

CA PCC Nov. 2009 Tax Paper Solved (collected by Manish Sharma, Kolkata)

1	State with reasons , wheather the following statements are true or false having regard to the provisons of the Income-tax Act, 1961, for the assessment year 2010-11:				
	a)	As per sec. 49(2A) read with Section 47(Xa) of the Income-tax Act, 1961, no capital gains on conversion of foreign currency exchangeable bonds into shares or debentures, for faciliating the issue of FCEBs by Indian Companies.			
	b)	Person not deducting tax also deemed to be an assessee in default under section 191 read wirh section 201 of the Income-tax Act, 1961.			
	c)	The benefit of weighted deduction of 125% under section 35(2AB) of the Income-tax Act, 1961 has now been extended to contribution made to a company for scientific research approved under section 35(1)(ia) to an assessee.			
	d)	Where the payment is made in cash by way of adjustment against the amount of any liability incurred by the payee for any goods supplied or services rendered by the assessee to such payer , in excess of Rs.20,000 in a day, no disallowance gets attracted under section 40A(3) of the Income-tax Act, 1961 read with Rule 6DD of the Income-tax Rules, 1962			
	e)	An AOP having gross receipts of Rs.50 lacs during the financial year 2008-09 is not required to deduct tax at source under section 194C of the Income-tax Act, 1961, on payment made to contractors during the financial year 2009-10.			

Solution

Ans.	True	True	False	False	False
Reason in Page No.	7.7	16.20	6.25	6.46	16.6 & 16.9

2.	Dr. Parekh is a resident individual. His Income and Expenditure Account for the year ending 31st March, 2010 is given below:			
	To	Amount	By	Amount
	Salary to Staff	3,78,000	Consultation Fees	11,85,000
	Cost of Medicine	6,35,000	Cost of Medicines Recovered	7,85,000
	Rent	66,000	Stock of Medicine	25,000
	Administrative Cost	1,98,000	Interest on PO MIS	86,400
	Advance Tax	2,40,000	Interest on TD with bank (Net of TDS Rs.3,000)	27,000
	Membership Fees	5,000	Rent Received	20,000
	Depreciation on Apparatus	42,500	Winning from lotteries (Net of TDS Rs.3,000)	7,000
	Net Profit	5,70,900		
		21,35,400		21,35,400

- (i) He has deposited Rs.70,000 in PPF.
- (ii) He received salary of Rs.1,50,000 and commission of Rs.50,000 from a nursing home in which Dr. (Mrs.) Parekh also an equal partner
- (iii) He received fees of Rs.50,000 from University of Trinidad as lecturer.
- (iv) Received pension of Rs.84,000 from LIC Jeevan Suraksha
- (v) Paid Rs.22,500 by cheque as mediclaim insurance premium for his medical treatment.
- (vi) He paid LIC premium of Rs.80,000 for his own life
- (vii) Cost of administration includes Rs.3,000 paid for municipal tax for the house let out to a tenant.
- (viii) Depreciation as per Income-tax Rules to be computed as follows:
- WDV as on 01.04.2009 Rs.3,00,000
 - Rate of depreciation @ 15%
- (ix) Cost of lottery tickets amounting to Rs.350 has not been debited to Income and Expenditure Account.
- You are required to compute the total income and tax payable thereon by Dr. Parekh for the assessment year 2010-11.

Solution

Computation of total income of Dr. Parekh for the A.Y. 2010-11

Particulars	Amount	Amount	Amount
<u>Salaries</u>			
- From Nursing Home (Salary + Commission)			2,00,000
<u>Income from House Property</u>			
Rent Received		20,000	
Less: Municipal Tax paid		3,000	
Net Annual Value		17000	
Less: Standard Deduction u/s 24(a) [30% of Net Annual Value]	5,100		
Less: Interest on loan u/s 24(b)	Nil	5,100	11,900

