



# IPCC – November 2017

PAPER 4: TAXATION

Test Code: PRI 4

Branch (MULTIPLE) Date :8.10.17

(100 Marks)

**Note:** Question No.1 is compulsory. Candidates are required to answer any five questions from the remaining six questions.

## Question 1

### a. Computation of total income of Mr. Rajiv for the assessment year 2017-18

| Particulars   |               |                  |          |
|---|---------------|------------------|----------|
| <b>Income from house property</b>   |               |                  |          |
| <b>Self-occupied (1 mark)</b>   |               |                  |          |
| Annual value  | Nil           |                  |          |
| Less: Deduction under section 24(b)   |               |                  |          |
| Interest on housing loan  |               |                  |          |
| 50% of ₹ 88,000 = 44,000 but limited to   | <u>30,000</u> |                  |          |
| Loss from self occupied property  |               | (30,000)         |          |
| <b>Let out property (2 marks)</b>   |               |                  |          |
| Annual value (Rent receivable has been taken as the annual value in the absence of other information)                   | 60,000        |                  |          |
| Less: Deductions under section 24   |               |                  |          |
| (a) 30% of Net Annual Value   | 18,000        |                  |          |
| (b) Interest on housing loan (50% of ₹ 88,000)  | <u>44,000</u> |                  |          |
|   | <u>62,000</u> | <u>(2,000)</u>   |          |
| <b>Loss from house property</b>   |               |                  | (32,000) |
| <b>Profits and gains of business or profession(4 marks)</b>   |               |                  |          |
| Fees from professional services   |               | 59,38,000        |          |
| <b>Less: Expenses allowable as deduction</b>  |               |                  |          |
| Staff salary, bonus and stipend   | 21,50,000     |                  |          |
| Other administrative expenses   | 11,48,000     |                  |          |
| Office rent   | 30,000        |                  |          |
| Motor car maintenance (10,000 x 4/5)  | 8,000         |                  |          |
| Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting) | <u>Nil</u>    | <u>33,36,000</u> |          |
|   |               | 26,02,000        |          |
| <b>Less: Depreciation</b>   |               |                  |          |
| Motor car ₹ 4,25,000 x 7.5% x 4/5   | 25,500        |                  |          |
| Books being annual publications @ 100%  | 20,000        |                  |          |
| Furniture and fittings @ 10% of ₹ 60,000  | 6,000         |                  |          |
| Plant and machinery @ 15% of ₹ 80,000   | 12,000        |                  |          |
| Computer @ 60% of ₹ 50,000  | 30,000        |                  |          |

|   |               |                 |                         |
|---|---------------|-----------------|-------------------------|
| Computer (New) ` 30,000 @ 60% x ½ thereon   | <u>9,000</u>  | <u>1,02,500</u> | <u>24,99,500</u>        |
| <b>Gross Total income</b>   |               |                 | <b>24,67,500</b>        |
| <b>Less: Deduction under Chapter VI-A (3 marks)</b>   |               |                 |                         |
| <b>Deduction under section 80C</b>  |               |                 |                         |
| Housing loan principal repayment  | 1,00,000      |                 |                         |
| PPF subscription  | 20,000        |                 |                         |
| Life insurance premium  | <u>24,000</u> |                 |                         |
| Total amount of ` 1,44,000 is allowed as deduction since it is within the limit of ` 1,50,000 |               | 1,44,000        |                         |
| <b>Deduction under section 80D</b>  |               |                 |                         |
| Medical insurance premium paid ` 18,000   |               | <u>18,000</u>   | <u>1,62,000</u>         |
| <b>Total income</b>   |               |                 | <b><u>23,05,500</u></b> |

b.

**Computation of service tax liability of Shri Balaji Hospital for the month of April, 2017**

| Particulars  | (in lakh)   |
|--|-------------|
| Services provided by cord blood bank by way of preservation of stem cells [Note-2](1/2 mark)     | -           |
| Hair transplant services [Note-1(a)] (1/2 mark)  | 1,00        |
| Naturopathy treatments [Note-1(b)] (1/2 mark)  | -           |
| Plastic surgery to restore anatomy of a child affected due to an accident [Note-1(c)] (1/2 mark) | -           |
| Pranic healing treatments [Note-1(d)] (1/2 mark)   | 1,20        |
| Mortuary services [Note 3] (1/2 mark)  | -           |
| Value of taxable service(1/2 mark)   | <u>2,20</u> |
| Service tax @ 14% [ ` 2,20,00,000 × 14%](1/2 mark)   | 30.8        |
| Add: SBC @ 0.5% ( ` 2,20,00,000 × 0.5%)(1/2 mark)  | 1.1         |
| KKC @ 0.5% ( ` 2,20,00,000 × 0.5%)(1/2 mark)   | <u>1.1</u>  |
| <b>Service tax liability (including SBC &amp; KKC)</b>   | <b>33</b>   |

