

Qn. 1. From the following details compute the total income of Siddhant of Delhi and Tax payable for the Assessment year 2009-10 :

	Rs.
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 purchased 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 :

	Rs.
(a) Municipal Taxes Paid	4,300 (per annum)
(b) Society charges for passage Lights, watchman's salary	1,900 (per annum)
(c) Insurance	860
(d) He earned Rs. 2,700 in share speculation business and lost Rs. 4,200 in Cotton Speculation business.	
(e) 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.	
(f) Siddhant received a gift of Rs. 25,000 each from four friends.	
(g) He contributed Rs. 5,600 to Public Provident Fund and Rs. 4,000 to Unit Linked Insurance Plan.	
(h) 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.	

Ans. 1. Computation of total income of siddhant of Delhi and tax payable for the assessment year 2009-2010.

Income from Salary

Salary including DA	335000	
Bonus	11000	
Salary of Servant	12000	
Gas Electricity & Water bills paid by Employer	11000	
Car provided by the employer	<u>Nil</u>	369000

Income from House Property

Gross annual value [Being rent received Rs.3500/- per month since expected rent is not given in the question]	42000	
Less : Municipal taxes paid	<u>4300</u>	
Net Annual value	37700	
Less : <u>Deductions u/s 24</u>		
(i) 30% of NAV =	11310	
(ii) Intt. on money borrowed (160000 x 15%)	<u>24000</u>	<u>35310</u>
		2390

Income from Business or profession

A. Speculation Business

Gain from share speculation	= 2700
Less : Loss on cotton "	= 4200
Net Loss on speculation business	-----
to be carry forward in next year	= <u>1700</u>

B. Normal Business

NIL

Income from other sources

Interest on advance given to Mr. Rajesh

[Clubbing of Income u/s 64(1) (iv) & 64 (1A)] 9500

[Rs. 50000 x 19%]

Gift from friends [Rs.25000 x 4] 100000

Award from GG in the form of land

[Not taxable since gift in kind is exempt u/s 56(2) (vi)] NIL 109500

Gross Total Income 480890

Less : Deductions u/s 80 C to 80 U

Contribution to PPF u/s 80 C 5600

" to ULIP u/s 80 C 4000

Rent paid u/s 80 GG (Not allowed) See WN (1) Nil 9600

Total Income = 471290

Computation of tax payable

Total Income	Rate of Tax	Amount of Tax
First Rs.160000	NIL	NIL
Next Rs.140000	10%	14000
Balance Rs.171290	20%	<u>34258</u>
I. Tax		48258
Add : Education cess @ 3%		<u>1448</u>
Net tax Payable		<u>48706</u>

Note : It is assumed that fringe benefits tax is paid by the employer.

Qn. 2. Answer any **two** of the following :

2 x 6 = 12

(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 (listed in a Recognised Stock Exchange) Net of Taxes	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

He paid Rs. 1,000 for typing the manuscript of book written by him.

(b) Mr. Raman is a co-owner of a house property alongwith 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 hands of Mr. Raman for AY 2009-10.

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

A house was purchased on 1.05.1997 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.

Ans. 2 (a) Computation of Income from other sources of Mr. Pankaj for the Assessment year 2009 – 10.

Directors fees from a company		10,000
Interest on bank deposits		3,000
Income from undisclosed source		12,000
Winnings from lotteries	$\left(\frac{33500 \times 100}{100 - 30.90} \right)$	48,480
Royalty on a book	9000	
Less : Payment to typist	<u>1000</u>	8,000
Lectures in Seminars		5,000
Interest on loan given to a relative		7,000
Interest on debentures of a listed company	$\frac{3588 \times 100}{100 - 10.30}$	4,000
Interest on post office saving bank account		500
Interest on government securities		2200
Interest on Monthly Income Scheme of Post Office		33000

Net Income from other sources =		133180
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Ans. 2 (b) Computation of Income from house property of Mr. Roman for the assessment year 2009-2010.

