

Note: All questions are compulsory.

Q 1

(A) Assesse: Mr. Raghuvver Previous Year: 2017-2018 Assessment Year: 2018-2019

Computation of Taxable Income and Tax Liability

Particulars			₹
1. Profits and Gains of Business or Profession (5 Marks)	Deduction from Profit	Addition to Profit	
Net Profit as per Profit & Loss A/c		6,50,000	
Interest on Government Securities (considered u/h "Income from Other Sources")	25,000		

Particulars			₹
Dividend from Foreign Company (considered u/h "Income from Other Sources")	18,000		
Gold Coins from Father (considered u/h "Income from Other Sources")	55,000		
Depreciation as per Books		85,000	
Depreciation as per IT Act	96,000		
Interest on Loan [Disallowed u/s 36(l)(iii)] [See Note 1]	-	68,000	
General Expenses [Disallowed u/s 40A(3)] [See Note 2]		20,500	
Compensation to Employees for Termination [For the business - allowed u/s 37]		-	
Sub-Total	(1,94,000)	8,23,500	6,29,500
2. Income from Other Sources (2 marks)			
Interest on Government Securities		25,000	
Dividend from Foreign Company [See Note 3]		18,000	
Gold Coin from Father (not taxable since, it is received from Relative) [Note 4]		-	43,000
GROSS TOTAL INCOME			6,72,500
Less: Deduction under Chapter VI-A -			
(a) Sukanya Samridhi Scheme [u/s 80C] (2 marks)		45,000	
(b) For Assessee and Spouse (Assuming Premium Payment by A/c Payee Cheque) [Preventive Checkup is also included within the overall limit of ₹ 25,000] - 80 D		25,000	
(c) Medical Expenses of Father (82 Yrs) (Assuming Payment by A/c Payee Cheque) - 80D (max.)		30,000	
(d) Contribution to Swachh Bharat Kosh [100% allowed without restriction] - 80G		20,000	(1,20,000)
TOTAL INCOME			5,52,500

Notes: (1 mark)

- As per Sec.36(l)(iii), Interest on Capital borrowed for the purchase of asset, paid from the date on which the capital was borrowed upto the date such asset was first put to use, shall not be allowed as a deduction.
- As per Sec.40A (3), Expenditure in respect of which aggregate payments made to a person in a day. - Excess of ₹ 10,000, made otherwise than by way of Account Payee Cheque / Demand Draft is disallowed in full.
- Dividend from Indian / Domestic Companies exempt from tax u/s 10(34). But Dividend from Foreign Company is Taxable under the Head "Income from Other Sources".
- As per Sec.56, Gift received from a Relative (Father) is exempt from tax.

(B)

SCHEDULE I

1	Permanent transfer/disposal of business assets where ITC has been availed on such Assets. (1 marks)
2	Supply of Goods or Services or both between related persons or between distinct persons as specified u/s 25, when made in the course or furtherance of business. Note: Gifts not exceeding ₹ 50,000 in value, in a Financial Year by an Employer to an employee shall not be treated as supply of Goods or Services or both. (1 marks)
3	Supply of Goods – (2 marks) By a Principal to his agent where the Agent undertakes to supply such Goods on behalf of the Principal, or By an Agent to his Principal where the agent undertakes to receive such Goods on behalf of the Principal.
4	Import of Services by a taxable person from a related person or from any of his other establishments outside India, in the course or furtherance of business. (1 marks)

(C) 1. Exempt Supply means supply of any Goods or Services or both which attracts NIL rate of tax or which may be wholly exempt from tax u/s 11 of CGST, or u/s 6 of IGST Acts respectively. Under GST Law, out of many exempted supplies, following key supplies are exempted for the benefit of the public-

- Essential Commodities
- Agricultural Produce
- Supply of Fresh Vegetables etc.
- Educational Services
- Health Care Services(5 marks)

Q 2 (A)

