Question 1 (a) 5 mark

Computation of Capital Gain in the hand of thilgam
original Shares

Action	particulars	Amount
	Full Value of consideration	220000
Less	Indexed cost of acquisition (100*2000)/632*711	225000
	Long term capital loss	-5000

Short term capital gain in respect of capital Gain first Lot

Action	particulars	Amount
	Full Value of consideration	125000
Less	cost of acquisition	NIL
	short term capital loss	125000

Short term capital gain in respect of capital Gain first Lot

Action	particulars	Amount
	Full Value of consideration	210000
Less	cost of acquisition	NIL
	short term capital loss	210000

Notes original shares were subject to STT but the net result of computation is loss
This loss can be carry forward for set off against long term

capital gain arising
from Future date

Cost of acquisition of bonus shares shall be adopted as NIL

Market value on the date of transfer of second bonus share is "Fair Market value" and this shall be adopted as full value of consideration

This income shall be chargeable to tax in the hand of Thilgam

1 (b) Industrial undertaking required to be computed

1 (C)

Calculation of value of taxable service & ST

Particulars	Amount
Amount received for pre-recruitment training	250000
Amount received for recruitment of :_	
permanent staff	300000
Temporary staff	400000
Total value of taxable service	950000
calculation of service tax	

(950000*10.30)	97850

Notes Value of taxable service rendered only subject to Service tax liability

Advance received for service tax liability not Subject to service tax.

1 (d) required to be worked out

2 (a) (i)

Fact of the cases

Payment of 5000 USD to a management consultant practicing in Colombo with respect to the project in India

Provisions as per Income tax Act

If a business or profession carried on abroad and in connection with such business or profession certain activity is carried on India, then it establishes Business connection.

Such income is taxable even in the case of NRI.

Any income accruing or arising through Business connection in India shall be deemed to accrue or arise in India.

Conclusions

Even though kulasekhara is a NRI, the project proposed to carry out in India and it will establish a business connection in India. Once the business connection has been established, then, the income shall be automatically deemed to accrue or arise in India. The income tax act specifically provided that income from business activity in India of a NRI will be chargeable to tax net and as such this income will be chargeable to tax in India.

2 (a) (ii)

Calculation of expense deductible U/s 35 — Rs in Lac

Category	Amount	weight	qualified amt
contribution to Outsiders			
payment made to K Research Ltd	20	175%	35
payment made to LMN college	15	175%	26.25
payment made to OPQ college	10	175%	17.5
Payment to national laboratories	8	175%	14
In house research			
Machinery purchased for In house research	25	100%	25
Salary to research Staff	12	100%	12
Total amount qualified for research			129.75

Notes

If contribution made outside agencies for
scientific research, then
such expense will eligible for
175 % weigtages

capital and revenue expense of in-house research
will qualify for
100% of weight

2(b)

Calculation of service tax Liabilities

	Amount	ST value
Value of Free coaching rendered	20000	NIL
Coaching fee collected from student	1450000	149350
Advance returend	300000	NIL
Total value of Service tax payable		149350

Service tax for the quarter 30/6/2010 required to be paid on or before 10th July
For Free coaching, no consideration has been received by the assessee
hence no service tax need to be paid on free value

Advance payment is refunded and no question of service tax

2 (c) required to be updated.

Solution to 3 (a)

Computation of Gross total income

particulars	Amount
Profit and gains from business and profession	544200
Income from other source	17300
Gross Total Income	561500
Chapter VI A deduction	
Section 80 C	
PPF To wife 70000	
Long term infrastructure Bond 30000	100000
Total Income	461500

Computation of profit and gains from business and profession

Action	particulars	Amount	Amount
	Net profit as Per P &L Account		560000
Add	Depreciation as per Books	34000	
	Motor car expense for personal use (40,000*20/100)	8000	
	Salary to manger in the form of cash Note 2	21000	
	Interest on capital from Oscar Musicals	150000	213000
			773000
Less	Depreciation As per IT Act	108800	

	Interest on capital As per IT Act	120000	228800
	Profit and gains from business and profession		544200

Computation of income from other sources

particulars	Amount
Interest from Bank on Fixed deposit (Grossing up)	15000
Interest Accrued on IT refund	2300
Total Income	17300

