SOLVED QUESTION PAPER OF TAXATION FOR IPCC HELD ON 14/11/2009 PREPARED BY CA JASSPRIT SINGH JOHAR - 09810008147

Q1) From the following details compute the total income of Siddhant of Delhi and Tax payable for the Assessment year 2009-10: **16 Marks**

Salary including dearness allowance	3,35,000
Bonus	11,000
Salary of Servant provided by the employer	12,000
Rent Paid by Siddhant for his accommodation	49,600
Bills paid by the Employer for Gas, Electricity and Water provided free of Cost at the above flat	11,000

Siddhant was provided with Company's Car (Self driven) also for personal use and it is not possible to determine expenditure on personal use and all expenses were borne by the employer. Siddhant purchase a Flat in a Co-operative Housing Society for Rs. 4,75,000 in April,1990, which was financed by a loan from Life Insurance Corporation of India of Rs. 1,60,000 @ 15% interest, his own savings of Rs. 85,000 and a deposit from a nationalized bank for Rs. 2,50,000 to whom this flat was given on lease for ten years. The rent payable was Rs. 3,500 per month. The following Particulars are relevant:

(a)	Municipal Taxes Paid	Rs. 4,300 (per annum)
(b)	Society charges for passage Lights, watchman's salary	Rs. 1,900 (per annum)
(c)	Insurance	Rs. 860

The following additional information is given to you:

1. He earned Rs.2,700 in share speculation business and lost Rs. 4,200 in Cotton Speculation business.
2. In the year 2003-04 he had gifted Rs. 30,000 to his wife and Rs. 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest @ 19% per annum.
3. Siddhant received a gift of Rs. 25,000 each from four friends.
4. He contributed Rs. 5,600 to Public Provident Fund and Rs. 4,000 to Unit Linked Insurance Plan.
5. He received national award for humanitarian work from the Central Government in the form of a Land whose fair market value is Rs. 5,00,000 as on 31st March, 2009.

Solution: Calculation of the income under the head salary for Mr. Siddhant

Basic salary and DA	3,35,000
Bonus	11,000
Servant facility u/s 17(2)(iii)	12,000
Facility of gas, electricity and water u/s 17(2)(iv)	11,000
Facility of car u/s 17(2)(iii)	Exempt
Gross salary	3,69,000
Less : deductions u/s 16	NIL
Income from salary	**3,69,000**

Calculation of the income under the head house property for Mr. Siddhant

Actual rent received and receivable	42,000
Gross annual value	42,000
Less: Municipal Taxes paid by Siddhant	4,300
Net annual value	37,700
Less: Statutory deduction u/s 24(a)	11,310
Less: Interest on loan u/s 24(b) 1,60,000 X 15%	24,000
Income from house property	**2,390**

Calculation of the income under the head business and profession for Mr. Siddhant

Speculation business of shares	2,700
Speculation business of cotton	4,200
Income from speculation business	**(1,500)**

Calculation of the income under the head other sources for Mr. Siddhant

Interest income earned by wife to be clubbed under section 64(1)		5,700
Interest income earned by minor son clubbed u/s 64(1A) Less: Exempt u/s 10(32)	3,800 1,500	2,300
Gift in cash received from non relatives u/s 56		1,00,000
Income from award received from Central Government Less: Exempt u/s 10(17A)	5,00,000 5,00,000	NIL
Income from other sources		**1,08,000**

Calculation of taxable income for Mr. Siddhant for the AY 2009-2010

Income from salary	3,69,000
Income from house property	2,390
Income from business and profession	(1,500)
Income from capital gains	NIL
Income from other sources	1,08,000
Gross total income	4,79,390
Less: Deductions u/s 80C (5600 + 4000) Less: Deductions u/s 80GG	9,600 2,631
Taxable income	4,67,159
Taxable income rounded off u/s 288A	4,67,160

Calculation of deduction under section 80GG: Least is allowed as deduction

25% of adjusted GTI	1,17,447.5
Rent paid – 10% of adjusted GTI : 49,600 – 46,979	2,621
Maximum Limit of Rs. 2,000 pm	24,000

