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SUBJECT- TAXATION

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PART – I (DIRECT TAX)

ANSWER : 1

	Statutory provident fund	Recognised provident fund	Unrecognised provident fund
	Rs.	Rs.	Rs.
Basic Salary [Rs. (15,800 × 5) + (Rs. 16,200 × 7)]	1,92,400	1,92,400	1,92,400
Dearness pay	72,000	72,000	72,000
Dearness allowance	6,000	6,000	6,000
House rent allowance	30,100	30,100	30,100
City compensatory allowance	1,200	1,200	1,200
Interest on provident fund (*Rs. 18,700 + 10 × 0.5)	-	935*	-
Gross salary	3,01,700	3,02,365	3,01,700
Less : Standard deduction	40,000	40,000	40,000
Income under the head “Salaries”	2,61,700	2,62,365	2,61,700
Income from other sources :			
Interest on securities [i.e., Rs. 5,000 (being gross interest) – Rs. 225 on account of bank commission]	4,775	4,775	4,775
Royalty	2,65,000	2,65,000	2,65,000
Gross total income	5,31,475	5,32,410	5,31,475
Less : Deduction under section 80 C [18% of Rs. 2,64,400]	47,592	47,592	-
Net income (rounded off)	4,83,880	4,84,820	5,31,480
Tax on net income			
Income tax	11,694	11,741	18,796
Less : Rebate under section 87A	Nil	Nil	Nil
Balance	11,694	11,741	18,796
Add : Surcharge	Nil	Nil	Nil
Tax and surcharge	11,694	11,741	18,796
Add : Health and education cess (4% of tax and surcharge)	468	470	752
Tax liability (rounded off)	12,160	12,210	19,550

Note :

1. During the previous year 2018 – 19 basic salary is Rs. 15,800 per month (i.e., Rs. 15,000 + Rs. 40,000 + Rs. 400) up to July 31, 2018. With effect from August 1, 2018, it is raised to Rs. 16,200 per month. As salary becomes due and is paid on the first day of next month, salary for 5 months is payable @ Rs. 15,800 per month (i.e., salary received/ due on April 1, 2018, May 1, 2018, June 1, 2018, July 1, 2018 and August 1, 2018) and that for 7 months is payable @Rs. 16,200 per month during the year ending March 31, 2019.
2. House rent allowance exempt from tax is the least of the following : (a) Rs. 1,32,200 (being 50% of salary i.e., Rs. 1,92,400 + Rs. 72,000); (b) Rs. 39,660 (being house rent allowance received @ 15% of salary); (c) Rs. 9,560 (being the excess of rent paid : Rs. 36,000 over 10% of salary, i.e., Rs. 2,64,400). Amount taxable is Rs. 39,660 minus Rs. 9,560, i.e., Rs. 30,100.

3. Deduction under section 80QQB is not available in respect of royalty on text – books of school.

(14 MARKS)

ANSWER : 2

A.

As the house is situated in India, capital gain on its transfer is deemed to accrue or arise in India It is Indian income. It is taxable in all cases	10,00,000
As service is rendered in India, income is deemed to be accrued in India. It is Indian income. It is taxable in all cases	1,60,000
As interest is received from the Government of India, it is deemed to be accrued in India. It is Indian income. It is taxable in all cases	2,56,000
It is received outside India. It is accrued outside India. It is foreign income. It is taxable in the case of resident and ordinarily resident	92,00,000
Total	1,06,16,000

(4 MARKS)

B. **Computation of capital gains and business income of Harsha for A.Y. 2019 -20**

Particulars	Rs.
Capital Gains	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,25,00,000
Less: Indexed cost of acquisition [Rs.45,00,000 × 272/129]	94,88,372
	1,30,11,628
Proportionate capital gains arising during A.Y.2019-20 [Rs.1,30,11,628 × 2/3]	86,74,419
Less: Exemption under section 54EC	50,00,000
Capital gains chargeable to tax for A.Y.2019-20	36,74,419
Business Income	
Sale price of flats [10 × Rs.40 lakhs]	4,00,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion [Rs.225 lacs × 2/3]	1,50,00,000
Cost of construction of flats [10 × Rs.15 lakhs]	1,50,00,000
Business income chargeable to tax for A.Y.2019-20	1,00,00,000

Notes:

- (1) The conversion of a capital asset into stock-in-trade is treated as a transfer under section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade.
- (2) However, as per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
- (3) The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into stock-in-trade and not up to the year of sale of stock-in-trade.
- (4) For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.

