

PAPER – 4 : TAXATION

Answer all questions.

Question 1

From the following details, compute the total income of Siddhant of Delhi and tax payable for the A.Y.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:

- (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
- (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.

The Suggested Answers for of Paper – 4: Taxation are based on the provisions of law as amended by the Finance Act, 2008 and notifications and circulars issued upto 30-04-2009. The relevant assessment year for income-tax is A.Y. 2009-10.

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER,2009

- (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. (16 Marks)

Answer

Computation of total income and tax liability of Siddhant for the A.Y. 2009-10

Particulars	Rs.	Rs.
Salary Income		
Salary including dearness allowance		3,35,000
Bonus		11,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Car (The company is liable to pay FBT on the same; therefore, it is not a perquisite in the hands of the employee)	Nil	
(iii) Free gas, electricity and water	<u>11,000</u>	<u>23,000</u>
		3,69,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (3,500 × 12)	42,000	
Less: Municipal taxes paid [See Note 2(i)]		<u>4,300</u>
Net Annual Value (NAV)		37,700
Less: Deductions under section 24		
(i) 30% of NAV	11,310	
(ii) Interest on loan from LIC @15% of 1,60,000 [See Note 2(ii)]	<u>24,000</u>	<u>35,310</u>
		2,390
Income from speculative business		
Income from share speculation business	2,700	
Less: Loss from cotton speculation business		<u>4,200</u>
Net Loss		<u>1,500</u>
Net loss from speculative business has to be carried forward as it cannot be set off against any other head of income.		

PAPER – 4 : TAXATION

Income from Other Sources

(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A)	3,800	
Less: Exempt under section 10(32)	<u>1,500</u>	
	2,300	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)	5,700	
(iii) Gift received from four friends (taxable under section 56(2)(vi) as the aggregate amount received during the year exceeds Rs.50,000)	<u>1,00,000</u>	
		<u>1,08,000</u>
Gross Total Income		4,79,390
Less: Deduction under section 80C		
Contribution to Public Provident Fund	5,600	
Unit Linked Insurance Plan	<u>4,000</u>	<u>9,600</u>
Total Income		<u>4,69,790</u>

Particulars	Rs.
Tax on total income	48,958
Add: Education cess@2%	979
Add: Secondary and higher education cess@1%	<u>490</u>
	<u>50,427</u>
Tax liability (rounded off)	50,430

Notes:

- (1) National Award for humanitarian work given by the Central Government is exempt under section 10(17A) of the Income-tax Act, 1961.
- (2) The following assumptions have been made while computing income under the head "Income from house property" -
 - (i) It is the owner, namely, Mr.Siddhanth, who has paid the municipal taxes;
 - (ii) The entire loan of Rs.1,60,000 is outstanding as on 31.3.2009; and

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER,2009

- (iii) Society charges of Rs.1,900 p.a. is not included in the rent of Rs.3,500 p.m. payable by the tenant. Such charges have either been paid directly by Mr. Siddhant or recovered separately from the tenant.
- (3) It has been assumed that Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalised bank, is also in Delhi. Therefore, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

Question 2

Answer any two of the following

- (a) From the following particulars of Pankaj for the previous year ended 31st March, 2009, compute the income chargeable 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.

	Rs.
Municipal value of the property	1,60,000
Fair rent	1,50,000
Standard rent under the Rent Control Act	1,70,000
Rent received	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 has been paid. Interest on the unpaid

PAPER – 4 : TAXATION

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 the A.Y. 2009-10.

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

A house was purchased on 1.5.1997 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. (2 × 6 = 12 Marks)

Answer

- (a) Computation of income of Pankaj chargeable under the head “Income from other sources” for the A.Y. 2009-10

Particulars	Rs.	Rs.
1. Directors' fees		10,000
2. Interest on bank deposit		3,000
3. Income from undisclosed source		12,000
4. Royalty on books written (See Note below)	9,000	
Less: expenses	1,000	8,000
5. Lectures in seminars		5,000
6. Interest on loan given to a relative		7,000
7. Interest on listed debentures		
Net Received	3,588	
Add: T.D.S. @ 10.3%		
$\frac{3588 \times 10.3}{100 - 10.3}$	412	4,000
8. Interest on Post Office Savings Bank [exempt under section 10(15)]		-
9. Interest on Government securities		2,200
10. Interest on Post Office Monthly Income Scheme		33,000

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER,2009

11. Winnings from lotteries

Net	33,500	
Add: T.D.S. @ 30.9% $\frac{33,500 \times 30.90}{100 - 30.90}$	<u>14,980</u>	48,480
Income from Other Sources		<u>1,32,680</u>

Note –

Royalty income would be charged to tax under the head “Income from Other Sources”, only if it is not chargeable to tax under the head “Profits and gains of business or profession”. This problem has been solved assuming that the same is not taxable under the head “Profits and gains of business or profession” and hence, is chargeable to tax under the head “Income from other sources”.