Calculation of income tax liability for the AY 2009-2010

AY 2009-2010		
Upto First 1,50,000		Nil
Upto Next 1,50,000	10%	15,000
Upto Next 1,60,900	20%	33,432
Balance of NIL	30%	NIL
Total		48,432
ADD: surcharge	10%	Nil
Tax after surcharge		48,432
ADD: Education cess: 2% for primary education 1% for secondary and higher education		 968.64 484.32
Total tax		49,884.96
Tax rounded off u/s 288B		**49,880**

Q2) Answer any two of the following: **2 x 6 = 12 marks**

(a) From the following particulars of Pankaj for the previous year ended 31st March, 09 compute the Income under the head "Income from other Sources":

		Rs.
(i)	Directors Fee from a Company	10,000
(ii)	Interest on bank deposits	3,000
(iii)	Income from undisclosed source	12,000
(iv)	Winnings from Lotteries (Net)	33,500
(v)	Royalty on a book written by him	9,000
(vi)	Lectures in Seminars	5,000
(vii)	Interest on loan given to a relative	7,000
(viii)	Interest on Debentures of a Company - Net of Taxes (listed in a Recognized Stock Exchange)	3,588
(ix)	Interest on Post Office Savings Bank Account	500
(x)	Interest on Government Securities	2,200
(xi)	Interest on Monthly Income Scheme of Post Office	33,000
(xii)	He paid Rs. 1,000 for tying the manuscript of book written by him.	

Calculation of income from other sources

Directors Fee from a Company		10,000
Interest on bank deposits		3,000
Income from undisclosed source		12,000
Winnings from Lotteries (Net) Add: TDS done u/s 194B : 33,500 / 69.1 X 30.9	33,500 14,980	 48,480
Royalty on a book written by him Less: expenses of typing of manuscript	9,000 1,000	 8,000
Lectures in Seminars		5,000
Interest on loan given to a relative		7,000
Interest on Debentures of a Company - Net of Taxes Add: TDS done 3,588 / 89.7 x 10.3	3,588 412	 4,000
Interest on Post Office Savings Bank Account: Exempt u/s 10(15)		NIL

Interest on Government Securities : Taxable as per definition u/s 2(28B)		2,200
Interest on Monthly Income Scheme of Post Office		33,000
Income under the head of other sources		**1,32,680**

(b) Mr. Raman is a co-owner of a house property along with his brother.

Municipal value of the Property	Rs. 1,60,000
Fair Rent	Rs. 1,50,000
Standard Rent under the Rent Control Act	Rs. 1,70,000
Rent Received	Rs. 15,000 p.m.

The loan for the construction of this property is jointly taken and the interest charged by the bank is Rs. 25,000 out of which Rs. 21,000 have been paid. Interest on the unpaid interest is Rs. 450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is Rs. 5,000. The Municipal Taxes of Rs. 5,100 have been paid by the tenant. Compute the income from this property chargeable in the banks of Mr. Raman for AY 2009-10.

Calculation of income under the head of house property

Municipal Value		1,60,000
Fair Rent		1,50,000
Standard rent		1,70,000
Expected rent		1,60,000
Actual rent received and receivable		1,80,000
Gross annual value		1,80,000
LESS: Municipal taxes paid by landlord		NIL
Net annual value		1,80,000
Less: 24(a) statutory deduction of 30% of NAV		54,000
Less : 24(b) Interest on borrowed capital Old loan Interest on unpaid interest Interest on the new loan	 25,000 NIL 5,000	 30,000
Income under the head House property		96,000
Shares of Mr. Raman in the house property income	96,000 / 2	48,000

(c) Compute the net taxable capital gains of Smt. Megha on the basis of the following information:

A house was purchased on 01.05.1997 for Rs. 4,50,000 and was used as a residence by the owner. The owner had contracted to sell this property in June, 2007 for Rs. 10 lacs and had received an advance of Rs. 70,000 towards sale. The intending purchaser did not proceed with the transaction and the advance was forfeited by the owner. The property was sold in April, 2008 for Rs. 15,00,000. The owner, from out of sale proceeds, invested Rs. 4 lacs in a new residential house in January , 2009.