In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the P.Y.2018-19, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the A.Y.2019-20.

- (5) On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be the difference between the price at which the stock-in-trade is sold and the fair market value on the date of conversion of the capital asset into stock-in-trade.
- (6) In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months is to be reckoned from the date of sale of stock-in-trade for the purpose of exemption under section 54EC [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC. With respect to long-term capital gains arising on land or building or both in any financial year, the maximum deduction under section 54EC would be Rs.50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same financial year or next financial year or partly in the same financial year and partly in the next financial year.

Therefore, even though investment of Rs.50 lakhs has been made in bonds of NHAI during the P.Y.2018-19 and investment of Rs.50 lakhs has been made in bonds of RECL during the P.Y.2019-20, both within the stipulated six month period, the maximum deduction allowable for A.Y.2019-20, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y. 2018-19, is only Rs.50 lakhs.

(6 MARKS)

C. Computation of remuneration deductible under section 37(1) read with section 40(b)

	Rs.
Net profit as per profit and loss account	(-) 2,72,000
Add : Expenses other than remuneration not deductible	
Other expenses	(+) 63,600
Interest to partners	(+) 17,100
	(-) 1,91,300
Add : Remuneration to partners debited to profit and loss account	(+) 2,68,000

Book profit	76,700
Maximum permissible remuneration (90% of Rs. 76,700 or Rs. 1,50,000, whichever is more)	1,50,000

Computation of taxable income of the firm

Book profit	76,700
Less : Remuneration deductible under section 37(1) read with section 40(b)	(-) 1,50,000
Net income	(-) 73,300

(4 MARKS)

ANSWER : 3

A.

	Rs.
Municipal value (MV)	2,20,000
Fair rent (FR)	4,80,000
Standard Rent (SR)	NA
Step I – Reasonable expected rent of the property [MV or FR, whichever is higher, subject to maximum of SR]	4,80,000
Step II – Rent received / receivable after deducting unrealized rent but before adjusting loss due to vacancy (Rs. 45,000 × 12)	5,40,000
Step III – Amount computed in Step I or Step II, whichever is higher	5,40,000
Step IV – Loss due to vacancy	Nil
Step V – Gross annual value is step III minus Step IV	5,40,000
Less : Municipal tax (paid by tenant, no deductible)	Nil
Net annual value	5,40,000
Less : Standard deduction under section 24(a), (i.e., 30% of net annual value)	1,62,000
Income from property	3,78,000
Arrears of rent (pertaining to earlier year) received in the previous year 2018 – 19	
Arrears received (Rs. 5,000 × 12)	60,000
Less : Standard deduction under section 25 A(2) [i.e., 30% of Rs. 60,000]	18,000
Arrears of rent chargeable to tax	42,000
Income under the head “Income from house property” (i.e., Rs. 3,78,000 + Rs. 42,000)	4,20,000
Income from other sources	5,00,000
Net Income	9,20,000

(8 MARKS)

B. Capital gain on transfer of Karachi land – Agricultural land in India in a rural area is not “capital assets”. However, this land is situated in a rural area outside India. It is a capital asset and capital gain is chargeable to tax, which comes to Rs. 3,50,000 (indexation is not available as the asset is short – term capital asset).

Capital gain on transfer of Madhya Pradesh land – It is agricultural land situated in a village in India. Population of the village is less than 10,000. Consequently, it is a rural area and the agricultural land is not a “capital asset”. The surplus is not chargeable to tax at all.