**Notes:**

- (1) Health care services provided by, inter alia, a clinical establishment in any recognized system of medicines in India is exempt from service tax vide Mega Exemption Notification No. 25/2012 ST dated 20.06.2012 .
  - (a) Hair transplant services are specifically excluded from the health care services, and thus are not eligible for exemption.
  - (b) Since naturopathy is a recognized system of medicine in terms of section 2(h) of the Clinical Establishments Act, 2010, it would be eligible for exemption.
  - (c) Health care service does not include *inter alia* cosmetic or plastic surgery, except when undertaken to restore or to reconstruct anatomy or functions of body affected due to

congenital defects, developmental abnormalities, injury or trauma. Hence, plastic surgery to restore anatomy of a child affected due to an accident will be eligible for exemption.

- (d) Since pranik healing treatment is not a recognized system of medicine in terms of section 2(h) of the Clinical Establishments Act, 2010, it would not be eligible for exemption.
- (2) Services provided by cord blood banks by way of preservation of stem cells or any other service in relation to such preservation are also exempt from service tax vide Mega Exemption Notification No. 25/2012 ST dated 20.06.2012.
- (3) Mortuary services are covered under negative list of services under section 66D of the Finance Act, 1994. Hence, the same are not liable to service tax.

Services by way of transportation of the patient to and from a clinical establishment are specifically included in the definition of health care services. Thus, ambulance services to transport critically ill patients from various locations to Shri Balaji Hospital are eligible for exemption. Furthermore, ambulance services provided by an entity which is not a clinical establishment or an authorised medical practitioner or paramedics are also exempt from service tax vide a separate entry in the Mega Exemption Notification No. 25/2012 ST dated 20.06.2012. Therefore, ambulance services provided by Safety Unit will also be exempt from service tax. Thus, Safety Unit will not charge any service tax from Shri Balaji Hospital on the ambulance services rendered by them.

**c. Computation of net VAT payable for the month of January, 2017**

| Particulars   | ₹             |
|---|---------------|
| <b>Computation of input tax credit</b>  |               |
| VAT paid on raw materials purchased within State @ 12.5% on ₹ [6,00,000 – 2,50,000] × 12.5% (A) [Note 1] (1 mark) | 43,750        |
| VAT payable on sale @ 4% = ₹ 9,00,000 × 4% (B) (1 mark)   | <u>36,000</u> |
| <b>Net VAT payable (B)-(A)</b>  | <b>Nil</b>    |
| Excess VAT credit available(1 mark)   | 7,750         |
| CST payable on inter-State sale @ 2% on ₹ 2,00,000 (1 mark)   | <u>4,000</u>  |
| Excess VAT credit carried forward to subsequent period(1 mark)  | 3,750         |

**Notes:**

- Input tax credit of VAT paid on raw material used for manufacturing exempted goods (₹ 2,50,000) is not available.
- Input tax credit is not allowed with respect to purchases where invoice does not show amount of tax separately.
- Further, input tax credit is not allowed on high seas purchases as customs duty is not VATable.

**Question 2**

a.

**Computation of Total Income and tax liability of Mr. Narender for A.Y. 2017 18**

| Particulars  | ₹        |
|--|----------|
| Basic salary [(₹ 50,000 × 7) + (₹ 60,000 × 5)]                   | 6,50,000 |
| Dearness Allowance (40% of basic salary)                         | 2,60,000 |
| Bonus (₹ 50,000 + 40% of ₹ 50,000) (See Note 1)                  | 70,000   |
| Employers contribution to recognised provident fund in excess of | 26,000   |