Solutions: **Calculations of Capital gains for the AY 2009-2010**

Sale consideration		15,00,000
Less: Selling expenses		NIL
Net sale consideration		15,00,000
Less: Indexed cost of acquisition	4,50,000 – 70,000	

	380000 / 331 X 582	6,68,157
LTCG		8,31,843
Less: CG exempt under section 54		4,00,000
Taxable Capital Gains		**4,31,843**

Q3) Mr. Rajat submits the following information for the financial year ending 31st March, 2009. He desires that you should compute the total Income and ascertain the amount of losses that can be carried forward. **10 marks**

(i)	He has two houses:			
	(a) House No. I – Income after all statutory deductions			72,000
	(b) House No. II – Current year loss			30,000
(ii)	He has three proprietary businesses:			
	(a)	Textile Business:		
		(i)	Discontinued from 31st October, 2008 – Current year loss	40,000
		(ii)	Brought forward business loss of the AY 2005-2006	95,000
	(b)	Chemical Business:		
		(i)	Discontinued from 1st March, 2007 – hence no Profit / Loss	Nil
		(ii)	Bad debts allowed in earlier years recovered during the year	35000
		(iii)	Brought forward business loss of the AY 2007-2008	50,000
	(c)	Leather Business: Profit for the current year		1,00,000
	(d)	Share of Profit in a firm in which he is Partner since 2002		16,550
(iii)	(a)	Short-term Capital Gain		60,000
	(b)	Long-term Capital Loss		35,000
(iv)	Contribution to LIC towards Premium			10,000

Computation of Total Income for the AY 2009-2010

	PARTICULARS		
I	**Income from House property**		
	House I Income	72,000	
	House II Loss	(30,000)	42,000
II	**Profits & Gains of Business or Profession**		
	Share of profit from the partnership firm: exempt u/s10(2A)	NIL	
	Leather Business Income	100000	
	Chemical Business – Bad debts recovered Taxable u/s. 41 (4)	35000	
	Textile Business – Loss	(40000)	
	Net PGBP income for the PY 2008-2009	**95000**	
	Less: Brought forward loss of A.Y 2005-2006 of textile business	**95000**	NIL
III	**Capital Gains**		
	Long term Capital Loss		(35,000)
	Short term capital gains		60,000
	Gross Total Income		1,02,000
	Less: deduction under section 80C		10,000
	Total income		**92,000**

Notes:

1) The Unabsorbed brought forward loss of chemical business of Rs.50,000 can be carried forward to assessment year 2010-11 for set off.
2) By virtue of specific exception to Section70, long-term capital loss cannot be adjusted against short-term capital gain. Therefore, long term capital loss shall be adjusted only against long term capital gain. In this given case Rs.35,000/- being the unabsorbed long term capital loss can be carry forward to assessment year 2010-11 for set off against long term capital gains as per Section 74.

Q4) Answer any three of the following: 3 x 4 =12 marks

(a) Explain the consequences of failure to deduct tax at source and payment of the same to the Government A/c under Income Tax Act, 1961.
(b) What are the circumstances under which the Assessing officer can make reference to the valuation officer u/s 55A of the Income Tax Act, 1961
(c) Explain the concept of reverse mortgage and discuss its tax implications.
(d) Discuss briefly on carry forward and set off of losses in the case of change in Constitution of Firm or Succession.

Solution Q4) (a) FAILURE TO DEDUCT OR PAY TDS: SECTION 201

If any person who is required to do TDS or any employer who is required to do TDS, does not do TDS or after doing TDS fails to pay full amount to government then such person shall be deemed to be an assessee in default. However no penalty shall be charged under section 221 from such person, unless the Assessing Officer is satisfied that such person, without good and sufficient reasons, has failed to deduct any pay such tax.

Solution Q4) (b) REFEREANCE TO THE VALUATION OFFICER: SECTION 55A

With the view of ascertaining the fair market value of a capital asset for the purpose of a computation of capital gains, assessing officer may refer the valuation of capital asset to the valuation officer in the following cases:

1) If the value of the asset as claimed by the assessee is in accordance with the estimate made by a registered valuer and the assessing officer is of the opinion that the value so claimed is less than the FMV.
2) If assessing officer is of the opinion that the market value of the asset exceeds the value of the asset as claimed by the assessee by more than 15% of the value of the assets **OR** by more than Rs 25,000 of the value claimed by the assessee.
3) If having regard to the nature of the asset and other relevant circumstances, assessing officer feels that it is necessary to get the valuation done then he can refer the case to valuation officer.