Capital gain on transfer of debentures – It is chargeable to tax. Debentures are quoted debentures and period of holding is more than 12 months. Consequently, debentures are long – term capital assets. However, in the case of debenture indexation benefit is not (taken) one can pay tax at the rate of 10%. It is given in the problem that X has invested Rs. 1,00,000 in the bonds of NHAI within 6 months from the transfer of debentures. Generally, such investment is qualified for claiming exemption under section 54EC. However, exemption under section 54EC is available only if capital gain arises on the transfer of land or building or both. In the given problem, no exemption is available under section 54EC.

Computation of income –

	Rs.
Salary	9,40,000
Capital gain -	
Short – term	3,50,000
Long – term	3,00,000
Any other income	Nil
Gross total income	15,90,000
Less : Deduction under section 80C	1,50,000
Net income	14,40,000
Tax on net income	
Income – tax (10% of Rs. 3,00,000 + normal tax on Rs. 11,40,000)	1,84,500
Add : Health and education cess	7,380
Tax liability (rounded off)	1,91,880

(6 MARKS)

ANSWER : 4

A.

	Rs.	
Income from house property		2,18,500
Business income	1,05,000	
Less : Brought forward business loss of the assessment year 2014 – 15	(-) 1,12,000	Nil
Business loss to be carried forward to next assessment year	(-) 7,000	
Long – term capital gains	2,02,500	
Less : Brought forward long – term capital loss	(-) 2,02,500	Nil
Short – term capital gains		4,22,000
Income from owning and maintaining race horses	1,15,000	
Less : Loss from owning and maintaining race horses of the assessment year 2016 - 17	(-) 1,15,000	Nil
Income from card games		2,16,000
Total		8,56,500
Less : Unabsorbed depreciation allowance		2,06,000
Gross Total Income		6,50,000
Less : Deduction under section 80 C to 80 U		Nil
Net Income		6,50,500

(6 MARKS)

Notes :

1. In the absence of speculation income, brought forward speculation loss of the assessment year 2015 – 16 cannot be set off. As four – year time – limit expires with the assessment year 2019 – 20, the loss cannot be carried forward to the next assessment year.
2. Long term capital loss of Rs. 44,700 will be carried forward (it cannot be carried forward beyond the assessment year 2025 – 26).
3. Loss from the activity of owning and maintaining race horses of Rs. 10,000 will be carried forward to assessment year 2020 – 21 (However, it cannot be carried forward after the assessment year 2020 – 21).
4. Computation of tax liability :

	Rs.
Tax on income from card games (i.e., Rs. 2,16,000 @ 30%)	64,800
Tax on the remaining income [as the remaining income (Rs. 4,34,500)]	9,225
Tax	74,025
Add : Health and education cess	2,961
Tax liability (rounded off)	79,990

(4 MARKS)**B. 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
Add : Health and education cess @ 4%	5,460
Tax on total income	1,41,960
Less : Tax deducted at source	25,000
Assessed Tax	1,16,960
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 119 A 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 filling of return for A.Y. 2019 – 20, in his case, is 30.9.2019. 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 119 A Income – tax Rules, 1962

Interest u/s 234A = Rs. 13,900 × 1% × 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.

(4 MARKS)

ANSWER : 5

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

PART – II (INDIRECT TAX)

ANSWER : 6

	IGST	CGST	SGST
	Rs.	Rs.	Rs.
Supply to A Ltd. of Odisha (18% of Rs. 28,30,000)	5,09,400	-	-
Supply to B Ltd. of Mumbai (9% of Rs. 58,00,000, 9% of Rs. 58,00,000)	-	5,22,000	5,22,000
Output tax liability of May 2019	5,09,400	5,22,000	5,22,000
Less : IGST on inward supply (balance IGST : Rs. 7,60,000 – Rs. 5,09,400 = Rs. 2,50,600)	5,09,400	-	-
Balance	Nil	5,22,000	5,22,000
Less : Balance of IGST on inward supply	-	2,50,600	-
Balance	Nil	2,71,400	5,22,000
Less : CGST on inward supply (balance CGST : Rs. 3,40,000 – Rs. 2,71,400 = Rs. 68,600)	-	2,71,400	-
Balance	Nil	Nil	5,22,000
Less : SGST on inward supply	-	-	3,70,000
Balance payable by electronic cash ledger	Nil	Nil	1,52,000