|  |                        |
|--|------------------------|
| 12% of salary = 4% of ₹ 6,50,000   |                        |
| Professional tax paid by employer (See Note 5)   | 2,000                  |
| Perquisite of Motor Car (₹ 2,400 for 5 months) (See Note 3)  | <u>12,000</u>          |
| <b>Gross Salary (4 marks)</b>  | <b>10,20,000</b>       |
| Less: Deduction under section 16   |                        |
| Professional tax (See Note 5) (1/2 mark)   | <u>3,000</u>           |
| <b>Taxable salary/ Gross Total Income (1 marks)</b>  | <b>1,017,000</b>       |
| Deduction under section 80C (own contribution to recognised provident fund) to ₹ 1,04,000  |                        |
| Deduction under section 80D in respect of medical insurance premium paid by cheque amounting to ₹ 25,700 but restricted to ₹ 25,000 (See Note-6) | <u>25,000</u>          |
|  | <u>1,29,000</u>        |
| <b>Total Income</b>  | <b><u>8,88,000</u></b> |
| Tax on total income [₹ 25,000 + (₹ 8,88,000 - ₹ 5,00,000) x 20%] (2 ½ marks)   | 1,02,600               |
| Add: Education cess @ 2%   | 2,052                  |
| Add: Secondary and higher education cess @ 1%  | <u>1,026</u>           |
| <b>Total tax liability</b>   | <b><u>1,05,678</u></b> |
| <b>Tax Liability (rounded off)</b>   | <b>1,05,680</b>        |

**Notes:**

- Since bonus was paid in the month of October, the basic salary of ₹ 50,000 for the month of October is considered for its calculation.
- As per Rule 3(7)(vii), facility of use of laptop and computer is an exempt perquisite, whether used for official or personal purpose or both.
- As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 litres) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be ₹ 2,400 per month. The car was provided to the employee from 01.11.2016, therefore the perquisite value has been calculated for 5 months.
- Mr. Narender can avail exemption under section 10(5) on the entire amount of ₹ 50,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.

It is assumed that the Leave Travel Concession was availed for journey within India.

- As per section 17(2)(iv), a "perquisite" includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Narender. As per section 16(iii), a deduction from the salary is allowable on account of tax on employment i.e. professional tax paid during the year.

Therefore, in the present case, the professional tax paid by the employer on behalf of the employee ₹ 2,000 is first included in the salary and deduction of the entire professional tax of ₹ 3,000 is provided from salary.

- Medical insurance premium paid in cash of ₹ 4,000 is not allowable as deduction under section 80D. Further, deduction for medical insurance premium paid through cheque is restricted to ₹ 25,000, which is the maximum deduction allowable.



b.

**Computation of interest on delayed payment of service tax  
(2 marks for each company)**

| Name of the service provider                         | LMN Ltd.  | Hari  |
|--|---|---|
| Service tax liability                                | ₹ 1,00,000  | ₹ 2,00,000  |
| Delay in payment of service tax                      | 10 days   | 20 days   |
| Value of taxable services in previous financial year | ₹ 35,00,000   | ₹ 70,00,000   |
| Rate of interest                                     | 12% per annum   | 15% per annum   |
| Interest (rounded off)                               | $[ ₹ 1,00,000 \times (12/100) \times (10/365) ]$<br>= ₹ 329 (rounded off) | $[ ₹ 2,00,000 \times (15/100) \times (20/365) ]$<br>= ₹ 1,644 (rounded off) |

**Note:** As per section 75 of Finance Act, 1994 read with *Notification No. 13/2016 ST dated 01.03.2016*, in case of collection of any amount as service tax but failing to pay the amount so collected to the credit of the Central Government on or before the date on which such payment becomes due, the simple interest @ 24% p.a. is payable.

However, in all other cases, 15% simple interest p.a. is payable. Since in the above case, service tax has not been collected, so simple interest @ 15% p.a. is payable.

Further, the applicable rate gets reduced by 3% for service providers whose turnover of services does not exceed ₹ 60 lakh in the preceding financial year.

c.

**Computation of excise duty payable**

| Particulars   | ₹             |
|---|---------------|
| Price of machinery(1 mark)  | 6,00,000      |
| Add: Packing charges [Note 1(i)]  | 9,000         |
| Extra design charges [Note 1(i)] (1 mark)   | <u>20,000</u> |
| Total   | 6,29,000      |
| Less : 2% cash discount on price of machinery [ ₹ 6,00,000 x 2%]<br>[Note 1(iv)] (1 mark) | <u>12,000</u> |
| Assessable value  | 6,17,000      |
| <b>Excise duty @ 12.5%(1 mark)</b>  | <b>77,125</b> |

**Notes:-**

- While computing assessable value:-
  - packing charges and extra designing charges have been included as such payments are „in connection with sale“.
  - transit insurance shown separately in the invoice has not been included as it is a part of transportation cost.
  - outward freight has not been included as it is incurred for transporting the goods beyond the place of removal.
  - cash discount has been allowed as deduction as it has been passed on to the buyer.

2. State VAT does not affect excise duty payable.

### Question 3

a.