(i) Municipal value (50% of Rs.160000)	80,000
(ii) Fair Rent (50% of Rs. 150000)	75,000
(iii) (i) or (ii) whichever is higher	80,000
(iv) Standard rent (50% of Rs. 17,000)	85,000
(v) Expected Rent (iii) or (iv) whichever is lower	80,000
(vi) Actual rent received or receivable (15,000 p m x 12 months x 50 %)	90,000
(vii) Gross Annual Value	<u>90,000</u>
Gross Annual Value	90,000
Less : Municipal Taxes paid [since paid by the tenant]	<u>NIL</u>
Net Annual Value	90,000
Less : <u>Deductions u/s 24</u>	
(i) 30% of NAV	30,000
(ii) Interest on old loan (25000 x ½)	12,500
(iii) Interest on unpaid interest	NIL
(iv) Interest on fresh loan (5000 x ½)	<u>2500</u>
Income from house property	<u>45,000</u>
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Note : (2) If it is assumed that share of each co – owner is equal.

(1) As per section 26, if two or more persons own a house property jointly, then they are known as co-owners. If individual share of each co-owner is definite and ascertainable then the share of each such person shall be taxable as his income from house property.

Ans. 2 (c) Computation of taxable capital gain of Smt. Megha for the assessment year 2009-2010

Period of Holding – 1.05.1997 to April 2008 i.e. more than 36 months. Therefore the house is a long term capital asset.

Sale proceeds	15,00,000
Less : <u>Indexed cost of acquisition</u>	
Cost of acquisition	450000
- Amount forfeited by Smt. Megha u/s 51	<u>70000</u>
	380000
	$\times \frac{582}{331}$
	6,68,157

	8,31,843
Less : Exemption u/s 54 on purchase of new residential house	<u>4,00,000</u>
Taxable long term capital gain	<u>4,31,843</u>

Note (1) – As per sec 51, where any capital asset was on any previous occasion the subject matter of negotiation for its transfer, and any advance money received is forfeited by the assessee, the amount so forfeited shall be deducted from the cost for which the asset was acquired.

(2) As per sec 54, if a residential house which is long term capital asset, is transferred and within a period of 2 years a new residential house is purchased, then the actual amount invested in new asset or the capital gain, whichever is lower, will be exempt from tax.

Qn. 3. Mr. Rajat submits the following information for the financial year ending 31st March, 2009. He desires that you should : **10**

(a) Compute the total Income and	
(b) Ascertain the amount of losses that can be carried forward.	
(i) He has two houses :	Rs.
(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 assessment year 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 this year	35,000
(iii) Brought forward business loss of the assessment year 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

Ans 3 (a) Computation of total income of Mr. Rajat for the assessment year 2009-2010

<u>Income from house property</u>	Rs.	Amount
House No. I – Net Income	72000	
House No. II – Current year loss	<u>(30000)</u>	42,000
<u>Income from Business or Profession</u>		
Profit from the Leather Business	1,00,000	
Bad – debts recovered of chemical business	<u>35,000</u>	
Taxable u/s 41 (4)	135000	
Less : <u>Set off of losses</u>		
Current year loss of textile business	40,000	
Brought forward loss of textile business	<u>95,000</u>	NIL
<u>Income under the head capital gain</u>		
Short term capital gain		<u>60,000</u>
Gross Total Income		1,02,000

Less : Deduction u/s 80c for contribution towards LIC premium	<u>10,000</u>
Total Income	92,000
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(b)(i) As per section 72 brought forward business loss of the assessment year 2007-08 of chemical business can be carry forward to next assessment year the loss can be carry forward for 8 assessment years (From A/y 2008-09 to 2015-2016).

(ii) As per section 70, long term capital loss cannot be set off from short term capital gain. It can be set off only against long term capital gain. As per sec 74, long term capital loss to the extent not set off shall be carry forward to the next eight assessment years.

Note : - (1) Business losses can be set off whether the business is continued or not.
(2) Priority of set off
(a) current year depreciation.
(b) brought forward business loss.
(c) brought forward depreciation.
(3) share of profit in a firm is exempt from tax u/s 10 (2A).

