



J.K. SHAH[®]
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SUGGESTED SOLUTION

CA Intermediate May'19 EXAM

SUBJECT- Taxation

Test Code - CIM 8070

BRANCH - () (Date :)

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PART A - Direct Taxation

Answer 1:

1) C 2) A 3) A 4) D 5) B 6) A

7) Marginal relief is available in case of such persons having a total income exceeding ` 50 lakh i.e., the total amount of income-tax payable (together with surcharge) on such income should not exceed the amount of income-tax payable on total income of ` 50 lakh by more than the amount of income that exceeds ` 50 lakh.

Answer 2:

Computation of taxable salary of Mr. X for A.Y. 2019-20

Particulars	`
Basic pay [(` 20,000×9) + (` 21,000×3)] = ` 1,80,000 + ` 63,000	2,43,000
Dearness allowance [10% of basic pay]	24,300
Bonus	21,000
Employer's contribution to Recognized Provident Fund in excess of 12% (15%-12% =3% of ` 2,67,300) [See Note 1 below]	8,019
Taxable allowances	
Telephone allowance	6,000
Taxable perquisites	
Rent-free accommodation [See Note 1 & 2 below]	44,145
Medical reimbursement	25,000
Reimbursement of salary of housekeeper	12,000
Gift voucher [See Note 5 below]	10,000
Gross Salary	3,93,464
Less: Deduction under section 16(ia) – Standard deduction of upto ` 40,000	40,000
Salary income chargeable to tax	3,53,464

Notes:

1. It has been assumed that dearness allowance forms part of salary for retirement benefits and accordingly, the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been worked out.
2. Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

For the purposes of valuation of rent free house, salary includes:

- (i) Basic salary i.e., ` 2,43,000
- (ii) Dearness allowance (assuming that it is included for calculating retirement benefits) i.e. ` 24,300
- (iii) Bonus i.e., ` 21,000

(iv) Telephone allowance i.e., ₹ 6,000

Therefore, salary works out to

₹ 2,43,000 + ₹ 24,300 + ₹ 21,000 + ₹ 6,000 = ₹ 2,94,300.

15% of salary = ₹ 2,94,300 × 15/100 = ₹ 44,145

Value of rent-free house = Lower of rent paid by the employer (i.e., ₹ 1,20,000) or 15% of salary (i.e., ₹ 44,145).

Therefore, the perquisite value is ₹ 44,145.

3. Facility of use of laptop is not a taxable perquisite.
4. Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
5. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000.

Therefore, the entire amount of ₹ 10,000 is liable to tax as perquisite.

Note - An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001. Gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000.

6. Premium of ₹ 5,000 paid by the company for personal accident policy is not liable to tax.

Answer 3:

Let us first calculate the income from each house property assuming that they are deemed to be let out.

Computation of income from house property of Ganesh for the A.Y. 2019-20

Particulars	Amount in ₹	
	House I	House II
Gross Annual Value (GAV) ER is the GAV of house property ER = Higher of MV and FR, but restricted to SR	90,000	1,60,000
Less: Municipal taxes (paid by the owner during the previous year)	12,000	12,000
Net Annual Value (NAV)	78,000	1,48,000
Less: Deductions under section 24		
(a) 30% of NAV	23,400	44,400
(b) Interest on borrowed capital	-	55,000
Income from house property	54,600	48,600

OPTION 1 (House I – self-occupied and House II – deemed to be let out)

If House I is opted to be self-occupied, the income from house property shall be –

Particulars	Amount in `
House I (Self-occupied)	Nil
House II (Deemed to be let-out)	48,600
Income from house property	48,600

OPTION 2 (House I – deemed to be let out and House II – self-occupied)

If House II is opted to be self-occupied, the income from house property shall be –

Particulars	Amount in `
House I (Deemed to be let-out)	54,600
House II (Self-occupied) (interest deduction restricted to ` 30,000)	-30,000
Income from house property	24,600

Since Option 2 is more beneficial, Ganesh should opt to treat House II as self-occupied and House I as deemed to be let out. His income from house property would be ` 24,600 for the A.Y. 2019-20.

Answer 4:

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

Particulars	Resident and ordinarily resident	Resident but not ordinarily resident	Non-resident
Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
Short term capital gains on sale of shares of an Indian company received in London	20,000	20,000	20,000
Dividend from British company received in London	5,000	-	-
Long term Capital gains on sale of plant at Germany, 50% of profits are received in India	40,000	20,000	20,000
Income earned from business in Germany which is controlled from Delhi, out of which ` 40,000 is received in India	70,000	70,000	40,000
Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000
Income from house property in London deposited in a Bank at London, later on remitted to India	50,000	-	-