- i) Section 6(3) has been substituted by the Finance Act, 2016 with effect from A.Y.2017-18 to provide that a company would be resident in India in any previous year, if-  
it is an Indian company; or

its place of effective management, in that year, is in India .(1 mark)

In this case, ABC Inc. is a foreign company. Therefore, it would be resident in India for P.Y.2016-17 only if its place of effective management, in that year, is in India.

*Explanation* to section 6(3) defines “place of effective management” to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance made. In the case of ABC Inc., its place of effective management for P.Y.2016-17 is not in India, since the significant management and commercial decisions are, in substance, made by the Board of Directors outside India in Sweden.

ABC Inc. has only a liaison office in India through which it looks after its routine day to day business operations in India. The place where decisions relating to day to day routine operations are taken and support functions that are preparatory or auxiliary in nature are performed are not relevant in determining the place of effective management.

Hence, ABC Inc., being a foreign company is a non-resident for A.Y.2017-18, since its place of effective management is outside India in the P.Y.2016-17. (3 marks)

- ii) (1) **Rent received for letting out agricultural land for a movie shooting: (2 marks)**

As per section 2(1A), “agricultural income” means, *inter alia*,  
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 and hence, it does **not** constitute agricultural income.

- (2) **Income from sale of seedlings in a nursery: (2 marks)**

As per *Explanation 3* to section 2(1A), income derived from saplings or seedlings grown in a nursery is deemed to be agricultural income, whether or not the basic operations were carried out on land.

Therefore, the amount received from sale of seedlings in a nursery adjacent to the agricultural lands owned by the assessee constitutes agricultural income.

- b. **Computation of CENVAT credit available with Ram Pvt. Ltd.**

| Particulars   |                         |
|---|-------------------------|
| Machine for manufacture of rubber soles [Note 1] (1 mark)                     | 5,00,000                |
| Rubber sheets for manufacture of slippers [Note 2] (1/2 mark)                 | 5,00,000                |
| Adhesives [Note 2] (1/2 mark)   | 50,000                  |
| Club membership fee of employees [Note 3] (1 mark)                            | Nil                     |
| Expenses incurred on advertising the slippers on television [Note 4] (1 mark) | <u>5,60,000</u>         |
| <b>Total CENVAT credit available</b>  | <b><u>16,10,000</u></b> |

Notes:

1. Since Ram Pvt. Ltd. is not a SSI unit, CENVAT credit of only upto 50% of the excise duty paid is available in respect of the eligible capital goods, in the year of purchase [Rule 4 of CENVAT Credit Rules, 2004 (CCR)].
  2. Raw material (rubber sheets) and consumables (adhesives) are eligible inputs.
  3. Services used primarily for personal use or consumption of any employee are excluded from the definition of input service.
  4. Advertising service is an eligible input service. Credit of SBC is not available since it is not CENVATable. Further, since Ram Pvt. Ltd. is a manufacturer, credit of KKC is also not available. So, credit of only service tax @ 14% is allowed.
- c. Since aerated waters are notified under section 4A of Central Excise Act, 1944 , excise duty will be payable on the basis of RSP less abatement. **(2 marks)**

| Particulars  | (₹)       |
|--|-----------|
| MRP marked on the bottles of aerated water         | 30        |
| Less: Abatement @ 40% of MRP [40% of ` 30]         | <u>12</u> |
| <b>Assessable Value for purpose of excise duty</b> | <b>18</b> |

When more than one MRP is declared on the package of excisable goods, the maximum of such price will be deemed to be the MRP. Thus, if Spring Fresh declares two MRPs namely, `30 and ` 40 on each bottle of aerated water, then ` 40 would be deemed to be the MRP. The assessable value for the purpose of excise duty will be calculated in the following manner:- **(2 marks)**

| Particulars  | (₹)       |
|--|-----------|
| MRP marked on the bottles of aerated water         | 40        |
| Less: Abatement @ 40% of MRP [40% of ` 40]         | <u>16</u> |
| <b>Assessable Value for purpose of excise duty</b> | <b>24</b> |

#### Question 4

a.