SGST payable for May 2019 is Rs. 1,52,000. Unutilised input tax credit of CGST of Rs. 68,600 cannot be utilized for payment of SGST (it can be carried forward). However, after utilizing input IGST, the balance of Rs. 2,50,600 can be utilized in the above case partly for payment of CGST and partly for payment of SGST as follows –

	IGST	CGST	SGST
	Rs.	Rs.	Rs.
GST on outward supply (as computed earlier)	5,09,400	5,22,000	5,22,000
Less : IGST on inward supply (balance IGST : Rs. 7,60,000 – Rs. 5,09,400= Rs. 2,50,600)	5,09,400	-	-
Balance	Nil	5,22,000	5,22,000
Less : IGST [balance of Rs. 2,50,600 to be utilised to the extent of Rs. 1,82,000 towards payment of CGST and the balance of Rs. 68,600 towards payment of SGST]	-	1,82,000	68,600
Balance	Nil	3,40,000	4,53,400
Less : CGST on inward supply	-	3,40,000	-
Balance	Nil	Nil	4,53,400
Less : SGST on inward supply	-	-	3,70,000
Balance payable by electronic cash ledger	Nil	Nil	83,400

Note – Rs. 2,50,600 can be utilized in any manner) for payment of CGST and SGST. As no restriction is imposed by the relevant legal provision as given in rule 88A, the amount to be utilized towards payment of CGST, in this case, should not be more than Rs. 1,82,000 (i.e., Rs. 5,22,000) (i.e., Rs. 5,22,000 – Rs. 3,40,000) to make minimum payment in cash.

(8 MARKS)

ANSWER : 7

- A.** Supplies covered by employment agreement – Service provided by X to A Inc. neither supply of goods nor supply of services. GST is not applicable. Remuneration paid by A Inc. to X within CTC or employment agreement is, therefore, not chargeable to GST. Consequently, expenditure on salary : Rs. 36,00,000, expenditure on residential accommodation : Rs. 6,00,000 and conveyance : Rs. 4,80,000 is not subject to GST. Likewise, employer's contribution towards provident fund is outside the purview of GST. All these supplies are covered by employment agreement.

Supply is not covered by employment agreement – The following supplies, not covered by the employment agreement, are subject to GST –

	Supply by X		Supply by A Inc.	
	CGST Rs.	SGST Rs.	CGST Rs.	SGST Rs.
Renting of commercial flat by X (GST is applicable, GST rate is 18%)	9,000	9,000	-	-
Gym facility (it is not covered by employment agreement. However, GST is not applicable. It is difficult to find out recipient of service)	-	-	-	-
Gift of car (GST is applicable. Even if consideration is nil, supply between related persons is chargeable to GST. Employer and employee are treated as related person. Supply by way of gift by employer to employee up to Rs. 50,000 in a financial year is not chargeable to tax) (applicable GST rate given in the problem is 28%).	-	-	1,77,100	1,77,100

(6 MARKS)

B. Section 7(2)(a) of CGST Act, 2017 read with Schedule III specifies the activities or transactions which shall be treated neither as a supply of goods nor a supply of services:

1. Services by an employee to the employer in the course of or in relation to his employment.
2. Services by any court or Tribunal established under any law for the time being in force.
3. (a) Functions performed by the Members of Parliament, Members of State Legislature, Members of Panchayats, Members of Municipalities and Members of other local authorities;
(b) Duties performed by any person who holds any post in pursuance of the provisions of the Constitution in that capacity; or
(c) Duties performed by any person as a Chairperson or a Member or a Director in a body established by the Central Government or a State Government or local authority and who is not deemed as an employee before the commencement of this clause.
4. Services of funeral, burial, crematorium or mortuary including transportation of the deceased.
5. Sale of land and, subject to paragraph 5(b) of Schedule II, sale of building.
6. Actionable claims, other than lottery, betting and gambling. [Note:- Any four points may be mentioned.]