Solution Q4) (c) REVERSE MORTGAGE TRANSACTION: SECTION: 10(43)

Reverse mortgage transaction means a transaction in which the loan may be disbursed to the reverse mortgagor but does not include transaction of sale, or disposal, of the property for settlement of the loan.

Any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government is not regarded as transfer.

Reverse mortgage: Any amount received by an individual as a loan, either in lump sum or in installment, in a transaction of reverse mortgage referred to Section 47(xvi) shall be exempt from Income Tax.

Reverse mortgager means the eligible person who has mortgaged the capital asset for the purpose of obtaining loan.

Solution Q4) (d): CARRY FORWARD AND SET OFF OF LOSS IN THE CASE OF CHANGE IN THE CONSTITUTION OF FIRM: SECTION 78

Where there is a change in the constitution of the firm on account of death / retirement of the partner, the firm shall not be entitled to carry forward of so much of the loss as is attributable to such partner. This provision covers when a partner goes out of the firm (i.e., the case of retirement or death). It does not, however, cover the case of change in profit-sharing ratio or the case of admission of a partner. Losses covered under this section are:

a) house property loss
b) capital loss and
c) loss from the activity of owning and maintaining race horses

NOTE: Section 78 is not applicable in the case unabsorbed depreciation and unabsorbed capital expenditure on scientific research. These can be carried forward by the reconstituted firm.

Q5) Answer the following: 2 x 4 = 8 marks

(a) Should Service Tax be paid even, if it is not collected from the client or Service Receiver?
(b) Mr. Raju is a multiple service provider and files only a single return. State with reasons whether he can do so?
(c) Explain the term "Vocational Training Institute" under the provisions of Service Tax.
(d) State with reason in brief whether the following statement is true or false with reference to the provisions of Service Tax.
Mr. Salim, an architect has received the fees of Rs. 4,48,500 after the deduction of Income Tax of Rs. 51,500. The Service Tax is payable on Rs. 4,48,500.

Solution Q5) (a): PAYMENT OF SERVICE TAX WHEN NOT COLLECTED FROM CLIENT

The liability to pay service tax remains with the service provider in the case where service tax is not collected from the client. Failure to realize (or even charge) service tax doesn't negate his statutory liability. In the event of any such failure, the amounts recovered from the customer /client in lieu of having rendered the service will be taken to constitute amount inclusive of service tax. Accordingly, the amount of service tax shall be determined and that amount shall be deposited to the credit of Central Government.

Solution Q5) (b): SERVICE TAX RETURN FOR MULTIPLE SERVICES

If service provider has been rendering multiple categories of taxable services he can file a single return for all such categories of taxable services. However complete information should be presented on the returns. Similarly payment of service tax can be made in one challan if separate codes can be mentioned on such challan.

Solution Q5) (c): VOCATIONAL TRAINING INSTITUTE

A vocational training institute means a commercial training or coaching centre which provides vocational coaching or training that impart skills to enable the trainee to seek employment or undertake self-employment, directly after such training or coaching.

Taxable services provided by a vocational training institute to any person are exempt from service tax. However, this exemption is not available to the taxable services provided in relation to commercial training or coaching by a computer training institute.

CA IPCC GROUP-I

UPCOMING BATCHES

ACCOUNTS BY CA P.K. GOEL

Fees : Rs. 5000/-

DAYS	TIMINGS	STARTING ON
T/T/S/S	T/T - 4.00 PM TO 8.00 PM S/S - 4.00 PM TO 6.00 PM	9/2/2010

LAW, COMM & ETHICS BY ASHMEET SINGH

Fees : Rs. 4000/-

DAYS	TIMINGS	STARTING ON
SAT & SUN	7.00 AM TO 11.00 AM	5/12/2009
SAT & SUN	5.30 PM TO 9.00 PM	5/12/2009

TAXATION BY CA J.S. JOHAR

Fees : Rs. 8400/-

DAYS	TIMINGS	STARTING ON
M/W/F	6.00 PM TO 9.00 PM	23/11/2009
M/W/F	11.30 AM TO 2.30 PM	3/2/2010

COST / FM BY HARPREET SINGH (CS & CWA)

