

Tax 3/2009.

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PART-A

1.A) Computation of income from house property for the assessment year 2009-10.

Gross annual value shall be higher of the following two.

1. Expected Rent.

Municipal value Rs. 2,00,000 &
Fair rent Rs. 2,52,000 whichever is higher,
but limited to standard rent of Rs. 2,40,000.

2. Actual Rent.

$2,30,000 \times 12 = 2,76,000$	2,76,000.
Gross Annual Value	20,000
(*) Municipal tax $(2,00,000 \times 20\% \times 50\%)$	2,56,000.
Annual value	

Less:- Deductions under section 24.

1. Statutory deductions

30% of 2,56,000 = 76,800.

2. Interest on Borrowed

money

1,58,400

(2,35,200)

$\therefore$ Income from house property $\rightarrow$ Rs. 20,800

(Continued....)

Working note

Interest on pre construction period :-

Pre construction period shall be from
1-10-2006 to 31-3-2007. i.e 6 months.

$$12,00,000 \times \frac{12}{100} \times \frac{6}{12} = 72,000.$$

$$\frac{72,000}{5} = 14,400.$$

Interest for previous year

$$12,00,000 \times 12\%$$

$$1,44,000$$

$$\underline{1,58,400.}$$

Q.16] Compute the depreciation allowance.

	Max. Ltd. in India Company	Max Ltd. in foreign Company.
W.DV as on 1.4.2008	12,00,000.	10,00,000.
Add: New additional machine T purchased.	500,000	
New machine Z purchased.		4,00,000.
Less: Machine T sold.	(4,00,000)	
∴ WDV for depreciation.	13,00,000.	14,00,000.

For Max Ltd. in India Company

Depreciation

$$15\% \text{ on } 12,00,000 = 1,80,000.$$

$$7.5\% \text{ on } 1,00,000 = 7,500.$$

1,87,500

$$\text{W.D.V on } 1.4.2009 = 13,00,000 - 1,87,500$$

$$= \text{R. } 11,12,500.$$

For Max Ltd. in foreign company

Depreciation

$$15\% \text{ on } 10,00,000 = \text{R. } 1,50,000.$$

$$7.5\% \text{ on } 4,00,000 = \text{R. } 30,000.$$

R. 1,80,000

$$\text{WDV on } 1.4.2009 = \text{R. } 14,00,000 - \text{R. } 1,80,000.$$

$$= \text{R. } 12,20,000.$$

Q.2a]

Q.2.

Section 91 of Income Tax Act provides for unilateral relief. According to Section 91 if any person who is resident in India in any previous year proves that in respect of any income which accrued during previous year outside India and he has paid in any country with which there is no agreement under section 90 for the relief or avoidance of double taxation, income tax by deduction or otherwise under the law in force in that country, he shall be entitled to deduction from Indian income tax payable by him, a sum calculated on such doubly taxed income at Indian rate or rate of tax of that country whichever is less.

Therefore, he will be entitled for deduction of Rs. 8,800 or tax paid on such income in India whichever is less.

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b) Under Section 115E.

Investment income of Non-Resident Indian,
Rao Sahab Sahab = Rs. 50,000 (net).

Tax = 20% of Rs. 50,000
= Rs. 10,000.

Long term Capital gains = Rs. 25,000.

Tax on long term capital gains = 10% of Rs. 25,000
= Rs. 2,500.

Other income of Rs. 75,000 is not taxable.

∴ Total tax payable for the year 2009-10
will be Rs. 10,000 + Rs. 2,500 = Rs. 12,500.

Q.3A)

Q.3.

Municipal valuation

R. 2,00,000.

Rental value

R. 4,00,000.

GMR. [Gross maintainable Rent]

4,00,000.

(-) Municipal tax

(-) 25,000.

(-) 15% of GMR

(-) 60,000

i.e. 15% of 4,00,000 = 60,000

Net Maintainable Rent $\rightarrow$ R. 3,15,000.

Capitalised value = $12.5 \times 3,15,000$
= R. 39,37,500.

(+) Prem. for unbuilt area

$(39,37,500 \times 20\%) =$ R. 7,87,500.

$\therefore$ Value of immovable property $\rightarrow$ R. 47,25,000.

Q.3b) As residential house property is let out for a period of 10 months i.e. 300 days or more

So it will be exempted from wealth tax.

Calculation of Net Wealth.

Jewellery

R. 7,00,000.

Coparcenary interest in HUF
[Section 5(ii)]

Exempt.

Residential house purchased by wife from gift.

R. 5,00,000.

Motor car:

R. 1,00,000.

Deposit under National Deposit Scheme. [HUF Asset u/s 2(ea)]

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3b) (continued...)