**Computation of income chargeable under the head "Capital Gains" for A.Y.2017 -18 (**

| Particulars  |            |            |
|--|------------|------------|
|  | (in lakhs) | (in lakhs) |
| <b>Capital Gains on sale of residential building</b> |            |            |
| Actual sale consideration ` 700 lakhs                |            |            |

|  |               |               |
|--|---------------|---------------|
| Value adopted by Stamp Valuation Authority ₹ 770 lakhs   |               |               |
| Gross Sale consideration   |               | 770.00        |
| [In case the actual sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C]  |               |               |
| In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. In this case, since advance of ₹ 20 lakh is paid by cash, stamp duty value on the date of agreement cannot be adopted as the full value of consideration. Stamp duty value on the date of registration would be the full value of consideration] |               |               |
| <b>Less:</b> Brokerage@1% of sale consideration (1% of ₹ 700 lakhs)  |               | <u>7.00</u>   |
| <b>Net Sale consideration (4 marks)</b>  |               | 763.00        |
| <b>Less:</b> Indexed cost of acquisition   |               |               |
| - Cost of vacant land, ₹ 80 lakhs, plus registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 1125/480]   | 206.25        |               |
| - Construction cost of residential building (₹ 100 lakhs x 1125/519)   | <u>216.76</u> | <u>423.01</u> |
| <b>Long-term capital gains<sup>13</sup> before exemption (1 mark)</b>  |               | <b>339.99</b> |
| <b>Less: Exemption under section 54</b>  |               | 110.00        |
| The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India one year before or two years after the date of transfer of original asset.  |               |               |
| Therefore, in the present case, the exemption would be available only in respect of the residential house acquired at  |               |               |
| Delhi and not in respect of the residential house in London  |               |               |
| <b>Less: Exemption under section 54EC</b>  |               | 50.00         |
| Amount deposited in capital gains bonds of NHAI within six months from the date of transfer (i.e., on or before 13.7.2017) would qualify for exemption, to the maximum extent of `50 lakhs, whether such investment is made in the current financial year or subsequent financial year.  |               |               |
| Therefore, in the present case, exemption can be availed   |               |               |

|  |               |
|--|---------------|
| only to the extent of ` 50 lakh out of ` 95 lakhs, even if the both the investments are made on or before 13.7.2017 (i.e., within six months from the date of transfer). |               |
| <b>Long term capital gains chargeable to tax (3 marks)</b>   | <b>179.99</b> |

b.

| Particulars |   |                      |
|-------------|---|----------------------|
| <b>(A)</b>  | <b>Output VAT payable (1 ½ marks)</b>   |                      |
| (i)         | On sale of taxable finished goods within the state ( $\text{` } 20,00,000 \times 4\%$ )   | 80,000               |
| (ii)        | On raw material ( $\text{` } 44,00,000 \times 1\%$ )                                      | 44,000               |
| (iii)       | On leased goods ( $\text{` } 12,00,000 \times 12.5\%$ ) (Deemed sale)                     | <u>1,50,000</u>      |
|             | Total (A)   | <u>2,74,000</u>      |
| <b>(B)</b>  | <b>Input tax credit available (1 ½ marks)</b>   |                      |
| (i)         | On raw material purchased @ 1% ( $\text{` } 40,00,000 \times 1\%$ )                       | 40,000               |
| (ii)        | On raw material purchased @ 4% ( $\text{` } 60,00,000 \times 4\%$ ) $\times 3/4$ (Note-1) | <u>1,80,000</u>      |
| (iii)       | On raw material purchased @ 12.5% ( $\text{` } 10,00,000 \times 12.5\%$ )                 | <u>1,25,000</u>      |
|             | Total (B)   | <u>3,45,000</u>      |
|             | <b>Net VAT payable = (A)-(B) (1 mark)</b>   | <b>(71,000)</b>      |
|             | CST payable on inter-state sale adjusted ( $\text{` } 10,00,000 \times 2\%$ )(Note-2)     | <u>20,000</u>        |
|             | <b>Excess input tax credit can be carried forward to next quarter</b>                     | <b><u>51,000</u></b> |
|             | (` 71,000 – ` 20,000)   |                      |

Notes :

- If goods manufactured from raw material are exempt from tax, no input tax credit is available on such raw material. Thus, out of total sales of ` 40,00,000 of goods manufactured from raw material purchased @ 4%, credit will not be allowed on 1/4<sup>th</sup> of the inputs used in manufacture of exempted goods. In other words, input tax credit will be allowed in respect of 3/4<sup>th</sup> of the inputs.
- If finished goods are sold in the course of inter-state trade and commerce, input tax credit can be set off against the output tax liability.

c. Computation of CENVAT credit available with IJK Manufacturing Co. Ltd.

| Particulars   |                        |
|---|------------------------|
| Raw material used in the factory (1 mark)   | 80,000                 |
| Goods used in the guest house for the personal use of employees newly recruited during their stay [Note 1] (1/2 mark) | Nil                    |
| Capital goods used as parts and components in the manufacture of final products [Note 2] (1 mark)                     | 30,000                 |
| Office equipment used in an office within the factory [Note 3] (1 mark)   | 20,000                 |
| Light Diesel oil [Note 1] (1/2 mark)  | <u>Nil</u>             |
| <b>Total CENVAT credit available</b>  | <b><u>1,30,000</u></b> |

Notes:

- Definition of inputs under rule 2(k) of CENVAT Credit Rules, 2004, specifically excludes the following:
  - goods used in a guest house when the same are used primarily for personal use or consumption of any employee.
  - light diesel oil.