Fees : Rs. 5000/-

DAYS	TIMINGS	STARTING ON
M/W/F	7.00 AM TO 11.00 AM	18/1/2010

COMBINED FEES OF ALL 4 SUBJECTS Rs.15,000/-

CHOOSE ANY 2 SUBJECTS - Rs. 7500/-

FOR REGISTRATION AND ENQUIRY CONTACT

GYAN GURUCULL

Tel.: 9811151816

CA IPCC GROUP-II

UPCOMING BATCHES

AUDITING BY ASHMEET SINGH

Fees : Rs. 3000/-

DAYS	TIMINGS	STARTING ON
SAT & SUN	12.00 Noon TO 3.00 PM	5/12/2009

IT & SM BY R.M. JHA

Fees : Rs. 3000/-

DAYS	TIMINGS	STARTING ON
TUE & THU	7.30 AM TO 11.00 AM	10/12/2009

ACCOUNTS BY CA P.K. GOEL

Fees : Rs. 4200/-

DAYS	TIMINGS	STARTING ON
T/T/S/S	T/T - 4.00 PM TO 8.00 PM S/S - 4.00 PM TO 6.00 PM	15/12/2009

COMBINED FEES OF ALL 3 SUBJECTS
Rs. 7500/-

IT & SM and AUDITING - Rs. 4100/-

FOR REGISTRATION AND ENQUIRY CONTACT

GYAN GURUCULL

Tel.: 9811151816

www.gyangurucull.com

TAXATION WITH JASSPRIT S JOHAR

CHARTERED ACCOUNTANT & FACULTY MEMBER OF ICAI

BATCHES OF TAXATION FOR CA-IPCC/PCC MAY 2010 AND NOV 2010 EXAMS

ROHINI — FEES - Rs. 8,400/-

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M/W/F	6.00 PM TO 9.00 PM	23/11/2009
M/W/F	11.30 AM TO 2.30 PM	3/2/2010
M/W/F	6.00 PM TO 9.00 PM	12/5/2010
M/W/F	11.30 AM TO 2.30 PM	14/6/2010

HUDSON LINE (NORTH CAMPUS) — FEES - Rs. 8,400/-

DAYS	TIMINGS	STARTING ON
T/T/S/S	6.30 PM TO 9.00 PM	24/11/2009
M/W/F	7.00 AM TO 10.00 AM	3/2/2010
M/W/F	7.00 AM TO 10.00 AM	12/5/2010
T/T/S/S	6.00 PM TO 9.00 PM	15/6/2010

LAXMI NAGAR (AKN) — FEES - Rs. 3,300/-

DAYS	TIMINGS	STARTING ON
T/T/S	7.00 AM TO 11.00 AM	24/11/2009
T/T/S	7.00 AM TO 11.00 AM	9/2/2010

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JUNE 2009 CA PCC

ROHIT RAJGARHIA
Roll No. 43867
18th RANK

AVISH MAHAJAN
Roll No. 45195
31st RANK

PIYUSH JAIN
Roll No. 53575
45th RANK

Solution Q5) (d): SERVICE TAX ON GROSS VALUE CHARGED:

The statement is false. Service tax is payable on the value of the services. Value of the services shall be the gross amount charged by the service provider for the services provided or to be provided. In this case gross amount charged by Mr. Salim, an architect has received the fees of Rs. 4,48,500 after the deduction of Income Tax of Rs. 51,500. Amount of Rs. 4,48,500 is the net amount and not the gross amount. Therefore service tax shall not be payable on Rs. 4,48,500 but it shall be payable on the gross amount i.e. Rs. 5,00,000

Q6 (a) Rosy Tours Co. has arranged three package tours during F.Y.2008-09. The particulars of the services and charges are as under : **8 marks**

(i) Tour 1 : April, 2008 – charges received Rs. 3.5 lacs
The package includes transportation, accommodation, food, tourist guide and entry fees for monuments.

