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SUGGESTED SOLUTION
INTERMEDIATE M'19 EXAM

SUBJECT- TAXATION

Test Code - PIN 5063

BRANCH - () (Date :)

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ANSWER-1**(18*1 = 18 MARKS)**

1. A
2. A
3. C
4. C
5. C
6. C
7. A
8. B
9. B
10. C
11. B
12. A
13. C
14. D
15. C
16. B
17. C
18. B

ANSWER-2

Assessee : Mr. Raju

Previous Year : 2018 – 19

Assessment Year : 2019 – 2020

Computation of Taxable Income and Tax Liability

Particulars		Rs.	
1. Income from House Property – Self Occupied, So, Annual Value		NIL	
Less : Deduction u/s 24 = Interest on Housing Loan		(2,00,000)	(2,00,000)
2. Profits and Gains of Business or Profession (17,95,000 – 4,68,000)		13,27,000	
Particulars	Deduction from Profit	Addition to Profit	
Net Profit as per Profit and Loss Account		15,40,000	
Dividend from Domestic Companies, Exempt u/s 10(34)	15,000		
Income from Agriculture	1,80,000		
State VAT Penalty (Penalty is not an Allowable Expenditure)		5,000	
Interest to Bank [W.N.1]		40,000	
Depreciation as per Books		2,00,000	
Depreciation as per IT Act [W.N. 2]	2,25,000		
Commission to Brother, excess amount disallowed u/s 40 A(2) – (Rs. 46,000 – Rs. 36,000)		10,000	
Salary to Staff	48,000		
Sub - Total	4,68,000	17,95,000	
Gross Total Income			11,27,000

Less : Deduction under Chapter VI – A U/s 80C – Housing Loan Principal Repayment	(50,000)
Total Income (Excluding (Agricultural Income))	10,77,000
Add : Agricultural Income	1,80,000
Total Income (Including Agricultural Income) (A)	12,57,000
Tax there on (A) : Step 1 =	1,89,600
Agricultural Income + Basic Exemption = [Rs. 1,80,000 + Rs. 2,50,000]	4,30,000
Rebate on Agricultural Income (B) : Step 2	9,000
Net Tax Payable (Step 1 – Step 2) [Rs. 1,89,600 – Rs. 9,000]	1,80,600
Add : HEC @ 4%	7,224
Tax Liability (Rounded off)	1,87,830

(8 MARKS)

Working Note :

- U/s 43B, Payments not made within due dates u/s 139 are not allowed as Expenditures. Therefore, Rs. 40,000 is not allowed in the Current year.
- Depreciation :**

Particulars of Asset	Opg WDV	Addns	Dedns	Net Value of Block	Deprn	Clg WDV
Plant & Machinery 15%	12,00,000	4,00,000	NIL	16,00,000	2,25,000	13,75,000
Total Depreciation Admissible					2,25,000	

Depreciation on Rs. 14,00,000@ 15% and depreciation on Rs. 2,00,000@ 7.5% (i.e. 50% of 15%)

- Where an Assessee incurs any expenditure, for which, payment or aggregate of payments is made to a person in a day is in excess of Rs. 10,000. (Rs. 35,000 in case of payment made for plying, hiring or leasing goods carriages), otherwise than by an Account Payee Cheque drawn on a Bank or an Account Payee Bank Draft, the whole of such expenditure shall not be allowed as a deduction. Since the payment is less than Rs. 35,000, (being made to a Transport Carrier) it is an allowable expenditure. Since it is already debited in the Profit and Loss Account, no adjustment need be made.
- U/s 80EE Repayment of Interest on eligible Housing loan is restricted to Rs. 50,000 only.

ANSWER-3

ANSWER-A

Clubbing of income and other tax implications

As per the provisions of section 64(1A), in case the marriage of the parents subsist, the income of a minor child shall be clubbed in the hands of the parent whose total income, excluding the income of the minor child to be clubbed, is greater. In this problem, it has been assumed that the marriage of Mr. B and Mrs. B subsists.

Further, in case the income arises to the minor child on account of any manual work done by the child or as a result of any activity involving application of skill, talent, specialized knowledge or experience of the child, then, the same shall not be clubbed in the hands of the parent.