Application of Income (2 marks)	Diversion of Income(2 marks)
An obligation to apply income, which has accrued or has arisen or been received, amounts to merely the apportionment of income. So, the essentials of the concept of application of income are - 1. Income accrues to the assessee 2. Income reaches the assessee 3. Income is applied to discharge an obligation, whether self- imposed or gratuitous.	An obligation to apply the income in a particular way before it is received by the assessee or before it has arisen or accrued to the assessee results in diversion of income. The source is charged with an overriding title, which diverts the income. So, the essentials of "Diversion of Income" are – 1) Income is diverted at source, 2) There is an overriding charge or title for such diversion, and The charge / obligation is on the source of income and not on the Receiver. Examples of diversion by overriding title are — • Right of maintenance of dependants or of coparceners on partition, • Right under a statutory provision, • A charge created by a decree of a Court of Law.s

(B) Assessee: Mr. M

Previous Year: 2017-2018

Assessment Year: 2018—2019

Computation of Income Chargeable under the head Salaries

Particulars (1 mark for each)		
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Q 3

(A) Assessee: Pritam

Previous Year: 2016-2017

Assessment Year: 2017-2018

Computation of Total Income and Tax Liability

Pritam has attained the age of 60 years during the previous year [any time during the PY] so, for a Total Income upto 3,00,000, Tax will be Nil. (4 marks)

Particulars	₹	₹
1. Income from House Property [W.N. 1]		(34,950)
2. Profits and Gains of Business or Profession		19,50,000
Gross Total Income		19,15,050
Less: Deductions under Chapter VIA - U/s 80C Contribution to Public Provident Fund		(80,000)
Total Income (Round Off)		18,35,050
Tax on Total Income [$\text{₹ } 1,20,000 + (\text{₹ } 18,35,050 - \text{₹ } 10,00,000) \times 30\%$]		3,70,515
Add: Education Cess at 2%		7,410
Add: Secondary and Higher Education Cess at 1%		3,705
Total Tax Payable (Rounded off)		3,81,630

Working Notes:

1. Computation of Income from House Property (4 marks)

	Option I		Option II	
	Flat 1 SOP	Flat 2 DLOP	Flat 1 DLOP	Flat 2 SOP
SOP = assumed Self Occupied DLOP = assumed Deemed Let out				
Determination of Annual Value u/s 23(1)(a)/(b)/23(2)				
Step 1: Municipal Rent or Fair Rent whichever is Higher	NIL	1,35,000	3,60,000	NIL
Step 2: Step 1 or Standard Rent whichever is Lower	NIL	1,35,000	2,40,000	NIL
Step 3: Step 2 or Actual Rent whichever is Higher - Since Actual Rent is not given Step 2 value = Gross Annual Value	NIL	1,35,000	2,40,000	NIL
Less: Municipal Taxes and Taxes on Services paid	NIL	(13,500)	(24,000)	NIL
Net Annual Value	NIL	1,21,500	2,16,000	NIL

Particulars	Option I		Option II	
Less: Deductions u/s 24				
(a) 30% of Net Annual Value	NIL	(36,450)	(64,800)	NIL
(b) Interest	(1,20,000)	NIL	(1,20,000)	NIL
Income / (Loss) from House Property	(1,20,000)	85,050	31,200	NIL
Total	Loss ₹ 34,950		Income ₹ 31,200	

Note: Gross Annual Value for SOP is NIL. Municipal Taxes paid for SOP shall not be allowed as deduction.

Net Income / (Loss) from House Property:

Since Net Loss from House Property is higher in Option I treating Flat 1 as SOP and Flat 2 as DLOP is advisable.