(ii) Tour 2 : October, 2008 – Charges received Rs. 6.5 lacs
The package includes transportation and accommodation for stay.

(iii) Tour 3 : December, 2008 – Charges received Rs. 4 lacs
The charges are solely for arranging accommodation for stay. However, the bills issued to the clients do not mention it clearly that the charges are solely for arranging the accommodation for stay.

All charges are excluding service tax. The rate of service tax is 12% + Education Cess. Compute the taxable service and tax thereon.

Calculation of service tax liability for the FY 2008-2009

TOUR	TOUR FEES	ABETMENT RATIO	ABETMENT AMOUNT	SERVICE TAX ON
Tour 1- package tour	3,50,000	75% abetment	2,62,500	87,500
Tour 2 – other than package tour	6,50,000	60% abetment	3,90,000	2,60,000
Tour 3	4,00,000	No abetment since the bills issued to the clients do not mention it clearly that the charges are solely for arranging the accommodation for stay.		4,00,000

Service tax payable on	Rs. 7,47,500
Service tax @ 12%	Rs. 89,700
Primary education cess @ 2%	Rs 1,794
Secondary and higher education cess @ 1%	Rs. 897
Total service tax liability	**Rs. 92,391**

Q6 (b) Answer the following: 3 x 3 = 9 marks

(i) Whether export service provided by Service Provider is excluded for the purpose of Payment of Service Tax?

(ii) List the documents to be submitted along with the First Service Tax Return.

(iii) What is the due date for payment in case of e-payment of Service Tax?

SOLUTION TO Q6 (b) (i) EXPORT OF SERVICES

As per 'Export of Service Rules 2005' if services are exported outside India then service provider is not liable to pay service tax on remuneration received by him for such export of services. Therefore exported services are not liable for service tax.

SOLUTION TO Q6 (b) (ii) LIST OF DOCUMENTS TO BE SUBMITTED ALONG WITH RETURN FURNISHED FOR THE FIRST TIME

The following documents should be attached along with the return:

(a) Copies of GAR-7 form

(b) In case of provisional assessment a memorandum in form ST-3A

(c) With the first return the details of the accounts maintained by the service provider for the purposes of income tax and which he wishes to adopt for the service tax purposes has to be submitted.

(d) Documentary proof for adjustment of excess service tax paid as per rule 6(3).

(e) Statement showing working of calculation of interest in case of delayed payment of service tax.

SOLUTION TO Q6 (b) (iii): E - PAYMENT OF SERVICE TAX:

(a) If the service provider is an **individual or proprietary firm or partnership firm**, the service tax shall be paid to the Central Government by the 6th day of the month immediately following the quarter in which the payments are received, towards the value of taxable services.

(b) In all **other cases** service tax received during any calendar month shall be paid to the Central Government by the 6th day of the month immediately following the calendar month in which payments are received, towards value of taxable services.

(c) If the service tax on the value of taxable services is received during the month of **March, or the quarter ending in March**, as the case may be, shall be paid to the Government by the 31st day of March of the calendar year.

Q7) Answer the following: **2 x 4 = 8 marks**

(a) What are the different rates under VAT system?

(b) Under what circumstances registration can be cancelled under VAT?

(c) Briefly explain the income variant of VAT.

(d) State with reasons in brief whether the following statement is true or false with reference to the provision of Valued Added Tax: The VAT Rate on sale of Lottery Ticket is 4%.

Solution: Q 7) (a): RATES OF VAT

Rates of VAT are as follows:

(1) 4% Category: Under 4% VAT rate category, there are largest number of goods, common for all the States, comprising of items of basic necessities.

(2) 12.5% Category: The remaining commodities, common for all the States, fall under the general VAT rate of 12.5%.

(3) 1% Category: The special rate of 1% is meant for precious stones, bullion, gold and silver ornaments etc.

(4) Non-VAT Goods: Petrol, diesel, ATF, other motor spirit, liquor and lottery tickets are kept outside VAT.

Solution: Q 7) (b): CANCELATION OF REGISTRATION

The registration can be cancelled on:

1) Discontinuance of business; or
2) Disposal (sale) of business; or
3) Transfer of business to a new location; or
4) Annual turnover of a manufacturer or a trader dealing in designated goods or services falling below the specified amount.