<u>Profits and Gains of Business or Profession</u>			
Consultation Fees		11,85,000	
Cost of Medicine recovered		7,85,000	
Stock of Medicine		25,000	
		19,95,000	
Less: Expenses			
Salary to staff	3,78,000		
Cost of medicine	6,35,000		
Rent paid	66,000		
Administrative Cost (as reduced by municipal tax)	1,95,000		
Membership Fees	5,000		
Depreciation as per I.T. Act (Rs.3,00,000 * 15%)	45,000	13,24,000	6,71,000
<u>Income from Other Sources</u>			
Interest on PO MIS		86,400	
Interest on TD with Bank including TDS		30,000	
Winning from Lottery (including TDS)		10,000	
Fees from University		50,000	
Pension from LIC Jeevan Suraksha		84,000	2,60,400
Gross Total Income			11,43,300
Less: Deduction u/s			
80C (Investment in PPF + LIC Premium paid) (Subject to maximum of Rs.1,00,000)		1,00,000	
80D Mediclaim Insurance Premium [Maximum Limit]		15,000	1,15,000
Total Income			10,28,300

Computation of tax liability

Particulars	Details	Amount
Tax on Lottery Income	Rs.10,000 * 30%	3,000
Tax on Other Income of Rs.10,18,300	Rs.1,60,000 * 0% + Rs.1,40,000 * 10% + Rs.2,00,000 * 20% + Rs.5,18,000 * 30%	2,09,490
Total Tax		2,12,490
Add: Education Cess & SHEC	Rs.2,12,490 * 3%	6,375
Tax & Cess Payable		2,18,865
Less: Pre-paid Taxes		
Advance Tax	2,40,000	
TDS	6,000	2,46,000
Refundable	Rounded off u/s 288B	27,140

3(a)	Mrs. Indu, resident individual, own a house in USA. She receives rent @ \$2,000 per month. She paid municipal taxes of \$1,500 during the financial year 2009-10. She also owns a two storied house in Mumbai, ground floor is used for her residence and first floor is let out at a monthly rent of Rs.10,000. Standard Rent for each floor is Rs.11,000 per month. Municipal Taxes paid for the house amounts to Rs.7,500. Mrs. Indu had constructed the house by taking a loan from a nationalised bank on 20-06-2007. She repaid the loan of Rs.54,000 including interest of Rs.24,000. The value of one dollar is to be taken as Rs.45. Compute total income from house property of Mrs. Indu.
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Solution

Computation of income from house property of Mrs.Indu

Particulars	Details	Details	Amount
House 1: Let out [Sec. 23(1)]			
Gross Annual Value [Rent Received] [i.e., 2,000 * 45 * 12]		10,80,000	
Less : Municipal Tax [1,500 * 45]		67500	
Net Annual Value		10,12,500	
Less : <u>Deduction u/s</u>			
24(a) Standard Deduction	3,03,750		
24(b) Interest on loan (3/4 th)	Nil	3,03,750	7,08,750
House 2 First Floor: Let out [Sec. 23(1)]			
Gross Annual Value [Higher of Standard Rent and Actual Rent]		1,32,000	
Less : Municipal Tax [7,500 * 1/2]		3,750	
Net Annual Value		1,28,250	
Less : <u>Deduction u/s</u>			
24(a) Standard Deduction	38,475		
24(b) Interest on loan	12,000	50,475	77,775
House 2 Ground Floor: Self occupied [Sec. 23(2)(a)]			
Net Annual Value		Nil	
Less : <u>Deduction u/s</u>			
24(b) Interest on loan		12,000	(-) 12,000
Income from House Property			7,74,525

- 3(b)** Mrs. Indira, a landlord, derived income from letting a house property to M/s Vaibhav Corporation Ltd. of Rs.1,00,000 per month. She charged the service tax @ 10.3% on lease rent charges. Calculate the deduction of tax at source (TDS) to be made by M/s Vaibhav Corporation Ltd. on payment made to Mrs. Indira and narrate related formalities in relation to TDS. What are the consequences of failure to deduct or pay TDS

Solution

Tax required to be deducted by M/s Vaibhav Corporation Ltd. on rent are as under:

Rent paid: Rs.12,00,000 [i.e., Rs.1,00,000 * 12]