(1 MARK)

Tax implications

- Income of Rs. 45,000 from Mr. B's profession shall be taxable in the hands of Mr. B under the head "Profits and gains of business or profession".

- (ii) Salary of Rs. 36,000 (Rs. 76,000 less standard deduction under section 16(ia) of 40,000) shall be taxable as "Salaries" in the hands of Mrs. B.
- (iii) Income from fixed deposit of Rs. 10,000 arising to the minor son D, shall be clubbed in the hands of the father, Mr. B as "Income from other sources", since his income is greater than income of Mrs. B before including the income of the minor child.

As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of Rs. 1,500 per child. The balance income would be clubbed in the hands of the parent as "Income from other sources".

- (iv) Income of Rs. 95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill.
- (v) Income of Rs. 1,95,000 arising to minor son D from lottery shall be included in the hands of Mr. B as "Income from other sources", since his income is greater than the income of Mrs. B before including the income of minor child.

Note—Mr. B can reduce the tax deducted at source from such lottery income while computing his net tax liability.

(5*1 = 5 MARKS)

ANSWER-B

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

Particulars	Rs.	Rs.
Profits and gains of business or profession		1,35,000
Income from other sources		
- Interest on Fixed Deposit with banks		30,000
- lottery income		1,20,000
Gross Total Income		2,85,000
Less: Deductions under Chapter VIA [See Note below]		
Under section 80C		
- Deposit in Public Provident Fund	1,50,000	
Under section 80TTB		
- Interest on fixed deposits with banks	30,000	
	1,80,000	
Restricted to		1,65,000
Total Income		1,20,000

Note: Though the value of eligible deductions is Rs. 1,80,000, however, deduction under Chapter VI-A cannot exceed the gross total income exclusive of long term capital gains taxable under section 112 and section 112A, short-term capital gains covered under section 111A and winnings of lotteries of the assessee.

Therefore, the maximum permissible deduction under Chapter VI-A = Rs. 2,85,000 – Rs. 1,20,000 = Rs. 1,65,000.

In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction upto Rs. 50,000 under section 80TTB.

(4 MARKS)

ANSWER-4

ANSWER-A

Assessee : Ms. Gunjan

Previous Year : 2018 – 2019

Assessment Year : 2019 – 2020

Computation of Capital Gain and business income of Ms. Gunjan

	Rs.
Capital Gains	
Fair Market Value of Land on the date of conversion is deemed as the Full Value of Consideration for the purposes of Sec. 45 (2)	3,20,00,000
Less : Indexed Cost of Acquisition = Cost of Acqn $\times \frac{CII \text{ of Year of Transfer}}{CII \text{ of Year of Acquisition}} =$ = Rs. 50,00,000 $\times \frac{240}{137}$	(87,59,124)
Proportionate Long Term Capital Gains arising during A.Y. 2019 – 2020 (Rs. 2,32,40,876 $\times \frac{5}{8}$)	1,45,25,548
Less : Exemption u/s 54EC (restricted to Rs. 50 Lakhs)	50,00,000
Taxable Long Term Capital Gains	95,25,548
Business Income	
Sale Price of Flats (5 \times Rs. 90 Lakhs)	4,50,00,000
Less : Cost of Flats	
(a) Fair Market Value of Land on the date of conversion (Rs. 3,20,00,000 $\times \frac{5}{8}$)	2,00,00,000
(b) Cost of Construction of Flats (5 \times Rs. 36 Lakhs)	1,80,00,000
	70,00,000

(6 MARKS)

Note :

(2 MARKS)

1. Conversion of a Capital Asset into Stock – in – Trade is a transfer u/s 2(47). It would be treated as a transfer in the year in which the Capital Asset is converted into Stock – in – Trade. But, u/s 45(2), the Capital Gains arising from the such transfer will be chargeable to tax only in the year in which the Stock – in – Trade is sold.
2. Indexation Benefit is available only upto the year of conversion of Capital Asset to Stock – in – Trade, and not up to the year of sale of stock – in – trade.