Solution: Q 7) (c): INCOME VARIANT OF VAT : FEATURES

(a) This Variant of VAT allows for deductions on purchases of raw materials and components as well as depreciation on capital goods.
(b) This method provides incentives to classify purchases as current expenditure to claim set-off.
(c) In practice, however, there are many difficulties connected with the specification of any method of measuring depreciation, which basically depends on the life on an asset as well as on the rate of inflation.
(d) This method can be compared with economic base of Net National Product (NNP).

Solution: Q 7) (d): LOTTERY TICKETS

Following are Non-VAT Goods:

1) Petrol,
2) Diesel,
3) ATF,
4) Other motor spirit,
5) Liquor and
6) Lottery tickets

All of the goods are kept outside VAT and not VAT is imposed on all of goods mentioned in the above list.

Q8 (a) Mr. X, a manufacturer sells goods to Mr. B, a distributor for Rs. 2,000 (excluding of VAT). Mr. B sells goods to Mr. K, a wholesale dealer for Rs. 2,400. The wholesale dealer sells the goods to a retailer for Rs. 3,000 who ultimately sells to the consumers for Rs. 4,000. Compute the Tax Liability, input credit availed and tax payable by the manufacturer, distributor, wholesale dealer and retailer under Invoice method assuming VAT rate @ 12.5%. **8 marks**

SOLUTION: THE COST TO THE ULTIMATE CONSUMER UNDER VAT SYSTEM

Sale price of manufacturer Mr. X	2000.0
Add : VAT @ 12.5%	250.0
Cost to distributor Mr. B	2250.0
Less : VAT Credit available	250.0
Net cost to the distributor	2000.0
Add : distributor's margin	400.0
Sale price of wholesaler Mr. K	2400.0
Add : VAT @ 12.5%	300.0
Cost to retailer	2700.0
Less : VAT Credit available	300.0
Net cost to the wholesaler Mr. K	2400.0
Add : Whole seller's margin	600.0
Sale price of retailer	3,000.0

Add : VAT @ 12.5%	375.0
Total cost	3375.0
Less VAT credit available	375.0
Net cost to retailer	3000.0
Add: margin	1000.0
Sale price for customer	4000.0
Add: VAT @ 12.5%	500.00
Final cost to customer	4500.0

The sales tax of Rs.500 will be paid as follows :

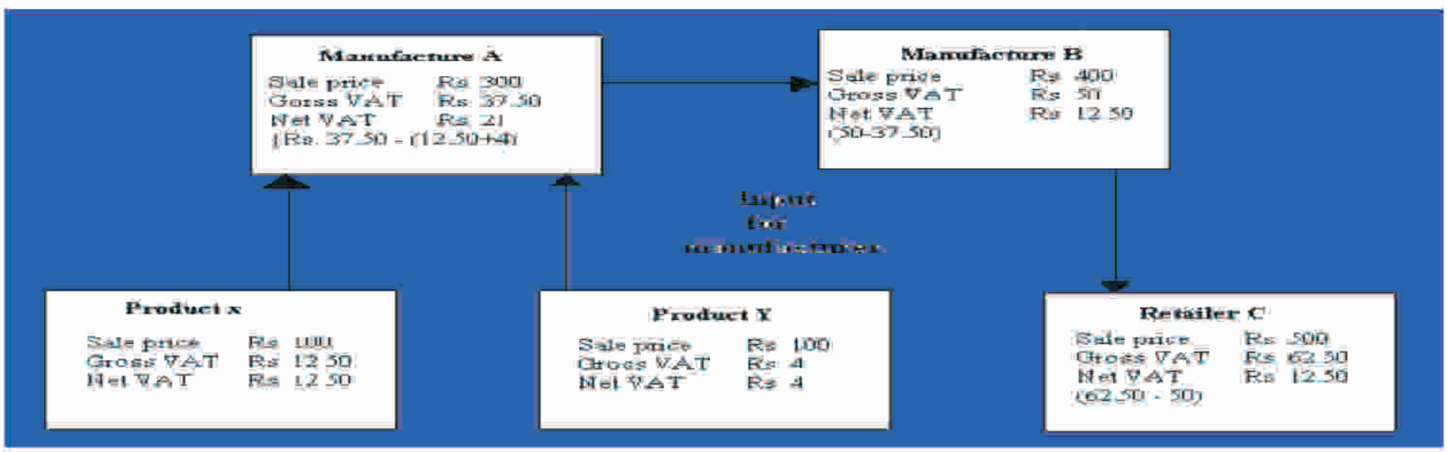
(a) Rs.250 by the manufacturer, Mr. X
(b) Rs.50 (Rs.300 – Rs.250) by the distributor, Mr. B
(c) Rs.75 (Rs.375 – Rs.300) by the whole seller, Mr. K
(d) Rs. 125 (Rs. 500 – Rs. 375) by the retailer