Tax required to be deducted

Period	Working	Amount of TDS
April to September	Rs.1,00,000 * 6 * 15%	Rs.90,000
October to March	Rs.1,00,000 * 6 * 10%	Rs.60,000
Total Tax required to be Deducted		Rs.1,50,000

Assuming that rent became due within the month to which it pertains

Further refer page 16.13 and 16.20

- 4(a)** Determine the taxability of income of US based company Heli Ltd., in India on entering following transactions during the financial year 2009-10:
- | | |
|------|---|
| i) | Rs.5 lacs received from an Indian domestic company for providing technical know how in India. |
| ii) | Rs.6 lacs from an Indian firm for conducting the feasibility study for the new project in Finland |
| iii) | Rs.4 lacs from a non-resident for use of patent for a business in India. |
| iv) | Rs.8 lacs from a non-resident Indian for use of know how for a business in Singapore |
| v) | Rs.10 lacs for supply of manuals and designs for the business to be established in Singapore |
| | Explain the rate of tax applicable on taxable income for US based company, Heli Ltd., in India. |

Solution

The taxability are as under:

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|------|---|
| i) | As per sec.9(1)(vii) , any fees received from a resident person for providing technical know how in India is deemed to accrue or arise in India. Hence, Rs.5 lacs shall be taxable in India |
| ii) | Any income accruing or arising out of India is not taxable in hands of non-resident, hence Rs.6 lacs is not taxable in India. |
| iii) | Rs.4 lacs shall be taxable in India as it is deemed to accrue or arise in India |
| iv) | Any income accruing or arising out of India is not taxable in hands of non-resident, hence Rs.8 lacs is not taxable in India. |
| v) | Any income accruing or arising out of India is not taxable in hands of non-resident, hence Rs.6 lacs is not taxable in India. |

The taxable income will be taxable @ 40% (plus education cess 2% and SHEC 1%).

4(b)	Mr. Pranav, a resident individual had purchased a plot of land at a cost of Rs.75,000 in June, 1998. He constructed a house for his residence on that land at a cost of Rs.1,25,000 in August 2000. He sold that house in May, 2009 at Rs.15,00,000 and purchased another residential house in June, 2009 for Rs.8,00,000. He furnishes other income and investment as follows:		
	Net of interest on fixed deposit with a Bank		Rs.44,850
	TDS made by bank		Rs.5,150
	Investment in NSC VIII issue		Rs.20,000
	You are required to compute taxable income and tax payable by Mr.Pranav for the assessment year 2010-11.		

Solution

Computation of total income of Mr. Pranav for A.Y.2010-11

Particulars	Details	Amount	Amount
<u>Capital Gains</u>			
Full Value of Consideration		15,00,000	
Less: Indexed Cost of Acquisition [Rs.75,000 * 632 / 351]	1,35,043		
Less: Indexed Cost of Construction [Rs.1,25,000 * 632 / 406]	1,94,581	3,29,624	
Long Term Capital Gain		11,70,376	
Less: Deduction u/s 54 [Being investment in residential house]		8,00,000	3,70,376
<u>Income from Other Sources</u>			
Interest on Fixed Deposit with a Bank			50,000
Gross Total Income			4,20,376
Less: Deduction u/s 80C [Investment in NSC VIII issue]			20,000
Total Income			4,00,376
Rounded off u/s 288A			4,00,380

Computation of tax liability

Particulars	Amount
Tax on Long Term Capital Gain after adjusting shortfall in basic exemption limit [i.e., 20% of Rs.{3,70,376 - (1,60,000 - 30,000)}]	48,075
Add: Education Cess & SHEC [Rs.48,075 * 3%]	1,442
Tax and cess payable	49,517
Less: Tax Deducted at Source	5,150
Net Payable (Rounded off u/s 288B)	44,370

5	Answer the following:
a)	Are there any restrictions on deduction allowable to the partnership firm in respect of salary and interest to its partners under section 40(b) of the Income-tax Act, 1961.
b)	Interest is chargeable under section 234A for delay or default in furnishing return of income. Discuss briefly.
c)	Explain the difference between tax deduction at source and tax collection at source.
d)	Describe average rate of tax and maximum marginal rate under section 2(10) and 2(29C) of the Income-tax Act, 1961.