(4 MARKS)

ANSWER : 8

- A.** If an advocate (other than senior advocate) provides legal service to a firm of advocates, it is exempt from GST vide Exemption Notification in the following 3 cases –
- Case 1 – If the recipient is an advocate / a firm of advocates.
 - Case 2 – If recipient is a person other than business entity.
 - Case 3 – If recipient is a business entity (i.e., a person carrying on business/ profession) and turnover in the immediately preceding financial year does not exceed Rs. 20 lakh (Rs. 10 lakh in the case of special category States.)

If service provider is a senior advocate, then exemption under Case 1 is not available. In the given case, X is a senior advocate. He cannot claim exemption under Case 1. Case 2 is not applicable (recipient is a business entity). Case 3 covers when recipient is a business entity. In this case, recipient is A & Co. (a firm of advocates) and it is the business entity. Turnover of the recipient in the preceding financial year is Rs. 18 lakh. Therefore, legal charges of Rs. 1,45,000 is not subject to GST.

(3 MARKS)

- B.** A registered person, whose aggregate turnover in the preceding financial year did not exceed Rs. 1 crore in a State /UT [Rs. 75 lakh in case of Special Category States except Jammu and Kashmir and Uttarakhand], may opt for composition scheme.

However, he shall not be eligible to opt for composition scheme if, inter alia, he is engaged in the supply of services other than restaurant services.

- (1) In the given case, since Mr. Guneet is engaged in the supply of consultancy service, he is not eligible to opt for composition scheme irrespective of its turnover in the preceding financial year.
- (2) No, it is not possible for Mr. Guneet to opt for composition scheme only for showroom as all the registrations under the same PAN have to opt for composition scheme and since the supply of consultancy service is ineligible for composition scheme, supply of readymade garments too becomes ineligible for composition scheme.

(4 MARKS)

- C. (a)** Section 22 stipulates that every supplier becomes liable to registration if his turnover exceeds Rs. 20 lakh in a State / UT [Rs. 10 lakh in Special Category States except Jammu and Kashmir] in a financial year. However, as per section 24, a person supplying goods /service or both on behalf of other taxable persons whether as an agent or not is liable to be compulsorily registered even if its aggregate turnover does not exceed Rs. 20 lakh during the financial year.
- (b)** As per section 23, an agriculturist who is only engaged in supply of produce out of cultivation of land is not required to obtain registration.

(3 MARKS)

ANSWER : 9

- A.** Continuous supply of service means, inter alia, supply of any service which is provided, or agreed to be provided continuously or on recurrent basis, under a contract, for a period exceeding 3 months with the periodic payment obligations.

Therefore, the given situation is a case of continuous supply of service as repair and maintenance services have been provided by MBM Caretakers on a quarterly basis, under a contract, for a period of one year with the obligation for quarterly payment.

In terms of section 31, in case of continuous supply of service, where due date of payment is ascertainable from the contract (as in the given case), invoice shall be issued on or before the due date of payment.

Therefore, in the given case, MBM Caretakers should issue quarterly invoices on or before April 1, July 1, October 1, and January 1.

(5 MARKS)

- B.** Title as well as possession both have to be transferred for a transaction to be considered as a supply of goods. In case title is not transferred, the transaction would be treated as supply of service in terms of Schedule II(1)(b) of the CGST Act. In some cases, possession may be transferred immediately but title may be transferred at a future date like in case of sale on approval basis or hire purchase arrangement. Such transactions will also be termed as supply of goods.

(5 MARKS)

ANSWER : 10

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