Cash in hand
Land at Suraj Khurd.
(assumed as rural land).

∴ Net Wealth. $\rightarrow$ Rs. 13,00,000.

As net wealth is less than Rs. 15,00,000, it is not taxable.

Part C

Q.5

Ans. a)

The Value Added Tax (VAT) in India is a state level multipoint tax on value addition which is collected at different stages of sale with a provision of set-off for tax paid at previous stage i.e., tax paid on inputs.

Significance of VAT in India.

- To encourage and result in a better-administered system.
- To eliminate avenues of tax evasion.
- To avoid undervaluation at all stages of production & distribution.
- To claim credit on tax paid on inputs at each stage of value addition.
- To do away with cascading effect resulting in non distortion of business decisions.
- Permits easy & effective targeting of tax rates as a result of which the exports can be zero rated.
- Ensures better tax compliance by generating a trail of invoices that supports effective audit and enforcement strategies.
- Contribution to fiscal consolidation for our country. As a steady source of revenue, it shall reduce the debt burden.

- To help our country to integrate better in WTO regime.

- To stop the unhealthy tax-rate war and trade diversion among the states, which had adversely affected the interest of all states in the past.

Q.6] Distinction

Single Point Tax Vs. VAT.

Explain with example.

Earlier the local sales tax was based on single point tax. The single point was either at first point or at last point. The First point tax (FPT) was convenient to the revenue but had inbuilt cascading effect.

The Last Point Tax (LPT) is an ideal system but it was evasion prone. Loss of revenue to the government. The VAT system on the other hand reduces the disadvantage of both FPT & LPT & at the same time draws the advantage from both. The VAT system is obviously more transparent, uniform & less prone to tax evasion.

Assume the base price of the commodity is Rs. 1000 and the government wishes to collect sales tax of 10% on the basic price i.e. Rs. 100.

F.P.T.

L.P.T.

Price paid by A	1000
Tax paid by A	100
Total	1100

Price paid by A	1000
Tax paid by A	-
Total	1000

Price paid by B	1650	Price paid by B	1500
Margin @ 50% by B	825	Margin @ 50% by B	750
	2475		2250
Tax	-	Tax	100
Price paid by customer	2475	Price paid by customer	2350

In both the cases as above, the tax collected by government is Rs. 100 but consumer would pay more under F.P.T than under L.P.T. Under VAT the consumer would pay the same amount as under F.P.T. but the government would get a tax of Rs. 225/- instead of Rs. 100/-.

States continue to tax declared goods on single point basis under the existing system subject to a rate of 4%. Under VAT, declared goods will also suffer tax at multiple levels.

Under existing sales tax system, inputs used for manufacture, are eligible for concessional rate of tax on furnishing the requisite forms. Under VAT there is no place for concession. Goods will be taxed at their respective rates. There will be no incentive scheme under VAT, barring those carried forward from the existing system.

The exports are exempted from tax & the supplies to exporters is also exempted from tax. Under VAT exports are zero rated i.e. they are not exempted. There is no set off of prior taxes paid under existing system of

Single point tax & multiple point tax. Under the existing single point tax too, further taxation is effected by way of turnover tax, and hence set-off assumes relevance even in a single point tax system. In the VA system, all prior taxes are given set-off against output tax if the sale is not an exempt sale. In VAT, the rate shall be uniform. It is possible that items under the exempt category & 4% category may be broadly similar across all states. Each state has its own VAT rules & forms. Petroleum products like Aviation Turbine Fuel, Naptha, etc. are brought under VAT but credit cannot be taken on the tax paid thereon. Tobacco, textiles & Sugar, which were under additional duty in lieu of excise & not under state taxation, are brought into the State Tax net at a rate not more than 4%, thereby integrating these products in the VAT structure.

Annex 2] Exempt Sale

When a certain sale is exempt from tax, the dealer effecting the exempt sale will not be entitled to any VAT credit on the inputs purchased by him. The sale effected by him will also be exempted from any tax. This results in breaking of VAT chain.

Another example where reversal will be required is when goods are sold as samples or gifts i.e., non-taxable transactions & the input tax credit relating thereto has already been availed against output tax payable on other sale transactions. In such a case, the credit earned will be reversed. This is called "Reverse Credit of Input Tax".

Stock / Consignment transfers are exempt from VAT as there were never under the purview of State Tax acts. The input tax paid on such commodities or on the inputs that go into producing such commodities can be taken credit to the extent of excess of input tax over & above 4%. Thus, if the input used in the commodity that is transferred, or the product itself when purchased, was taxed at say 10%, credit can be taken by the transferring dealer to the extent of 6% against other taxable dispatches. Imported goods will continue to be exempt from VAT on imports. Under VAT there is no place for Entry taxes and Octroi.