Q8 (b) Answer the following: 3 x 3 = 9 marks

(i) What are the different stages of VAT? Can it be said that entire burden falls on the final consumer?
(ii) Discuss filing of Return under VAT.
(iii) List out six purchases which are not eligible for input tax credit.

SOLUTION: Q8 (b)(i): DIFFERENT STAGES OF VAT

The Value Added Tax (VAT) is a multistage tax levied as a proportion of the value added (i.e. sales minus purchase) which is equivalent to wages plus interest, other costs and profits. To illustrate, a chart of transactions is given below:



Note: The rate of tax is assumed to be 12.5 per cent on the transaction relating to goods manufactured by A.

For a manufacturer A, inputs are products X and product Y which are purchased from a primary producer. In practice, even these producers use inputs. For examples, a farmer would use seeds, feeds, fertilizer, pesticides, etc. However, for this example their VAT impact is not considered. B is a wholesaler and C is a retailer.

The inputs X and Y are purchased at Rs. 100 each on which tax is paid @ 12.5% and 4% respectively. The manufacture A would, therefore, take the credit for tax paid by him for the use of such inputs. The input price of Rs. 200 plus tax would include wages, salaries and other manufacturing expenses. To all this, he would also add his own profit. Assuming that after the addition of all these costs his sale price is Rs. 300, the gross tax (at the rate of 12.5 per cent) would be Rs. 37.50. As manufacture A has already paid tax on Rs. 200, he would get credit for this tax (i.e. 12.50 + 4 = 16.50). Therefore, his net VAT liability would be Rs. 37.50 minus Rs. 16.50. Thus, manufacture A would pay Rs. 21 only (because of this he would take the cost of his inputs to be only Rs. 200)

Similarly, the sale price of Rs. 400 fixed by wholesaler B would have net VAT liability of Rs. 12.50 (Rs. 50-37.50 = Rs. 12.50) and the sale price of Rs. 500 by Retailer C would also have net VAT liability of Rs. 12.50 (Rs. 62.50 – 50 = Rs. 12.50). Thus, VAT is collected at each stage of production and distribution process, and in principle, its entire burden falls on the final consumer, who does not get any tax credit thus, VAT is a broad-based tax covering the value added to each commodity by parties during the various stages of production and distribution.

SOLUTION: Q8 (b)(ii): VAT RETURN

1) Simplified form for VAT returns have been notified
2) Returns are to be filed monthly/ quarterly/ annually as per the provisions of the State Acts/Rules.
3) Returns will be accompanied with the payment challans
4) Every return furnished by the dealer will be scrutinized with the specified time limit from the date of filling of VAT return
5) If any technical mistake is detected on the scrutiny, the dealer will be required to pay the deficit.

SOLUTION: Q8 (b)(iii): INPUT CREDIT NOT ALLOWED

Input tax credit is allowed for the entire VAT paid within the state on purchases of taxable goods meant for resale. But in the following cases no credit for input tax is available:

1) Goods purchased from other states (i.e., through Inter-State Sale – on which CST has been paid)
2) Goods purchased from outside India (i.e., imported goods)
3) Goods purchased from Unregistered Dealer;
4) Goods purchased without having invoice in support;
5) Good purchased but invoice is not showing the amount of VAT separately;
6) Goods purchased from registered dealer who has opted for composition scheme under State VAT Act;
7) Goods purchased for being utilized in manufacture of exempted goods;
8) Good purchased for personal consumption/use.