(b) Computation of income from house property of Shri Raman for A.Y. 2009-10

Particulars	Rs.	Rs.
Gross Annual Value (See Note 1 below)		1,80,000
Less: Municipal taxes – paid by the tenant, hence not deductible		<u>Nil</u>
Net Annual Value (NAV)		1,80,000
Less: Deductions under section 24		
(i) 30% of NAV	54,000	
(ii) Interest on housing loan (See Note 2 below)		
Interest on loan taken from bank	25,000	
Interest on fresh loan to repay old loan for this property	<u>5,000</u>	<u>84,000</u>
Income from house property		<u>96,000</u>
50% share taxable in the hands of Shri Raman (See Note 3 below)		<u>48,000</u>

Notes:

1. Computation of Gross Annual Value (GAV)

GAV is the higher of Annual Letting Value (ALV) and actual rent received. ALV is the higher of municipal value and fair rent, but restricted to standard rent.

Particulars	Rs.	Rs.	Rs.	Rs.
(a) Municipal value of property	1,60,000			
(b) Fair rent	1,50,000			
(c) Higher of (a) and (b)		1,60,000		
(d) Standard rent		<u>1,70,000</u>		
(e) Annual Letting Value [lower of (c) and (d)]			1,60,000	
(f) Actual rent [15,000 x 12]			<u>1,80,000</u>	
(g) Gross Annual Value [higher of (e) and (f)]				1,80,000

PAPER – 4 : TAXATION

2. Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.
3. Section 26 provides that where a house property is owned by two or more persons whose shares are definite and ascertainable, the share of each such person in the income of house property, as computed in accordance with sections 22 to 25, shall be included in his respective total income. In this case, the problem has been solved assuming that Mr. Raman, who is a co-owner of the house property, has 50% share in the house property.

(c) Computation of net taxable capital gains of Smt. Megha for the A.Y.2009-10

Particulars	Rs.
Full value of consideration	15,00,000
Less: Expenses on transfer	<u>Nil</u>
Net sale consideration	15,00,000
Less: Indexed cost of acquisition (See Working note below)	<u>6,68,157</u>
Long term capital gain (since the period of holding is more than 3 years)	8,31,843
Less: Exemption under section 54 (See Note 1 below)	<u>4,00,000</u>
Taxable long term capital gain	<u>4,31,843</u>

Working Note:

Indexed cost of acquisition	
Purchase price	4,50,000
Less: Amount forfeited (See Note 2 below)	<u>70,000</u>
Cost of acquisition	<u>3,80,000</u>

Indexed cost of acquisition	$\frac{\text{Rs. } 3,80,000 \times 582}{331}$	6,68,157
-----------------------------	---	----------

582 is the cost inflation index for F.Y. 2008-09 and 331 is the cost inflation index for F.Y.1997-98.

Notes:

- (1) Exemption under section 54 is available if a new residential house is purchased within two years from the date of transfer of existing residential house, which is a long-term capital asset. Since the cost of new residential house is less than the long-term capital gains, capital gains to the extent of cost of new house, i.e., Rs.4 lakh, is exempt under section 54.

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER,2009

- (2) As per section 51, any advance received and retained by the assessee, as a result of earlier negotiations for sale of the asset, shall be deducted from the purchase price for computing the cost of acquisition of the asset.

Question 3

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

- (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 31 st October, 2008 - Current year loss | 40,000 |
| (ii) Brought forward business loss of A.Y.2005-06 | 95,000 |
- (b) Chemical Business :
- | | |
|--|--------|
| (i) Discontinued from 1 st 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 A.Y. 2007-08 | 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 |
|--|--------|
- (10 Marks)

Answer

Computation of total income of Mr. Rajat for the A.Y. 2009-10

Particulars	Rs.	Rs.
1. Income from house property		
House No.1	72,000	
House No.2	(-) <u>30,000</u>	42,000
2. Profits and gains of business or profession		
Profit from leather business	1,00,000	