(B) (1 mark each)

Particulars	Answer / Reason
1. Received ₹ 20 Lakhs from a Non-Resident for use of Patent for a business in India.	Taxable. Payer, being a Non-Resident, Income received for Patent used for business in India, is deemed to accrue or arise in India.
2. Received ₹ 15 Lakhs from a Non-Resident Indian for use of Know-How for a business in Sri Lanka and this amount was received in Japan. [Assume that the above amount is converted / stated in Indian Rupees].	Not Taxable. Payer, being a Non-Resident, Income Received for use of Know-How for a Business outside India, is not deemed to accrue or arise in India.
3. Received ₹ 7 Lakhs from RR Co. Ltd, an Indian Company, for providing Technical Know-How in India.	Taxable. Payer is an Indian Company, i.e. Resident in India, and also Technical Know-How is used for business in India. Hence, deemed to accrue or arise in India.
4. Received ₹ 5 Lakhs from R & Co. Mumbai for conducting the Feasibility Study for a new project in Nepal and the payment was made in Nepal.	Not Taxable. Payer is assumed as a Resident in India. Fees for Feasibility Study conducted for business outside India, is not deemed to accrue or arise in India.

(C) (2 marks for each point)

1. Meaning: "Reverse Charge" means the liability to pay tax by the recipient of supply of goods or services or both instead of the supplier of such goods or services or both u/s 9(3)/(4), or u/s 5(3)/(4) of the Integrated Goods and Services Tax Act.
2. Tax on Reverse Charge Basis - Specific categories of Persons [Sec.9(3)]: The Government may, on the recommendations of the Council, by notification, specify categories of supply of goods or services or both, the tax on which shall be paid on reverse charge basis by the recipient of such goods or services or both.

Q 4

(A) Computation of Firm's Income under the head Profits and Gains of Business or Profession (4 marks)

Particulars	₹
Net Loss as per Profit and Loss Account	(2,50,000)
Add: Partners Remuneration	1,80,000
Add: Interest on Capital to Partners	60,000
Net Loss before Interest and Remuneration	(10,000)
Less: Allowable Interest on Capital at 12% (A - 12,000, B - 12,000 and C - 12,000)	(36,000)
Book Profits	(46,000)
Less: Remuneration allowable u/s*40(b) ₹ 1,50,000 or 90% of Book Profits, whichever is higher	(1,50,000)
Loss of the Firm	(1,96,000)

Computation of Income of Partners under the head Profits and Gains of Business or Profession (in ₹) (4 marks)

Particulars	A	B	C
Interest on Capital (amount deducted in computing Firm's Income)	12,000	12,000	12,000
Add: Remuneration to Partners ₹ 1,50,000 apportioned as (9 : 6 : 3)	75,000	50,000	25,000
Taxable Income from Partnership Firm	87,000	62,000	37,000
Share of Loss from Firm (₹ 1,96,000 in the ratio of 1 : 1 : 1) Note: This cannot be clubbed / set-off with Interest on Capital, etc. Since, the Share Income from a Firm is exempt u/s 10(2A).	(65,334)	(65,333)	(65,333)

(B) Assessee: Mr. Nepal Previous Year: 2017-2018 Assessment Year: 2018-2019

Computation of Eligible Deduction under Chapter VI-A (1 mark each)

Particulars	₹	₹
Sec.80C - LIC Premium (Maximum deduction 10% of Sum Assured) = 10% of 1,00,000	10,000	
-PPF	25,000	

- Repayment of Housing Loan	50,000	
Sec.80CCC - Payment to LIC Pension Fund [Total deduction u/s 80C, 80CCC & 80CCD(1) is restricted to ` 1,50,000 u/s 80CCE]	20,000	1,05,000
Sec.80D- Medical Insurance	1,05,000	
(a) For Self, Wife and Dependent Children - Maximum restricted to ` 25,000	18,000	48,000
(b) For Parents - Senior Citizens - Maximum restricted to ` 30,000	30,000	
Eligible Deduction under Chapter VI A		1,53,000

(C) (2 marks for each point)

Principle	As per Sec. 31(2)(b), if invoice is not issued within 30 days from the date of Provision of Services, then Time of Supply = Date of Provision of Service or the date of receipt of payment, whichever is earlier.
Analysis and Conclusion	(a) For Advance Received on 05th April: TOS = 05th April (being receipt of Payment) (b) For Balance Received (Invoice issued after 30 days from completion of Service): TOS = 10 th April (Date of Completion 10th April or Date of Payment 14th June, whichever is earlier.)