Solution

a)	Refer page 6.63
b)	Refer page 18.2
c)	Refer page 16.1 & 16.24
d)	Refer page 1.11 & maximum marginal rate means the rate of income-tax (including surcharge on income-tax, if any) applicable in relation to the highest slab of income in the case of an individual, association of persons or, as the case may be, body of individuals as specified in the Finance Act of the relevant year. For A.Y. 2010-11, maximum marginal rate is 30.90%

6	Ms. Priyanka, a proprietress of Royal Security Agency received Rs.1,00,000 by an account payee cheque, as advance while signing a contract from providing taxable service; she receive Rs.5,00,000 by credit card while providing the service and another Rs.5,00,000 by a pay order after completion of service on January 31, 2010. All three transactions took place during financial year 2009-10. She seek your advice about her liability towards value of taxable service and the service tax payable by her.
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Solution

Computation of service tax liability of Ms. Priyanka (assuming she is a small service provider)

Particulars	Amount	Amount
Value of taxable service received		11,00,000
Less: Exemption		10,00,000
Chargeable Value		1,00,000
Tax on above [Rs.1,00,000 * 10%]		10,000
Add: Education Cess [Rs.10,000 * 2%]	200	
Add: SHEC [Rs.10,000 * 1%]	100	300
Service Tax Payable		10,300

Computation of service tax liability of Ms. Priyanka (assuming she is not a small service provider)

Particulars	Amount	Amount
Value of taxable service received		11,00,000
Tax on above [Rs.11,00,000 * 10%]		1,10,000
Add: Education Cess [Rs.1,10,000 * 2%]	2,200	
Add: SHEC [Rs.1,10,000 * 1%]	1,100	3,300
Service Tax Payable		1,13,300

7.	Mr. Goenka, a trader selling raw materials to a manufacturer of finished products. He imports his stock in trade as well as purchases the same from the local markets. Following transactions took place during financial year 2009-10	
	Calculate the VAT and invoice value charged by him to a manufacturer. Assume the rate of VAT @ 12.50%	
	Cost of imported materials (from other State) excluding tax	Rs.1,00,000
	Cost of local materials including VAT	Rs.2,25,000
	Other expenditure including storage, transport, interest and loading and unloading and profit earned by him	Rs.87,500

Solution

Computation of Invoice Value

Particulars	Amount
Cost of imported materials (from other State) excluding tax	1,00,000
Cost of local materials excluding VAT [Rs.2,25,000 - (Rs.2,25,000/112.50% * 12.50%)]	2,00,000
Other expenditure including storage, transport, interest and loading and unloading and profit earned by him	87,500
Invoice Value (before tax)	3,87,500
Add: VAT [Rs.3,87,500 * 12.50%]	48,438
Invoice Value (including tax)	4,35,938

Computation of VAT Payable

Particulars	Amount
VAT	48,438
Less: Input Credit [Rs.2,25,000/112.50% * 12.50%]	25,000
Invoice Value (including tax)	23,438

8.	Answer the following:
a)	Ms. Amrapali, a registered Service Provider did not render any service during the financial year 2009-10 . Whether she is required to file service tax return?
b)	VAT would increase the working capital requirements and the interest burden. Discuss
c)	Mr. Bharat is a registered Service Provider. He transfers his business to Mr. Rakesh on 31st July 2009. Explain the requirement to be complied with by Mr. Bharat and Mr. Rakesh on such transfer under the provisions of Service Tax.
d)	Write the provisions on liability for payment of service tax on services provided abroad.
e)	Which Act and Rule governs the levy of Service tax in India.

Solution

a)	Refer page 19.19
b)	Refer page 20.4
c)	Refer page 19.17
d)	Services can be exported without payment of tax. For this purpose , Central Government has framed Export of Service Rules, 2005 . The said rule also enables the Government to grant rebate of input taxes paid for the provision of Services which are ultimately exported. Further refer page 19.33
e)	Refer page 19.1

** The page no is reference to Tax point book