3. In this case, 5 flats out of 8 Flats is sold P.Y. 2018 – 2019. So, only proportionate Capital Gains (i.e. $\frac{5^{\text{th}}}{8}$) would be chargeable to tax in A.Y. 2019 – 2020.
4. In case of conversion of Capital Asset into Stock – in – Trade and subsequent sale of Stock – in – Trade, the period of 6 months, for the purpose of exemption u/s 54EC, is to be reckoned from the date of sale of Stock – in – Trade [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, exemption u/s 54EC is available, subject to a maximum of Rs. 50 Lakhs.

ANSWER-B

- (i) **False:** Exemption under section 10(26AAA) is available to a Sikkimese individual not only in respect of the said income, but also in respect of income by way of dividend or interest on securities.
- (ii) **True:** Section 10(18) exempts any income by way of pension received by individual who has been in service of Central Government and has been awarded “ParamVir Chakra” or “MahaVir Chakra” or “Vir Chakra” or such other gallantry award as the Central Government, may, by notification in the Official Gazette, specify in this behalf.

(2*1 = 2 MARKS)

ANSWER-5

ANSWER-A

Assessee : Mr. Arun and Mr. Bimal Previous year : 2018 – 2019 Assessment Year : 2019 – 2020

1. Computation of Income from Let – Out House Property(6 Units)

Particulars	Rs.
Annual Value u/s 23(1)(a) /(b) : Municipal Value or Actual Rent whichever is higher Rs. 9,00,000 \times $\frac{6}{8}$ (OR) Rs. 12,000 \times 12 months \times 6 Units, 6,75,000 (or) 8,64,000 (But owing to vacancy in one of the let – out property, the Annual Value received with respect to that property is reduced to actual rent received i.e. Rs. 12,000 \times 8 = Rs. 96,000) [Therefore, the Annual Value is (Rs. 12,000 \times 12 months \times 5 units) + Rs. 96,000]	8,16,000
Less : Municipal Taxes Paid (20% on Municipal Value) [(Rs. 9,00,000 \times $\frac{6}{8}$) \times 20%]	(1,35,000)
Net Annual Value	6,81,000
Less : Deductions u/s 24 : (a) 30% of Net Annual Value	(2,04,300)
(b) Interest (Rs. 3,00,000 \times $\frac{6}{8}$)	(2,25,000)
Income from House Property	2,51,700

(4 MARKS)

2. Computation of Total Income of Mr. Arun

1. Income from House Property – Self Occupied, So, Annual Value u/s 22	NIL	
Less : Deduction u/s 24 – Interest [W.N. 1]	(30,000)	
Income from Self – occupied Property		(30,000)
Share of Income from Let – Out Property (Rs. 2,51,700 ÷ 2)		1,25,850
2. Other Income		2,90,000
Total Income		3,85,850

(2 MARKS)

3. Computation of Total Income of Mr. Bimal

Particulars	Rs.	Rs.
1. Income from House Property – Self Occupied, So, Annual value u/s 22	NIL	
Less : Deduction u/s 24 – Interest [W.N. 1]	(30,000)	
Income from Self – occupied Property		(30,000)
Share of Income from Let – out Property (Rs. 2, 51,700 ÷ 2)		1,25,850
2. Other Income		1,80,000
Total Income		2,75,850

(2 MARKS)

Working Notes :

(2 MARKS)

1. Interest on Loan is Rs. 3,00,000 ÷ 8 Units – Rs. 37,500. Since the loan is taken prior to 01.04.1999, maximum allowable interest is only Rs. 30,000.
2. Repairs and Insurance Premium are not allowed as deduction.
3. Municipal Taxes paid is not allowed as deduction while computing income from Self – occupied property.

ANSWER-6

(A)

1. Analysis :

- (a) RSL (P) Ltd. is a Company in which Public are not substantially Interested.
- (b) This company has Accumulated Profit of Rs. 20 Lakh.
- (c) Rakesh's Shareholding in RSL(P) Ltd. > 10%
- (d) Rakesh's Share in the Partnership Firm > 20%.
- (e) Hence, all conditions given in the principles above are attracted.