Q 5

(A) Assessee: Mrs. Paulomi Previous Year: 2017-2018 Assessment Year: 2018-2019

1. Computation of Income on LTCG and Tax: (4 marks)

Particulars	Option 1 With Indexation	Option 2 Without Indexation
Sale Consideration	3,41,476	3,41,476
Less: Indexed Cost of Acqn./Cost of Acqn.	(10,000 x 272/254) = (10,709)	(10,000)
Long-Term Capital Gain	3,30,767	3,31,476
Less: Basic Exemption limit applicable	(2,50,000)	(2,50,000)
Taxable Long-Term Capital Gain	80,767	81,476
Tax Rate Applicable u/s 112	20%	10%
Tax on Long-Term Capital Gain	16,153	8,148

- In case of transfer of Listed Security on which STT is not paid, then the Assessee can opt for 20% Tax Rate with Indexation benefit, or 10% Tax Rate without Indexation Benefit, whichever is more beneficial to him. In the given case, Option 2 is more beneficial to the Assessee (i.e. lower tax) and therefore it is considered in the calculations.
- As per Sec. 112, no deduction shall be allowed under Chapter VI-A for Long Term Capital Gain.
- In case of transfer of Unlisted Security, Tax on LTCG shall be calculated at 20% and the Assessee has no option to compute / adopt for 10% without any Indexation benefit.
- When Total Income of Resident Individual does not exceed ` 3.5 Lakhs, Rebate u/s 87A = 100% of Tax payable or ` 2,500 whichever is less.

Computation of Total Income and Tax Payable (4 marks)

Particulars	Listed Shares	Unlisted Shares
Income from Capital Gain: Long Term Capital Gain	(W.N.1) 3,31,476	(W.N.4) 3,30,767
Gross Total Income	3,31,476	3,30,767
Less: Deduction under Chapter VI-A (W.N.3)	NIL	NIL
Total Income	3,31,476	3,30,767
Tax on Total Income	Nil	Nil
Special Rates on Long Term Capital Gains (W.N.1)	8,148	16,153
Less: Rebate u/s 87A (W.N.5)	(2,500)	(2,500)
Tax Payable	5,648	13,653
Add: Education Cess at 2%	113	273
Add: Secondary and Higher Education Cess at 1%	56	137
Total Tax Payable (Rounded off)	5,840	14,060

(B) (1/2 mark for each calculation)

Particulars	
1. Total Income= Income from Cloth Business ₹ 8,10,000 + Income from Other Sources ₹ 2,70,000	10,80,000
2. Tax thereon = [(10,80,000 - 10,00,000) x 30% + 1,12,500]	1,36,500
3. Add: Education Cess at 2% on Income Tax	2,730
4. Add: Secondary and Higher Education Cess at 1% on Income Tax	1,365
5. Total Tax and Cess Payable (2+3+4)	1,40,600
6. Tax Deducted at Source	25,000
7. Assessed Tax	1,15,600
8. Advance Tax paid on 14.03.2018	1,03,000
9. Balance Payable before considering Interest	12,600
10. Computation of Interest u/s 234B: 90% of Assessed Tax = 90% of ₹ 1,15,600 = ₹ 1,04,040 Since Advance Tax ₹ 1,03,000 is less than 90% of Assessed Tax, Sec.234B Interest applicable. Interest u/s 234B = Shortfall, i.e. (1,15,600- 1,03,000) x 1% x 9 months (Apr to Dec 2017)	1,134

(C) Computation of value of taxable supply
(1 Mark for each calculation)