Qn. 4. Answer any **three** of the following :

[3 x 4 = 12]

- 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.
- 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?
- Explain the concept of reverse mortgage and discuss its tax implications.
- Discuss briefly on carry forward and set off of losses in the case of change in Constitution of Firm or Succession.

Ans. 4 (a) CONSEQUENCES OF FAILURE TO DEDUCT OR PAY TDS (Sec 201)

Sec 201 (1) Where any person, including the principal officer of a company,—

- who is required to deduct any sum in accordance with the provisions of this Act; or
- referred to in Sec 192(1A), being an employer,

does not deduct, or does not pay, or after so deducting fails to pay, the whole or any part of the tax, as required by or under this Act, then, such person, shall, without prejudice to any other consequences which he may incur, be deemed to be an assessee in default in respect of such tax:

Provided that 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 and pay such tax.

Sec 201 (1A) Without prejudice to the provisions of sub-section (1), if any such person, principal officer or company as is referred to in that sub-section does not deduct [the whole or any part of the tax] or after deducting fails to pay the tax as required by or under this Act, he or it shall be liable to pay simple interest at **[one per cent for every month or part of a month]** on the amount of such tax from the date on which such tax was deductible to the date on which such tax is actually paid and such interest shall be paid before furnishing the quarterly statement for each quarter in accordance with the provisions of Sec 200(3).

Sec 201 (2) Where the tax has not been paid as aforesaid after it is deducted, [the amount of the tax together with the amount of simple interest thereon referred to in sub-section (1A)] shall be a charge upon all the assets of the person, or the company, as the case may be, referred to in sub-section (1).

Ans. 4 (b) Reference to Valuation Officer (Sec 55A)- With a view to ascertain the fair market value of a capital asset for the purposes of this Chapter, the Assessing Officer may refer the valuation of capital asset to a Valuation Officer.-

(a) In a case where the value of asset as claimed by the assessee is in accordance with the estimate made by a registered valuer, if the assessing Officer is of opinion that the value so claimed is less than its fair market value:

(b) In any other case, if the Assessing Officer is of opinion -

- that the fair 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 asset as so claimed or 25,000/-, whichever is less or
- that having regard to the nature of the asset and other relevant circumstances, it is necessary so to do.

Ans. 4 (c) Concept of Reverse Mortgage : Concept of reverse mortgage is introduced recently in India. Under the reverse mortgage scheme, senior citizen who holds the house property, but lacks a regular source of income can put his property under mortgage with bank.

Conceptually, Reverse Mortgage seeks to monetize the house as an asset. The scheme involves the Senior Citizen borrower mortgaging the house property to a bank, who then makes periodic payments to the borrower during the latter's lifetime. The Senior Citizen borrower is not required to service the loan during his lifetime and therefore does not make monthly repayments of principal and interest to the bank. On the borrower's death or on the borrower leaving the house property permanently, the loan is repaid along with accumulated interest, through sale of the house property. The borrower/ heir can also repay or prepay the loan with accumulated interest and have the mortgage released without restoring to sale of the property.

How it is different from simple mortgage

The whole idea is entirely opposite to the regular mortgage process where a person pays EMIs to the bank for a mortgaged property. Hence it is called reverse mortgage.

In case of a regular mortgage, the borrower mortgages his existing property and uses the amount to finance the property or for any other purpose and is required to repay the loan amount in the form of Equated Monthly Installments (EMI). The EMI would include the loan amount and the accumulated interest. The property mortgaged serves as a collateral security for the loan borrowed.

Scheme in nutshell

Conceptually, Reverse Mortgage Scheme inter – alia involves the following:

- Senior citizen borrower mortgages the house property to a lender.
- The lender makes the periodic/ lump sum payments to the borrower during the latter's life time.
- The borrower is not required to service the loan during his life time and therefore, does not make monthly repayments of principal and interest to the lender.
- On the borrowers death or on the borrower leaving the house property permanently, the loan is repaid along with the accumulated interest, through sale of the house property.
- The borrower/ heir(s) can also repay or prepay the loan with accumulated interest and have the mortgage released without restoring to sale of the property.