Thus, CENVAT credit cannot be claimed in respect of the above goods.

As per rule 2(k) of CENVAT Credit Rules, 2004, though definition of inputs specifically excludes capital goods, capital goods used as parts or components in the manufacture of a final product are included therein. Thus, CENVAT credit is available on the same.

Since equipment used in an office located within the factory is eligible capital goods under rule 2(a) of CENVAT Credit Rules, 2004, credit is available on the same. Further, an assessee eligible to avail the SSI exemption is allowed to take 100% CENVAT credit of the duty paid on capital goods in the year of purchase even if it opts to pay duty under rule 4(2)(a) of CENVAT Credit Rules, 2004.

**Question 5**

a.

**Computation of Total Income of Mr. Rohan for A.Y. 2017 -18**

| Particulars   | `             | `                      |
|---|---------------|------------------------|
| <b>Gross Total Income</b>   |               | 7,50,000               |
| <b>Less: Deduction under Chapter VI-A</b>   |               |                        |
| <b>Under section 80C(2 marks)</b>   | 60,000        |                        |
| - Life insurance premium of ` 70,000 (restricted to ` 60,000 i.e., 15% of ` 4,00,000, being the sum assured, since the policy has been taken on or after 01.04.2013, in respect of his handicapped son suffering from disability u/s 80U) |               |                        |
| - Tax saver deposit of ` 90,000 in the name of his major son does not qualify for deduction under section 80C, since such deposit has to be made in the name of the assessee himself to qualify for deduction u/s 80C                     | Nil           |                        |
|   | <b>60,000</b> |                        |
| <b>Under section 80G</b>  |               |                        |
| - Contribution by a resident towards the Clean Ganga Fund, set up by the Central Government would be eligible for 100% deduction without any qualifying limit.  | <u>25,000</u> |                        |
|   |               | <u>85,000</u>          |
| <b>Total Income</b>   |               | <b><u>6,65,000</u></b> |

**(2 marks for 80G deductions)**

b. Tax is deductible @10% under section 194A in respect of bank interest, if the same exceeds ` 10,000.

This threshold is with reference to interest credited or paid by a branch of the bank, where the bank has not adopted core banking solutions.

On the other hand, if the bank has adopted core banking solutions, then, the threshold of

10,000 would apply in respect of the aggregate interest credited or paid by all the branches of the bank.

**(2 marks)**

Therefore, if Pallavi Bank Ltd. has not adopted core banking solutions, it need not deduct tax on interest of ` 9,000 and ` 8,000 paid by its Chennai Branch and Bangalore Branch, respectively, to Mr. A, since the interest paid by each branch does not exceed ` 10,000.

However, if Pallavi Bank Ltd. has adopted core banking solutions, it has to deduct tax at source @10% on ` 17,000 (` 9,000 + ` 8,000) under section 194A, since the aggregate interest paid by its Chennai and Bangalore branches exceed ` 10,000.

**(2 marks)**

**c. Computation of value of taxable service**

As per rule 2B of the Service Tax (Determination of Value) Rules, 2006:

(i) Value of taxable service = (RBI reference rate for \$ – Selling rate for \$) × Total units of US \$  
 = ` (69-68) × 10,000

= ` 10,000(1 mark)

(ii) If the RBI reference rate for a currency is not available:

Value of taxable service = 1% of the gross amount of Indian Rupees provided/received

= 1% of ` (68 × 10,000)

= ` 6,800(1 mark)

(iii) In case neither of the currencies exchanged is Indian Rupee:

Value of taxable service = 1% of the lesser of the two amounts the person changing money would have received by converting any of the two currencies into Indian Rupee at that time at the reference rate provided by RBI. (1 mark)

Hence, in the given case, value of taxable service would be 1% of the **lower** of the following:

(a) US Dollar 10,000 × ` 67 = ` 6,70,000

(b) UK Pound 5,000 × ` 100 = ` 5,00,000

Value of taxable service = 1% of ` 5,00,000 = ` 5,000(1 mark)