Particulars		Reason
List price of the goods	1,00,000	Base Price exclusive of Taxes and Discounts
Tax levied by Municipal Authority	10,000	Includible in the value as Tax being other than GST Tax
CGST and SGST chargeable on the goods	-	GST Taxes not includible in the Value
Packing charges	2,000	Includible in the value
Subsidy received from a non-Government body	4,000	Subsidy is received from a non-Government body,
Total Value before Discount	1,16,000	
Less: Discount @ 4% on ₹ 1,00,000	4,000	Since discount is known at the time of supply, it is deductible from the value
Value of taxable supply	1,12,000	

Q 6

(A) Computation of Total Income(6 marks)

Assesse: Mr. A & Mrs. A

Previous Year: 2017-2018

Assessment Year: 2018-2019

Particulars	Mr. A	Mrs. A
Income from Salary (25,000 x 12)	3,00,000	
Add: Salary paid to Mrs.A clubbed in the hands of Mr.A [since Mr.A has Substantial Interest in the Company, and Mrs.A does not have professional qualification. (10,000 x 12)]	1,20,000	
Income from House Property (W.N)	30,000	1,00,800
Income from Other Sources: Income from Securities		
Total Income (before including Minor's Income)	4,50,000	1,00,800
Add: Income of twin daughters	2,000	Nil
Income of son	1,200	
Less: Exempt u/s 10(32), ₹ 1,500 per Child (1,500 x 3 = 4,500) [restricted to Income clubbed]	(3,200)	
Total Income	4,50,000	1,00,800

Note: Income of a Minor Child shall be clubbed in the hands of Parent whose Total Income is greater before such clubbing and hence is clubbed in the hands of Mr. A.

Working Note: Computation of Income from House Property (2 MARKS)

Particulars	
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Gross Annual Value (12,000 x 12)	1,44,000
Less: Municipal Taxes	NIL
Net Annual Value	1,44,000
Less: Deduction u/s 24	(43,200)
30% of Net Annual Value (1, 44,000 x 30%)	
Income from House Property	1,00,800

(B) (1 mark each)

Person	Obligation to file Return and Reasons
Research Association having Total Income of ₹ 2,60,000	Yes. As per Sec.139 (4C), Return of Income should be filed, if the Total Income exceeds the maximum amount not chargeable to tax, before giving effect to provisions of Sec. 10.
Trade Union having Total Income of ₹ 1,00,000	No. As per Sec.139(4C), Return of Income should be filed, if the Total Income exceeds the maximum amount not chargeable to tax, before giving effect to the provisions of Sec. 10. Here, the Income is only ₹ 1, 00,000.
Charitable Trust registered u/s 12AA, having Total Income of ₹ 2,70,000	Yes. As per Sec.139 (4A), Return of Income should be filed, if the Total Income exceeds the maximum amount not chargeable to tax, before giving effect to the provisions of Sec.11 and 12. When the accounts are subject to audit, the return filing obligation becomes mandatory and the due date for filing income is 3 September of the relevant Assessment Year.
Limited Liability Partnership (LLP) with Business Loss of ₹ 1,30,000	Yes. As per Sec. 139(1), every Company and Partnership Firm should furnish Return of Income in respect of its Income or Loss for every previous year. Firm includes Limited Liability Partnership.
University having Total Income ₹ 46,00,000 before giving effect to Sec.10 (23C)	Yes. As per Sec. 139(4C), Return of Income should be filed, if the Total Income exceeds the maximum amount not chargeable to tax, before giving effect to provisions of Sec. 10.

(C) Determination of CENVAT Credit of ABC Co. Ltd for the Month of January (1 mark each)

Particulars	₹	Reasoning
Raw Materials	52,000	Goods used in the course or furtherance of business
Manufacturing Machine	50,000	Goods used in the course or furtherance of business
Capital Goods (Fully Capitalized)	Nil	Input tax paid on capital goods cannot be availed as ITC, if depreciation has been claimed on such tax component
Truck Used for Transportation of RM	50,000	Though ITC on motor vehicles has been specifically disallowed under section 17(5)(a), however ITC on motor vehicles used for transportation of goods is allowed.
Food to Employees	Nil	ITC on food or beverages is specifically disallowed unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply-Section 17 (5)(b)(i)]
Input Credit for January	1,52,000	