Tax Implications of Reverse Mortgage : Finance Act, 2008 exclude the transfer of capital asset in a transaction of reverse mortgage to give relief to the senior citizens who mortgaged property for their survival.

Further, Finance Act, 2008 also clarifies that the amount received as loan shall not be treated an income of the senior citizen. Although, loan is a capital receipt, but to clarify the position of the senior citizen and promote the scheme of reverse mortgage, it has been provided that such income shall be exempt from tax in the hands of the senior citizen.

Ans. 4(d) SECTION 78(1): CARRY FORWARD AND SET OFF OF LOSSES IN CASE OF CHANGE IN CONSTITUTION OF FIRM : Where a change has occurred in the constitution of a firm, then nothing shall entitle the firm to have carried forward and set off so much of the loss proportionate to the share of a retired or deceased partner as exceeds his share of profits, if any, in the firm in respect of the previous year.

Section 78(1) provides that where a change in constitution of firm takes place on account of **retirement of partner or death of the partner** then, the firm shall not carry forward and set off the following brought forward losses:

Share of the retired/ deceased partner in
the brought forward losses of the firm

a

Less: Share of the retired/ deceased partner in
the current year profit

b

a - b

(a - b) can not be carried forward by the firm or its partners.

5. Answer the following :

[2 x 4 = 8]

- Should Service Tax be paid even, if it is not collected from the client or Service Receiver ?
- Mr. Raju is a multiple service provider and files only a single return. State with reasons whether he can do so ?
- Explain the term "Vocational Training Institute" under the provisions of Service Tax.
- 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.

Ans. 5 (a) Sec 68 of the Finance Act, 1994, casts the liability to pay service tax upon the service provider or upon the person liable to pay service tax as per rule 2(1)(d) of the service tax rules, 1994. This liability is not contingent upon the service provider realising or charging the service tax at the prevailing rate. The statutory liability does not get extinguished if the service provider fails to realise or charge the service tax from the service receiver.

Ans. 5 (b) Section 69 read with rule 4(4) of of Service tax rules clearly states that where an assessee is providing more than one taxable service, he may make a single application for registration, mentioning therein all the taxable services provided by him, to the concerned Superintendent of Central Excise. Mr. Raju can also have a single registration for all the services provided by him and file one return accordingly.

Ans. 5 (c) As per Notification No. 9/2003 of Service Tax, "Vocational Training Institute" means a commercial training or coaching centre which provides vocational coaching or training that imparts skills to enable the trainee to seek employment or undertake self employment, directly after such training or coaching.

Ans. 5 (d) False:- As per section 67 of finance act 1994 the taxable value for charging service tax is the gross amount charged by the service provider to service receiver, in this case Mr. Salim has charged in total Rs.5,00,000 (4,48,500 + 51,500) for the service provided by him and service tax is payable on the same value. The deduction of TDS of Rs. 51,500 is also an indirect payment to the service provider which is deposited to the government treasury on behalf of the service provider.

6. (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

(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 the charges are excluding service tax. The rate of service tax is 12% + Education cess. Compute the taxable services and tax thereon.

(b) Answer the following :

3 x 3 = 9

(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 alongwith the First Service Tax Return.

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

Ans. 6 (a) Roy Tours Co.

(i) Tour	(ii) Amount of % bill chargeable to service tax	(iii) Amount chargeable to service tax	(iv) Charges Received
1	25%	87,500	3,50,000
2	40%	2,60,000	6,50,000
3	<u>10%</u>	<u>40,000</u>	<u>4,00,000</u>
	75%	3,87,500	14,00,000

∴ Rate of service tax = 12%

∴ Service taxable = Rs. 3,87,500

∴ Calculation of service tax = 3,87,500 x 12%

= 46,500

Add: Education less 2% = 930

(46,500 x 2%) -----

47,430

Add: Secondary & Higher Edu. 465

Less 1% (46,500 x 1%) -----

46,965/-

Ans. (b) (i) Yes, export service provided by service provider is excluded for the purpose of payment of Service Tax. According to the Export of Service Rules, 2005, "export of service" has been classified under categories A, B and C. And the service provider providing "export service" are not required to pay service tax.