PAPER – 4 : TAXATION

Less: Current year loss of textile business	(-) <u>40,000</u>	
	60,000	
Bad debts recovered taxable under section 41(4)	<u>35,000</u>	
	95,000	
Less: Brought forward business loss of textile business for A.Y.2005-06 set off against the business income of current year	<u>95,000</u>	Nil
3. Capital Gains		
Short-term capital gain	60,000	
Gross Total Income	<u>1,02,000</u>	
Less: Deduction under chapter VI-A		
Under section 80C – LIC premium paid	<u>10,000</u>	
Total Income	<u>92,000</u>	

Statement of losses to be carried forward to A.Y. 2010-11

Particulars	Rs.
Business loss of A.Y. 2007-08 to be carried forward under section 72	50,000
Long term capital loss of A.Y. 2009-10 to be carried forward under section 74	35,000

Notes:

- (1) Share of profit from firm of Rs.16,550 is exempt under section 10(2A).
- (2) Long-term capital loss cannot be set-off against short-term capital gains. Therefore, it has to be carried forward to the next year to be set-off against long-term capital gains of that year.

Question 4

Answer any three of the following:

- (a) Explain the consequences of failure to deduct tax at source and payment of the same to the Government Account under the Income-tax Act, 1961.
- (b) What are the circumstances under which the Assessing Officer can make a reference to the Valuation Officer under section 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. (3 × 4 =12 Marks)

Answer

- (a) Consequences of failure to deduct and pay the tax [Section 201]
 - (i) The following persons shall be deemed to be an assessee in default if they do not deduct the whole or any part of the tax or after deducting fails to pay the tax –

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER,2009

- (1) Any person including the principal officer of a company who is required to deduct any sum in accordance with the provisions of Act, and
 - (2) An employer paying tax on non-monetary perquisites under section 192(1A).
 - (ii) No penalty shall be charged from such person unless the Assessing Officer is satisfied that such person has failed to deduct and pay the tax without good and sufficient reasons.
 - (iii) Such person shall also be liable to pay simple interest@1% 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 should be paid before furnishing the quarterly statements.
 - (iv) Where the tax has not been paid after it is deducted, the amount of the tax together with the amount of simple interest, shall be a charge upon all the assets of the person or the company, as the case may be.
- (b) Reference to Valuation Officer
- With a view to ascertaining the fair market value of a capital asset, the Assessing Officer may refer valuation of the capital asset to the Valuation Officer, in the following cases:
- (1) Where the value of the asset, as claimed by the assessee, is in accordance with the estimate made by the registered valuer but the Assessing Officer is of the opinion that the value so claimed is less than its fair market value;
 - (2) Where the Assessing Officer is of the 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 by more than Rs.25,000.
 - (3) Where the Assessing Officer is of opinion that, having regard to the nature of the asset and relevant circumstances, it is necessary to make a reference to the Valuation Officer.
- (c) Reverse Mortgage Scheme and its tax implications
- (i) The Reverse Mortgage scheme is for the benefit of senior citizens, who own a residential house property. In order to supplement their existing income, they can mortgage their house property with a scheduled bank or housing finance company, in return for a lump-sum amount or for a regular monthly/quarterly/annual income. The senior citizens can continue to live in the house and receive regular income, without the botheration of having to pay back the loan.
 - (ii) The borrower can use the loan amount for renovation and extension of residential property, family's medical and emergency expenditure etc., amongst others. However, he cannot use the amount for speculative or trading purposes.
 - (iii) Clause (xvi) of section 47 clarifies that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government would not amount to a transfer for the purpose of capital gains.

PAPER – 4 : TAXATION

- (iv) Clause (43) of section 10 provides that any amount received by an individual as a loan, either in lump sum or in installments, in a transaction of reverse mortgage would be exempt from income-tax.
- (d) Carry forward and set off of losses in cases of change in constitution of firm or on succession [Section 78]
 - (i) Where there is a change in the constitution of firm, so much of the loss proportionate to the share of a retired or deceased partner remaining unabsorbed, shall not be allowed to be carried forward by the firm.
 - (ii) Where any person carrying on any business or profession has been succeeded in such capacity by another person otherwise than by inheritance, such other person shall not be allowed to carry forward and set off against his income, any loss incurred by the predecessor.
 - (iii) Where there is a succession by inheritance, the legal heirs (assessable as BOI) are entitled to set off the business loss of the predecessor. Such carry forward and set off is possible even if the legal heirs constitute themselves as partnership firm. In such a case, the firm can carry forward and set off the business loss of the predecessor.