2. **Conclusion :** Of the Loan of Rs. 25 Lakh, Rs. 20 Lakh shall be treated as Deemed Dividend u/s 2(22)(e)

(2 MARKS)

(B)

Solution to (A) :

1. u/s 194J, TDS is deductible for any payment made which is in the nature of any Remuneration or Fees or Commission other than those on which Tax is deductible u/s 192, to a Director of a Company. TDS @ 10% should be deducted.
2. There is no Exemption Limit for Deduction of Tax on payments to a Director.
3. Hence, ABC & Co. Ltd. should deduct Tax of Rs. 1,900 on Sitting Fee paid, being 10% of Rs. 19,000.

Note : In case sitting Fee is paid to a Whole Time Director in Employment with the Company, the same may be considered as taxable u/s 192, in which case provisions of Sec. 194 – J may not be applicable.

(2 MARKS)

Solution to (B) :

1. TDS u/s 194 – IA, shall be deductible by the transferee on the transfer of any Immovable Property, being any Land (other than Urban Agricultural Land) or any Building or part of a Building, if the consideration of such transfer exceeds Rs. 50,00,000. TDS @ 1% should be deducted.
2. In the given case, since the Value of Transfer exceeds Rs. 50 Lakhs, TDS of Rs. 60,000 shall be deductible by the Mr. X. [Rs. 60,00,000 × 1%]

(2 MARKS)

(C)

The following principles in Set – Off and Carry Forward are relevant in this regard –

1. Loss from Gambling is not eligible for carry forward under Chapter VI of the Income Tax Act, 1961.
2. Losses on Maintenance of Race Horses shall be carried forward for 4 subsequent AYs u/s 74 A. and can be set –off only against Income from such activity. Hence, in this case, Rs. 15,000 is carried forward.
3. Losses from Speculative Business can be carried forward for 4 AYs, and set off only against Income from Speculative Business. Hence, in this case, it set – off only to the extent of Income available, i.e. Rs. 25,000. The balance Rs. 5,000 is carried forward for next 3 AYs.

Particulars		Rs.	Rs.
1. Income from Textile Business	4,60,000		
Less : Current Year Depreciation	(5,000)		
Income from Textile Business before setoff		4,55,000	
Less : Unabsorbed depreciation of AY. 2018 – 2019 b/fd		(10,000)	4,45,000
2. Income from speculation Business		25,000	
Less : Brought Forward Speculative Loss restricted to Speculative Income		(25,000)	Nil
Gross Total Income			4,45,000

(4 MARKS)

ANSWER-7

(12*1 = 12 MARKS)

1. A
2. A
3. A

4. C
5. A
6. D
7. C
8. C
9. C
- 10.A
- 11.C
- 12.D

ANSWER-8

ANSWER-A

In case of supply of capital goods or plant and machinery on which ITC has been taken, the registered person shall pay an amount equal to the ITC taken on the said capital goods or plant and machinery reduced by 5% per quarter or part thereof from the date of invoice or the tax on the transaction value of such capital goods, whichever is higher.

However, in case of refractory bricks, moulds and dies, jigs and fixtures when these are supplied as scrap, the person can pay tax on the transaction value.

(2 MARKS)

ANSWER-B

Services provided to a recognized sports body by an individual *inter alia* as a referee in a sporting event organized by a recognized sports body is exempt from GST.

Since in the first case, the football match is organized by Sports Authority of India, which is a recognized sports body, services provided by the individual as a referee in such football match will be exempt.

However, when he acts as a referee in a charity football match organized by a local sports club, he would not be entitled to afore-mentioned exemption as a local sports club is not a recognized sports body and thus, GST will be payable in this case.

(2 MARKS)

ANSWER-C

(a) Principle : A Registered Person, whose aggregate turnover in the preceding financial year does not exceed Rs. 1 Crore, shall be eligible for opting for Composition Scheme. For States Jammu and Kashmir and Uttarakhand also, the limit for Composition Scheme is Rs. 1 Crore.

(2 MARKS)

(b) Analysis and conclusion :

- (i) In the given case, since the aggregate turnover on Intra – State Supplies within the State of Andhra Pradesh is Rs. 78 Lakhs, M/s Sai Trading Company is eligible for Composition levy.