Any taxable service can be exported without payment of service tax. Further, the CG may grant rebate of –

- service tax & cess payable on exported services and
- service tax/duty & cess paid on input services and inputs used in providing such taxable service.

Ans. (b) (ii) As per the provisions of Rule 5 of Service Tax Rules 1994, every assessee shall furnish to the superintendent of central excise at the time of filing of return for the first time, a list in duplicate of :-

- all records prepared or maintained by the assessee for accounting of transactions in regard to :-
 - providing of any service, whether taxable or exempted.
 - receipt or procurement of input services and payment for such input services.
 - receipt, purchase, manufacture, storage, sale or delivery, as the case may be in regard of inputs and capital goods;
 - other activities, such as manufactures and sale of goods if any,
- all other financial records maintained by him in the normal source of business.

Ans. 6 (b) (iii) The due date for payment in case of e-payment of service tax is as follows :-

Assessee	Duration of payment	Time of payment
Individual, Proprietary concern or a Partnership firm	Quarterly	(1) If tax is paid electronically through internet banking :by 6th of the month, immediately following the quarter in which the payments are received, towards the value of taxable service.**
Any other assessee	Monthly	(1) If tax is paid electronically through internet banking :by 6 th of the month immediately following the calendar month in which the payments are received, towards the value of taxable service.**
**However, the service tax on the value of taxable services received during the month of March, or the quarter ending in March, shall be paid by the 31st day of March itself. Further, as per clarification issued by CBEC, where the tax is paid electronically, the same should be paid by 8 p.m. on the due date. If the same is paid later than 8 p.m. on the due date, it shall be deemed to have been paid on the next date.		

7. Answer the following :

2 x 4 = 8

- What are the different rates under VAT system ?
- Under what circumstances registration can be cancelled under VAT ?
- Briefly explain the income variant of VAT.
- State with reasons in brief whether the following statement is true or false with reference to the provision of Value Added Tax.
The VAT Rate on sale of Lottery Ticket is 4%.

Ans 7.(a) VAT is a tax on the sale of goods. Since it is imposed only on the amount of value addition made, it is known as tax on value added or value added Tax. The different rates under vat system are as follows :

0% - This category has about 50 commodities comprising of natural and unprocessed products in the unorganized sector items which are legally barred from taxation items having social implications.

1% - This category is meant per precious stores, precious and semi precious metals, bullions, gold and silver ornaments etc.

4% - This category covers the largest number of goods common for all the states comprising of items of basic necessities, all agricultural and industrial inputs, capital goods & declared goods.

12.5% - The remaining commodities, common for all the states, fall under the general VAT rate of 12.5%

20% - It is for luxury goods.

Ans. 7 (b) Registration means obtaining certificate of registration from the VAT- authorities. The registration is liable for cancellation in any of the following cases –

- Permanent discontinuance of business; or
- Disposal of business; or
- Transfer of business to new location; or
- Annual turnover of a manufacturer or a trader dealing in designated goods or services falling below the specified amount; or
- Dealer has failed to furnish requisite security or has committed fraud / misrepresentation of facts.

Ans. 7 (c) VAT is multipoint tax system with credit of tax paid on purchases on each point. The income variant of VAT allows for deductions of tax paid on purchase of raw materials and components as well as on capital goods. In case of capital goods, VAT credit is allowed only to the extent of depreciation on them. In other words, VAT credit on capital goods is apportioned to various years in the ratio of depreciation allowable on such capital goods in those years. VAT credit on capital goods can be availed of fully, but can be utilized only in a prorated or deferred manner.

Ans. 7 (d) The VAT Rate on sale of lottery ticket is 4%. This statement is false with reference to the provision of value added tax. Petrol, diesel, liquor and lottery tickets are kept outside the purview of VAT. VAT does not apply to such goods where the price is determined by the government intervention and not fully by market forces. The state may or may not bring these commodities under VAT laws. If at all these commodities are taken under VAT laws then separate provisions are required because input credit is not available for these commodities. However it is agreed that all these commodities will be subjected to 20% floor rate of tax.