Question 5

Answer the following:

- (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. Service tax will be payable on Rs.4,48,500. (2 x 4 = 8 Marks)

Answer

- (a) Section 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 realizing or charging the service tax at the prevailing rate. The statutory liability does not get extinguished if the service provider fails to realize or charge the service tax from the service receiver.
- (b) Yes, Mr. Raju can file a single return though he is a multiple service provider. He has to furnish the details in each of the columns of the Form No.ST-3 separately for each of the taxable services rendered by him. Thus, instead of showing a lump sum figure for all the services together, service-wise details should be provided in the return.

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER,2009

- (c) Notification No. 24/2004 ST dated 10.09.2004 defines a vocational training institute to mean 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.
- (d) False. As the charge of the service tax is on the services provided, the gross receipts are to be considered for tax calculation. Hence, service tax will be payable on the gross fee of Rs.5 lakh.

Question 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:

- (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 value of taxable service and service tax payable thereon. (8 Marks)

- (b) Answer the following:

- (i) Whether export service provided by a 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?

(3 x 3 = 9 Marks)

Answer

- (a) Computation of total value of taxable services provided by Rosy Tours Co. for F.Y. 2008-09:-

Particulars	Value of services	Abatement	Taxable value in % age	Value of taxable services
	Rs.	%		Rs.
Tour 1 – April, 2008	3,50,000	75 (Note 1)	25	87,500

PAPER – 4 : TAXATION

Tour 2 – October, 2008	6,50,000	60 (Note 2)	40	2,60,000
Tour 3 - December, 2008	4,00,000	Nil (Note 3)	100	4,00,000
Total	14,00,000			7,47,500

Service tax payable on Rs.7,47,500/- will be Rs.89,700 + education cess (2%) and secondary and higher education cess (1%) Rs.2,691 = Rs.92,391.

Note 1: In case of package tours, an abatement of 75% of the gross amount charged is available. It has been assumed that the bill issued for this purpose indicates that it is inclusive of charges for such a tour.

Note 2: Since, this tour package includes only transportation and accommodation for stay, it is not a package tour as per Notification No. 1/2006 ST dated 01.03.2006. In case of services provided in relation to a tour other than in relation to a package tour, an abatement of 60% of the gross amount charged is available. It has been assumed that the bill issued for this purpose indicates that the amount charged in the bill is the gross amount charged for such a tour.

Both in case of Tour 1 and Tour 2, the exemption is available on the assumption that

- (i) no CENVAT credit of duty paid on inputs or capital goods or the CENVAT credit of service tax on input services, used for providing such taxable service, has been taken under the provisions of CENVAT Credit Rules, 2004; or
- (ii) the service provider has not availed the benefit under the Notification No. 12/2003 ST, dated 20.06.2003.

Note 3: The abatement of 90% of the gross amount charged will not be available because the bills issued to clients do not indicate that the charges are solely for arranging the accommodation for stay.

- (b) (i) Yes. Export of services is exempt from payment of service tax if services are exported in accordance with the Export of Services Rules, 2005. However, service provided to an exporter is not excluded for the purpose of payment of service tax. The person liable to pay service tax under sub-section (1) or sub-section (2) of section 68 shall pay service tax as applicable on the specified services provided to the exporter and used for export of such goods, and such person shall not be eligible to claim exemption for the specified services.
- (ii) Every assessee shall furnish to the Superintendent of Central Excise at the time of filing the return for the first time or 31st January, 2008 whichever is later, a list of following documents in duplicate:
 - (a) all the records prepared or maintained by the assessee for accounting of transactions in regard to
 - (i) providing of any service, whether taxable or exempted;
 - (ii) receipt or procurement of input services and payment for them;
 - (iii) receipt, purchase, manufacture, storage, sale or delivery, as the case

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER,2009

may be, in regard to inputs and capital goods;

(iv) other activities such as manufacture and sale of goods, if any.

(b) all other financial records maintained by him in the normal course of business.

(iii) As per rule 6(1) of the Service Tax Rules, 1994, where service-tax is paid electronically through internet banking, the service tax on value of taxable service received:

(i) by an individual or a proprietary firm or a partnership firm during any quarter is payable by the 6th day of the month immediately following the said quarter, and

(ii) in other cases (company & HUF) during any calendar month is payable by the 6th day of the month immediately following the said calendar month.

The due date for the month of March is 31st March.

Question 7

Answer the following:

- (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 provisions of value added tax.

The VAT rate on sale of lottery ticket is 4%.