**Question 6**

a. **False** : As per section 56(2)(vii), where any sum of money is received without consideration by an individual or a Hindu undivided family from any person or persons and the aggregate value of all such sums received during the previous year exceeds ` 50,000, the whole of the aggregate value of such sum shall be included in the total income of such individual or Hindu Undivided Family under the head “Income from other sources”. However, in order to avoid hardship in genuine cases, certain sums of money received have been exempted, which includes, *inter-alia*, any sum received on the occasion of the marriage of the individual and any sum received from any relative. As such, ` 2 lakh received from friends on the occasion of marriage is exempt. However, brother of father-in-law is not included in the definition of relative. Hence, ` 1 lakh is taxable under the head “Income from other sources”. The statement that ` 3 lakh is includible in A’s income is, therefore, false. (2 marks)

b. **True**: By virtue of section 56(2)(i), dividend received [other than dividend in respect of which dividend distribution tax is paid by the company and hence, is exempt in the hands of recipients u/s 10(34)] is always taxable under the head “Income from other sources”. Even if such dividend is received by a dealer in shares or one engaged in buying/selling of shares, the same would be taxable under the head “Income from other sources”. (2 marks)

**Note:** In this content, it may be noted that section 115BBA brings to tax any income by way of aggregate dividend in excess of Rs. 10 lakhs in the hands of an individual, HUF or a firm, resident in India @ 10%.

c.

**Verification of Return of income as per section 140  
(1 mark for each point)**

|       | Person  | Return of income to be verified by    |
|-------|---|---------------------------------------|
| (i)   | Political party                                   | Chief executive officer of such party |
| (ii)  | Company which is being wound up                   | Liquidator                            |
| (iii) | HUF, when karta is unable to verify <sup>17</sup> | Any adult member of the family        |

|      |                                 |  |
|------|---------------------------------|--|
| (iv) | Scientific research association | Member of the association or the principal officer thereof |
|------|---------------------------------|--|

c. In case the goods have been imported in an aircraft, the rate of duty shall be the rate in force on:-

(i) the date on which Bill of Entry in respect of such clearance is presented or

(ii) the date on which arrival of aircraft takes place

**whichever is later.**

Therefore, the relevant date for determination of the rate of import duty, in the given case, is 15.06.20XX. Hence, the rate of import duty applicable in the given case is 11%. **(4 marks)**

d. Rule 4(9) of the Service Tax Rules, 1994 read with *Order No. 1/2015 ST dated 28.02.2015* provides that the registration certificate may be revoked under service tax in any of the following circumstances after giving the assessee an opportunity of being heard:

1. the premises are found to be non-existent or not in possession of the assessee.
2. no documents are received within 15 days of the date of filing the registration application.
3. the documents are found to be incomplete or incorrect in any respect. **(4 marks)**

#### Question 7

a.

#### Computation of total income and tax liability of Mr. A for the A.Y. 2017-18

| Particulars   |                 |
|---|-----------------|
| Income from retail trade – as per books (See Note 1 below) <b>(1 marks)</b>             | 7,50,000        |
| Income from plying of vehicles – as per books (See Note 2 below) <b>(4 marks)</b>       | <u>3,20,000</u> |
|   | 10,70,000       |
| Less : Set off of brought forward depreciation relating to A.Y. 2016-17 <b>(1 mark)</b> | <u>1,00,000</u> |
| <b>Gross total income</b>   | <b>9,70,000</b> |
| Less: Deduction under section 80C – Contribution to PPF <b>(1 mark)</b>                 | <u>1,50,000</u> |
| <b>Taxable income</b>   | <b>8,20,000</b> |
| Tax liability   | 89,000          |
| Add: Education cess and SHEC@3%   | <u>2,670</u>    |
| <b>Tax Payable(1 mark)</b>  | <b>91,670</b>   |

#### Note :

1. **Income from retail trade:** Presumptive business income under section 44AD is ` 9,73,600 i.e., 8% of turnover of ` 1,21,70,000. However, the income computed as per books is ` 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of ` 1,00,000. Since the income computed as per books is lower than the income deemed under section 44AD, the assessee can adopt the income as per books. However, if he does not opt for presumptive taxation under section 44AD, he has to get his books of accounts audited under section 44AB, since his turnover exceeds Rs.1 crore.
- (ii) **Income from plying of vehicles:** Income calculated under section 44AE(1) would be  $7,500 \times 12 \times 5$  which is equal to ` 4,50,000. However, the income from plying of vehicles as per books is ` 3,20,000, which is lower than the presumptive income of 4,50,000 calculated as per section 44AE(1). Hence, the assessee can adopt the income as per books i.e. ` 3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.