8. (a) Mr. X, a manufacturer sells goods to Mr. B, a distributor for Rs. 2,000 (excluding 8 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%.

(b) Answer the following :

3 x 3 = 9

- (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.

Ans. 8(a)

	Rs.
Sale price of manufacturer x	2000
Add : VAT @ 12.5%	<u>250</u>
Cost to the distributor Mr B	2250
Less : VAT credit available	<u>250</u>
NET cost to the distributor (Mr. B)	2000
Add : Distributors (Mr. B) margin	<u>400</u>
Sales price of distribution (Mr. B)	2400
Add : VAT @ 12.5%	<u>300</u>
Cost to the wholesaler (Mr. K)	2700
Less : VAT credit available	<u>300</u>
Net cost to wholesaler (Mr. K)	2400
Add : Wholesaler's margin	<u>600</u>
Sale price or wholesaler (Mr. K)	3000
Add : VAT @ 12.5%	<u>375</u>
Cost to the retailer	3375
Less : Vat credit available	<u>375</u>
Net cost to retailer	3000
Add : Retailer's margin	<u>1000</u>
Sale price of retailer	4000

Add : VAT @ 12.5%	500
Cost to the ultimate consumer	<u>4500</u>

Statement showing the VAT liability, input credit availed & Tax payable by different persons

	Tax Liability Rs. (A)	Input Credit Availed (Rs.) (B)	Tax Payable (Rs.) (A – B)
Manufacturer (Mr. X)	250	-	250
Distributor (Mr. B)	300	250	50
Wholesaler (Mr. K)	375	300	75
Retailer	500	375	125

Ans. 8 (b) (i) VAT is collected at different stage of sale which are as follows :

Stage I : Sale of raw material to manufacturer

Stage II : Manufacturer sells to wholesaler

Stage III : Wholesaler / Trader sells to consumer.

VAT is paid at different stage and finally collected from ultimate consumer hence it can be said that burden of VAT fall on ultimate consumer. This can further be explained by taking an example which as follows

Suppose a manufacturer sells a product for Rs.100. While the product passes through wholesaler, it is ultimately sold to the consumer at Rs.400 and the VAT rate is 4%

Sale Price of manufacturer	100
+ Add VAT @ 4%	<u>4</u>
Cost to wholesaler	104
- VAT credit available	<u>4</u>
NET Cost to Wholesaler	100
Add wholesaler margin	<u>300</u>
Sale price of wholesaler	400
Add VAT @ 4%	<u>16</u>
Price charged to consumer	416

Thus from the above example it can be seen that the ultimate burden falls on the consumer

Ans. 8 (b) (ii) The respective State-VAT laws require every registered dealer to file VAT-returns periodically (monthly / quarterly / annually). The returns are to be filed in prescribed form within the prescribed time from the end of the period concerned (i.e. within specified days from the end of the month / quarter / year).

The returns are to be accompanied with the challan evidencing payment of VAT. In some states, the return forms are inclusive of challan, in which case, the returns can be filed along with the payment of challan with the treasury. The VAT returns contains requisite details such as details of dealer, details of input-VAT and output VAT, payment of VAT, inventory details etc.

Ans. 8 (b) (iii) Input Tax credit means setting-off the input tax paid by the registered dealer against the amount of output tax payable by him. It is generally given for the entire VAT paid within the state on the purchases of taxable goods meant for resale or for further manufacture of taxable goods.

Following are the purchases which are not eligible for input tax credit :-

- Purchase from unregistered dealers.
- Purchases of goods from other states i.e. inter state purchases.
- Import of goods from outside the territory of India (commonly known as high seas purchases)
- Purchases from registered dealer who has opted for composition scheme.
- Purchase of non-credible goods as may be notified by the state government.

- Purchases of goods in cases where the selling dealer's invoice does not show the amount of tax charged separately by such selling dealer.