(2 x 4 = 8 Marks)

Answer

- (a) To reduce the multiplicity of sales-tax rates between various States in India, it was recommended that VAT will have broadly the following tax rates:
 - (a) Zero rate for tax free goods,
 - (b) 1% on precious or semi-precious metals i.e., bullion etc.
 - (c) 4% on items of basic necessities, agricultural and industrial inputs, capital goods and declared goods
 - (d) 20% on non VAT goods
 - (e) 12.5% on other goods.
- (b) VAT registration can be cancelled on:
 - (i) discontinuance of business; or
 - (ii) disposal of business; or
 - (iii) transfer of business to new location; or
 - (iv) annual turnover falling below the specified limit.

PAPER – 4 : TAXATION

- (c) The income variant of VAT allows deduction of purchases of raw material and components as well as depreciation of capital goods. This method provides incentive to classify purchases as current expenditure to claim set off. In practice, however, there are many difficulties connected with the specification of any method of measuring depreciation, which basically depends on the life of an asset as well as on the rate of inflation.
- (d) False. Since VAT is not applicable on sale of lottery tickets, the question of rate does not arise.

Question 8

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

- (b) Answer the following:
- (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 six purchases which are not eligible for input tax credit. (3 x 3 = 9 Marks)

Answer 8

- (a) Computation of tax liability, input tax credit availed and tax payable under invoice method

Stage	Particulars	VAT Liability	Less VAT Credit	Tax payable to Government
1.	X, the manufacturer, sells to B, the distributor, for Rs.2,000. Therefore his tax liability will be Rs.250 (Rs.2,000 @ 12.5%). He will not have any VAT credit.	250	-	250
2.	B, the distributor, sells goods to K, the wholesale dealer, for Rs.2,400. B's tax liability will be Rs.300 (Rs.2,400 @ 12.5%). He will get set off of tax paid at earlier stage of Rs.250. Thus, tax payable by him will be Rs.50.	300	250	50

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : NOVEMBER,2009

3.	K, the wholesaler dealer, sells to retailer at Rs.3,000. K's tax liability will be Rs.375 (Rs.3,000 @ 12.5%). He will get set off of tax paid at earlier stage of Rs.300. Thus, tax payable by him will be Rs.75.	375	300	75
4.	Retailer sells goods to consumers at Rs.4,000. His tax liability will be Rs.500 (Rs.4,000 @ 12.5%). He will get set off of tax paid at earlier stage of Rs.375. Thus, tax payable by him will be Rs.125/-	500	375	125

Note: It has been assumed that sales made by the distributor, the wholesale dealer and the retailer are also exclusive of VAT.

- (b) (i) The Value Added Tax (VAT) is a multistage tax levied as a proportion of the value added (i.e. sale minus purchase) which is equivalent to wages plus interest, other costs and profits. In an economy, apart from the manufacturers and final consumers, there would be wholesalers and retailers also. The wholesaler might supply to retailer and each one of them could supply to the manufacturer and end consumer. VAT will be collected at each stage, and wherever applicable, the manufacturer or retailer will claim input credit. 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.
- (ii) VAT returns are to be filed monthly/quarterly/annually along with tax paid challans according to the provisions of the State Acts. They should contain details of output tax liability, value of input tax credit and payment of VAT and should be filed within the prescribed time schedule. In case of any mistakes, revised returns may be filed. The returns will be checked and any deficiency in payment of tax may have to be made good.

Filing of returns are designed with a view:

- (i) to reduce cost of compliance
- (ii) to encourage businesses to comply with their obligations; and
- (iii) to ensure efficient processing of data.

PAPER – 4 : TAXATION

(iii) The following purchases are not eligible for input tax credit:

- (a) purchases from unregistered dealers;
- (b) purchases from registered dealers who opt for composition scheme under the provisions of the Act;
- (c) purchase of goods as may be notified by the State Government;
- (d) purchase of goods where the purchase invoice is not available with the claimant or there is evidence that the same has not been issued by the registered selling dealer from whom the goods are purported to have been purchased;
- (e) purchase of goods where invoice does not show the amount of tax separately;
- (f) purchase of goods which are being utilized in the manufacture of exempted goods;
- (g) purchase of goods used for personal use or consumption or provided free of charge as gifts;
- (h) goods imported from other States;
- (i) goods imported from outside the territory of India;
- (j) goods in stock which have suffered tax under an earlier Act but under VAT Act they are covered under exempted items.

Out of the above, any six purchases may be mentioned in the answer.