employer for campus interview [Not exempt]	1,70,000
(3)	Education services for obtaining the qualification recognized by law of foreign country [An institution providing education services for obtaining qualification recognized by a foreign country does not qualify as educational institution. Thus, said services are not exempt.]	3,10,000
(4)	Renting of furnished flats for temporary stay of different persons [Services by a hotel, inn, guest house, club or campsite, by whatever name called, for residential or lodging purposes, having Value of Supply of a unit of accommodation below Rs. 1,000 per day or equivalent are exempt]	Nil
(5)	Conducting Modular Employable Skill Course [An institution providing Modular Employable Skill Course qualifies as educational institution. Services provided by an educational institution to its students, faculty and staff are exempt.]	Nil
(6)	Conducting private tuitions [Not exempt.]	3,00,000
(7)	Running martial arts academy for young children [Not exempt under GST laws]	55,000
(8)	Conducting career counselling session [Not exempt under GST laws]	1,65,000
	Value of taxable supply	10,00,000
	GST payable @ 18%	1,80,000

(6 MARKS)

B.

S. No.	Date of payment by recipient for supply of services	Date of issue of invoice by supplier of services	Date immediately following 60 days from invoice	Time of supply of goods [Earlier of (1) & (3)]
	(1)	(2)	(3)	
(i)	August 10	June 29	August 29	August 10
(ii)	August 10	June 1	August 1	August 1
(iii)	Part payment made on June 30 and balance amount paid on September 1	June 29	August 29	June 30 for part payment and August 29 for balance amount
(iv)	Payment is entered in the books of account on June 28 and debited in recipient's bank account on June 30	June 1	August 1	June 28 (i.e. when payment is entered in the books of account of the recipient)
(v)	Payment is entered in the books of account on June 30 and debited in recipient's bank account on June 26	June 29	August 29	June 26 (i.e. when payment is debited in the recipient's bank account)

(4 MARKS)

ANSWER : 8

A.

1. Yoga training – Yoga training Service supplied by a charitable trust is not chargeable to GST. It is covered by Exemption Notification.
2. Passenger transport service by radio taxi – Transport of passengers by non – air-conditioned contract carriage is exempt from GST vide Exemption Notification. This exemption is not available if service is provided by radio taxi.
3. Transportation of newspaper by rail – Service of transportation of newspapers by rail is exempt from GST vide Exemption Notification.

(3 MARKS)

B.

1. X has income from manufacture of garments. Besides, he has rental income from commercial property which is chargeable to GST. He supplies goods as well as services. His total turnover is Rs. 90 lakh [being supply of garments : Rs. 60 lakh + supply of services : Rs. 30 lakh (i.e., Rs. 2.5 lakh × 12)]. If a person supplies goods and services, Composition Scheme is applicable only if value of supply of services does not exceed 10% of the turnover or Rs. 5 lakh, whichever is higher (in this case, 10% of turnover is Rs. 9 lakh which is higher than Rs. 5 lakh). As value of supply of services is more than Rs. 9 lakh, X cannot opt for Composition Scheme.
2. Y cannot opt for Composition Scheme. Section 10(2) (d) debars a person who is engaged in making any supply of goods through an electronic commerce operator to opt for Composition Scheme.

(3 MARKS)

- C. As per section 2 (33), “continuous supply of services” means a supply of services which is provided, or agreed to be provided, continuously or on recurrent basis, under a contract, for a period exceeding 3 months with periodic payment obligations. In this case, services provided by X Ltd. for the period commencing October 1, 2018 and ending with December 15, 2018 (i.e., 2.5 months). The service provided by X Ltd. is no “continuous supply of services “. Rules pertaining to “continuous supply of services” are not applicable.

General rule provided by rule 47 are applicable. Invoice can be issued before the provision of service or after the provision of service (but within 30 days from date of supply of service). In this case, invoice can be issued on or before January 14, 2019 (i.e., December 15, 2018 + 30 days).

(4 MARKS)

ANSWER : 9

- A. Each document / return furnished online shall be signed or verified by the following persons

Individual	By the individual himself or where he is absent from India, by some other person duly authorized by him in this behalf. Where the individual is mentally incapacitated from attending to his affairs, by his guardian or by any other person competent to act on his behalf.
Hindu undivided family	By the Karta and where the Karta is absent from India or is mentally incapacitated from attending to his affairs, by any other adult member of such family or by the authorised signatory of such Karta.
Company	By the chief executive officer or authorised signatory.
Government / government agency/ local authority	By an officer authorised in this behalf.
Firm	By any partner thereof, not being a minor or authorised signatory.
AOP/BOI	By any member of the association or persons or authorised signatory thereof.
Trust	By the trustee or any trustee or authorized signatory thereof.
Any other	By some person competent to act on his behalf, or by a person authorised in accordance with the provision of section 48.

(5 MARKS)

- B.
- (i) Renting of immovable property would be treated as supply of services in terms of Schedule – II of CGST Act, 2017.
 - (ii) As per Schedule – II of CGST Act, 2017, transfer of right in goods without transfer of title in goods would be treated as supply of services.
 - (iii) As per Schedule – II of CGST Act, 2017, works contract services would be treated as supply of services.
 - (iv) As per Schedule – II of CGST Act, 2017, temporary transfer of permitting use or enjoyment of any intellectual property right would be treated as supply of services.
 - (v) As per Schedule – II of CGST Act, 2017, transfer of title in goods under an agreement which stipulates that property shall pass at a future date would be treated as supply of goods.

(5 MARKS)

ANSWER : 10

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