- (ii) Though Jammu and Kashmir is a special category state, the limit of for Composition Scheme eligibility is Rs. 1 Crore (and not Rs. 75 Lakhs). M/s Sai Trading Company, shall still be eligible for Composition levy u/s 10 for Intra State Supplies in Jammu and Kashmir.

(2 MARKS)

ANSWER-9

ANSWER-A

Applicable Provision : In case of Supply of Goods, the time of supply of goods shall be the earlier of the following –

- (a) Date of issue of invoice by the supplier, or
- (b) Last date on which he is required to issue the invoice with respect to the supply u/s 31(1), or
- (c) Date of receipt of payment by the supplier with respect to the supply.

(2 MARKS)

Analysis : In the given case,

Amount	Time of Supply	Reason
For Rs. 5,00,000	17 th September	Payment was received before the date of invoice
For Rs. 4,00,000	20 th October	Being date of Installation. i.e. Date on which the goods were made available to the recipient, and the invoice should have been issued on this date [Section 12(2)(a)].

Note : Even though TOS is 17th September in the first case, GST shall not be payable on advance receipt, instead payable as per Sec. 12(2)(a).

(2 MARKS)

ANSWER-B

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.

(4 MARKS)

ANSWER-C

Zero – rated supplies have been covered within taxable supplies for the purpose of allowing Input Tax Credit. The scope of zero – rated supply is provided in the Integrated Goods and Services Tax Act which includes even exempt supplies.

(2 MARKS)**ANSWER-10****ANSWER-A**

Sl. No.	Effective Date of Registration	Remarks
(i)	25 th August 2017	The registration shall be effective from the date on which the person becomes liable to registration, when the application for registration has been submitted within 30 days from such date.
(ii)	5 th October 2017	Where an application for registration has been submitted by the applicant after expiry of 30 days from the date of his becoming liable to registration, the effective date of registration shall be the date of grant of registration under Rule 9(1)/(3)/(5).

(2*2 = 4 MARKS)**ANSWER-B**

S.No.	Recipient	Value of Supply (Rs.)	Issue of Consolidated Tax Invoice	Reasons
1.	Ram Traders – a Composition Scheme retail dealer	190	No	Recipient being a Registered Person
2.	Dhanush Enterprises – an unregistered trader	358	No	Value of Supply > Rs. 200
3.	Gautham – a Painter [unregistered]	500	No	Value of Supply > Rs. 200
4.	Sunil Orphanage – an unregistered entity	188	Yes	<ul style="list-style-type: none"> Unregistered Recipient, Value of Supply is less than Rs. 200 Recipients don't require a tax invoice
5.	Sandhya – a Student [unregistered]	158	Yes	<ul style="list-style-type: none"> Unregistered Recipient, Value of Supply is less than Rs. 200 Recipients don't require a tax invoice

(6 MARKS)

ANSWER-11**ANSWER-A****Computation of value of taxable supply**

Particulars	Rs.
List price of the goods (exclusive of taxes and discounts)	50,000
Tax levied by Municipal Authority on the sale of such goods [Includible in the value as per section 15(2)(a)]	5,000
CGST and SGST chargeable on the goods [Not includible in the value as per section 15(2)(a)]	
Packing charges [Includible in the value as per section 15(2)(c)]	1,000
Subsidy received from a non-Government body [Since subsidy is received from a non-Government body, the same is included in the value in terms of section 15(2)(e)]	<u>2,000</u>
Total	58,000
Less: Discount @ 2% on Rs. 50,000 [Since discount is known at the time of supply, it is deductible from the value in terms of section 15(3)(a)]	<u>1,000</u>
Value of taxable supply	57,000

(6 MARKS)**ANSWER-B**

1. No more queues and waiting for making payments as payments can be made online 24 X 7.
2. Instant online receipts for payments made online.
3. Tax Consultants can make payments on behalf of the clients.
4. Single Challan form to be created online, replacing the three or four copy Challan.
5. Revenue will come earlier into the Government Treasury as compared to the old system.
6. Greater transparency.
7. Online payments made after 8 pm will be credited to the taxpayer's account on the same day.

(4 MARKS)