Interest on debentures in an Indian company received in London	12,000	12,000	12,000
Fees for technical services rendered in India but received in London	8,000	8,000	8,000
Profits from a business in Mumbai managed from London	26,000	26,000	26,000
Pension for services rendered in India but received in Burma	4,000	4,000	4,000
Income from property situated in Pakistan received there	16,000	-	-
Past foreign untaxed income brought to India during the previous year	-	-	-
Income from agricultural land in Nepal, received there and then brought to India	18,000	-	-
Income from profession in Kenya which was set up in India, received there but spent in India	5,000	5,000	-
Gift received on the occasion of his wedding [not taxable]	-	-	-
Interest on savings bank deposit in State Bank of India	12,000	12,000	12,000
Income from a business in Russia, controlled from Russia	20,000	-	-
Dividend from Reliance Petroleum Limited, an Indian Company [Exempt under section 10(34)]	-	-	-
Agricultural income from a land in Rajasthan [Exempt under section 10(1)]	-	-	-
Gross Total Income	3,51,000	2,17,000	1,82,000
Less: Deduction under section 80TTA [Interest on savings bank account subject to a maximum of ₹ 10,000]	10,000	10,000	10,000
Total Income	3,41,000	2,07,000	1,72,000

PART B – INDIRECT TAXATION

Answer 5:

- 1) Under composite supply, two or more taxable supplies of goods or services or both, or any combination thereof, are naturally bundled and supplied in conjunction with each other, in the ordinary course of business, one of which is a principal supply

[Section 2(30) of the CGST Act]. In view of the same,

(a) since, supply of breakfast and dinner with the accommodation in the hotel are naturally bundled, said supplies qualify as 'composite supply'.

(b) since supply of toothbrush along with the toothpaste are not naturally bundled, said supplies do not qualify as 'composite supply'.

2) B

3) Supply of goods on hire purchase shall be treated as supply of goods as there is transfer of title, albeit at a future date.

4) D

Answer 6:

Government may notify [on the recommendations of the GST Council] specific categories of services the tax on intra-State supplies of which shall be paid by the electronic commerce operator if such services are supplied through it. Services by way of providing accommodation in hotels through electronic commerce operator is a specified service for said purpose.

Thus, person liable to pay GST in this case is the Electronic Commerce Operator Cool Trips. All the provisions of the GST law shall apply to such electronic commerce operator as if he is the supplier liable for paying the tax in relation to the supply of such services.

Cool Trips does not have a physical presence in India, person liable to pay tax is the person representing the Electronic Commerce Operator -Cool Trips for any purpose in India.

Answer 7:

Computation of Value of taxable supply

	Particulars	Rs.
1.	Basic mail services [Exempt since covered in Entry 6 of Exemption Notification No. 12/2017-CT (Rate)]	Nil
2.	Transfer of money through money orders [Exempt since covered in Entry 6 of Exemption Notification No. 12/2017-CT (Rate)]	Nil
3.	Operation of saving accounts [Exempt since covered in Entry 6 of Exemption Notification No. 12/2017-CT (Rate)]	Nil
4.	Rural postal life insurance services (Liable to GST)	2,00,000
5.	Distribution of mutual funds, bonds and passport applications (Liable to GST)	5,00,000
6.	Issuance of postal orders [Exempt since covered in Entry 6 of Exemption Notification No. 12/2017-CT (Rate)]	Nil
7.	Collection of telephone and electricity bills (Liable to GST)	1,00,000
8.	Pension payment services [Exempt since covered in Entry 6 of Exemption Notification No. 12/2017-CT (Rate)]	Nil
9.	Speed post services (Liable to GST)	5,00,000
10.	Express parcel post services	2,00,000

	(Liable to GST)	
	Value of taxable supply	15,00,000

Answer 8:

(A)

(a)

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

(b)

Schedule I of CGST Act, inter alia, stipulates that supply of goods or services or both between related persons or between distinct persons as specified in section 25, is supply even without consideration provided it is made in the course or furtherance of business.

Further, where a person who has obtained or is required to obtain registration in a State in respect of an establishment, has an establishment in another State, then such establishments shall be treated as establishments of distinct persons [Section 25 of the CGST Act].

In view of the same, factory and depot of Sulekha Manufacturers are establishments of two distinct persons. Therefore, supply of goods from Delhi factory of Sulekha Manufacturers to Mumbai Depot without consideration, but in course/furtherance of business, is supply under section 7 of the CGST Act.

(c)

Schedule I of CGST Act, inter alia, stipulates that import of services by a taxable person from a related person located outside India, without consideration is treated as supply if it is provided in the course or furtherance of business.

In the given case, Raman has received legal services from his brother free of cost in a personal matter and not in course or furtherance of business. Hence, services provided by Raman's brother to him would not be treated as supply under section 7 of the CGST Act.

(d)

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

(B)

As per Section 7(1)(b) of CGST Act, 2017, Supply includes import of services for a consideration whether or not in the course or furtherance of business. Hence, in the above case it will be treated as supply.