Q 7

(A) Case (i): Computation of Total Income

Particulars	₹	₹
Income from House Property House - I (2 mark)	72,000	
House - II (Loss) (Note 1)	(30,000)	
Net Income from House Property		42,000
Profits and Gains of Business or Profession: (4 mark)		
Leather Business - Income	1,00,000	

Less: Current Year Loss - Textile Business	(40,000)	
Less: B/fd Business Loss of AY 2014—2015 - Textile Business	(60,000)	NIL
Chemical Business - Bad Debts recovered deemed as Business Income u/s 41(4)	35,000	
Less: B/fd Business Losses of discontinued Chemical Business of AY 2016-2017 (Note 2)	(35,000)	NIL
Share of Profit in the Firm	16,550	
Less: Exempt u/s 10(2A)	(16,550)	NIL
Profits and Gains of Business		NIL
Capital Gains (1 mark)		
Short Term Capital Gains	60,000	
Long Term Capital Loss - ₹ 35,000 can be Set-off only against LTCG and it shall be carried forward for 8 Successive Assessment Years and set-off only against LTCG	Nil	
Income under the head "Capital Gains"		60,000
Gross Total Income		1,02,000
Less: Deduction under Chapter VI-A - 80C - LIC Premium paid (1 mark)		(10,000)
Total Income		92,000

Notes:

- Losses under the head Income from one House Property can set-off against the income from another House Property u/s 70 (Inter source adjustment).
- U/s 41(5), the unabsorbed business loss pertaining to the year in which the business was discontinued is permitted to be set-off against deemed business income u/s 41(1), (3), (4) and (4A).
- For the PY 2016-2017 - If the Turnover exceeds ₹ 1 Crore, Tax Audit u/s 44AB will be applicable for the Assessee. Hence for the PY 2016-2017, Bhargav's Business is Liable for Tax Audit.
- Since the Tax Audit is applicable for PY 2016-2017 (Preceding Financial Year), the Assessee is liable to deduct TDS in the current Previous Year 2017-2018.

3. Computation of TDS Amount:

Particulars	₹
Interest paid to Indian Bank is not liable for TDS as it is specifically excluded u/s 194A	NIL
Advertisement Expense paid to R. TDS has to be deducted for payment which exceeds ₹ 30,000.	340
Hence, TDS Amount = 34,000 x 10% u/s 194J	
Factory Rent paid ₹ 1,85,000. Since it exceeds ₹ 1,80,000, it is liable for TDS at 10% (1,85,000 x 10%) u/s 194I	18,500
Brokerage paid to B ₹ 6,000. Since it does not exceed ₹ 15,000, it is not liable for TDS u/s 194H	Nil
Total	18,840

(B)

Solution to (A): (2 marks)

- 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.
- There is no Exemption Limit for Deduction of Tax on payments to a Director.
- Hence, ABC & Co Ltd should deduct Tax of ₹ 1,900 on Sitting Fee paid, being 10% of ₹ 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.

Solution to (B): (1 marks)

- 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 ₹ 50,00,000. TDS @ 1% should be deducted.

2. In the given case, since the Value of Transfer exceeds ₹ 50 Lakhs, TDS of ₹ 60,000 shall be deductible by the Mr X. [₹ 60,00,000 x 1%].

(C) Every person registered under GST will have to file returns in some form or other. The details are as follows-

Person	Periodicity
Registered Person - Normal supplier	Monthly
Registered Person - Supplier opting for Composition scheme	Quarterly
Input Service Distributor	Monthly [showing details of credit distributed during the particular month]
Person required to deduct tax (TDS)	Monthly [showing details of amount Deducted and other prescribed details]
Person required to collect tax (TCS)	Monthly [showing details of amount Collected and other prescribed details]
Non-Resident taxable person	To file returns for the period of activity undertaken