It is to be further noted that in both the above cases, had presumptive income provisions been opted, all deductions under sections 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable.



If the assessee opted for income to be assessed on presumptive basis, his total income would be as under:

| Particulars   | ₹                |
|---|------------------|
| Income from retail trade under section 44AD [ ` 1,21,70,000 @ 8%]   | 9,73,600         |
| Income from plying of vehicles under section 44AE [ ` 7,500 x 12 x 5]   | <u>4,50,000</u>  |
|   | 14,23,600        |
| Less: Set off of brought forward depreciation – not possible as it is deemed that it has been allowed and set off | <u>Nil</u>       |
| <b>Gross total income</b>   | <b>14,23,600</b> |
| Less: Deduction under section 80C - Contribution to PPF   | <u>1,50,000</u>  |
| <b>Taxable income</b>   | <b>12,73,600</b> |
| Tax thereon   | 2,07,080         |
| Add : Education cess and SHEC@3%  | <u>6,212</u>     |
| <b>Total tax liability</b>  | <b>2,13,292</b>  |
| <b>Total tax liability (rounded off)</b>  | <b>2,13,290</b>  |

b.

#### Computation of customs duty payable

| Particulars  |     | ₹                |
|--|-----|------------------|
| Assessable value (A) (1/2 mark)  | (A) | 2,00,000.00      |
| Basic customs duty @ 10% of (A) (1/2 mark)                             | (B) | 20,000.00        |
| CVD [Refer note below] (1/2 mark)                                      | (C) | 43,750.00        |
| Education cesses of customs @ 3% on [(B) + (C)] (1/2 mark)             | (D) | 1,912.50         |
| Value for computing special CVD [(A) + (B) + (C) + (D)] (1/2 mark)     | (E) | 2,65,662.50      |
| Special CVD @ 4% on (E) (rounded off) (1/2 mark)                       | (F) | <u>10,626.50</u> |
| <b>Total custom duty payable [(B) + (C) + (D) + (F)] [Rounded off]</b> |     | <b>76,289</b>    |

**Note:** If imported goods are similar to goods covered under section 4A of the Central Excise Act, 1944, CVD is payable on basis of MRP printed on the package less abatement, as permissible. Therefore, CVD is computed as under: (1 mark)

| Particulars                                 | ₹               |
|---|-----------------|
| Maximum retail price [10,000 pieces × ` 50] | 5,00,000        |
| Less: Abatement @ 30%                       | <u>1,50,000</u> |
| Assessable value for CVD                    | <u>3,50,000</u> |
| CVD @ 12.5% of ` 3,50,000                   | 43,750          |

c.

(1 mark for each)

- (i) **The statement is valid.** The cost of freight is excluded from the sale price where such cost is separately charged by the dealer in the invoice.
- (ii) **The statement is not valid.** Where a product is „controlled“ and has to be sold at „controlled price“, subsidies are granted by the Government to manufacturers to compensate the cost of production, which is usually higher than the „controlled price“. Such subsidy will not form part of sale price.
- (iii) **The statement is not valid.** Charity / Dharmada collected by dealer will form part of sale price because so far as the purchaser is concerned, he has to pay the whole amount for purchasing the goods.
- (iv) **The statement is not valid.** Under CST Act, free of cost material supplied by buyer is not required to be added.

- d. (i) As per rule 4(2) of the CENVAT Credit Rules, 2004, CENVAT credit in respect of the central excise duty paid on capital goods can be taken [upto 50% in same FY and balance 50% in subsequent FY] in the instant case, immediately on receipt of the same in job worker's premises where manufacturer has directed the goods to be sent directly to the job worker. **(1 mark)**

This is subject to the condition under rule 4(5) of CENVAT Credit Rules, 2004 that the capital goods are received back by manufacturer within 2 years of their being received by job worker, otherwise credit availed needs to be reversed and can be retaken only when capital goods are received back in the factory . **(1 mark)**

- (ii) As per rule 4(7) of the CENVAT Credit Rules, 2004:

**Full Reverse Charge:** CENVAT credit of service tax is allowed after service tax is paid by the service recipient. **(1 mark)**

**Partial Reverse Charge:** CENVAT credit of the service tax payable by the service provider is allowed on/after the invoice date, while the CENVAT credit of the service tax payable by the service recipient is allowed after service tax is paid by the service recipient.

As per rule 4(1) of the CENVAT Credit Rules, 2004, the time limit for availing CENVAT credit for inputs/input services is upto one year from the date of issuance of invoice. **(1 mark)**

\*\*\*\*\*