Computation of depreciation

Block 1 Computer @ 60%

Opening WDV	120000
Add Addition during the year	Nil
Less Deletion during the year	Nil
Closing WDV	120000
Less depreciation	72000

Block 2 Motor Vehicle@20%

Opening WDV	320000
Add Addition during the year	Nil
Less Deletion during the year	Nil
Closing WDV	32000

Less depreciation	0 64000

Note 1
As per section 40 (b) Interest paid to working partner shall not exceed 12 % simple Interest p.a

Interest paid 15% amounting to Rs	15000 0
There for 150000/15*12	12000 0

Motor vehicles used 20 % for private purpose hence motor vehicle expense and
Depreciation required to be adjusted to the extent of personal use

Total depreciation	13600 0
Disallowed portion	27200
Allowed depreciation	10880 0

Note 2
Payment in excess of 20,000 fully disallowed
40 A (3)

Question 3 (b) (i) Required to be updated

Question 3 (b) (ii) required to be updated

Question 3 (c) required to be updated

4 (a)

Computation of total Income after adjusting Loss

Particulars	Amount
Salary income	30000
Long term capital Gain	140000
Income from speculation Business	30000
Income from betting	45000
Loss from Card Game	-32000
Gross total income	213000
Less Deduction under Chapter VI A	
Life insurance premium paid (80 C)	100000
Total Taxable income	113000

Particulars of carry forward of loss and its period

Particulars of Loss	Amount	Status
Loss from Cloth business	240000	Carry forward for 8 years
Loss from specified business	20000	Carry forward

Loss from card game	32000	for 8 years No carry forward

Inter head adjustment of Loss

Particulars	Amount
Income from salary Loss from house property	220000 -190000
Salary Income after setting off	30000

Inter head adjustment of Loss

Particulars	Amount
Long term capital gain on sale of urban land less Long term capital loss on listed shares	250000 110000
Net taxable capital Gain	140000

Notes

Loss from house property can be sett of against salary income.

Speculative business is regarded as a distinct and separate business as such loss from cloth business cannot be set off against Speculative business Income.

Loss from betting cannot be carry forward and it will be get adjusted to current year calculation. Loss which is able to carry forward will be adjusted against the subsequent year only.

Question 4 (b) Required to be worked out (theory from service tax) 4 marks

Question 4 (C) Required to be worked out (Theory Questions from VAT) 4 marks

Solution5 (a)

Computation of Capital Gain

Particular	Amount
Full Value of consideration	12,00,000
Less Expense in connection with transfer	Nil
Net consideration	12,00,000
Less Indexed cost of Acquisition 45000/100*711 (Working note 3)	3,19,950
Less Indexed cost of improvement	
Improvement expense incurred by Rakesh	

50000/116*711	3,06,466
Improvement expense incurred By A	
190000/244*711	5,53,648
Long term capital Gain	19,937
Less exemption	NIL
Taxable capital Gain	19,937

Working notes

Where the property acquired on or before 1981, then following workings are warranted

Working note	Computation of cost of acquisition	
a)	Cost of acquisition	105000
b)	Fair Market value as on 1/4/4981	150000
	a) or b) whichever is higher Shall be	150000
	Cost of acquisition	

Working note 2

Section 51

If any of the capital asset was subject matter of negotiation and advance received in respect thereof , transfer of the asset was not taken place, then, such advance need to be deducted from any of the below component for the purpose of computing capital gain

- Cost of acquisition
- FMV
- WDV

Depends upon the nature of capital asset.

Calculation of Total advance received for sale of property

a)	Advance received by Rakesh	25000
b)	Advance received by Mr A	80000
	Total advance received	105000

This will be deducted from FMV

Working note 3

Calculation of adjusted Cost of acquisition

Cost of acquisition as per WN (1) above	150000
Total advance received WN (2) Above	105000
Adjusted Cost of acquisition	45000

Working
note 4

Cost of improvement incurred on or after 1st April 1981 is eligible for deduction .Cost of improvement expense incurred by Mr. Rakesh for the year 1979-80 will not eligible for deduction.

Question 5 (b) required to be worked out (Theory questions from Service tax) 4 Marks

Question 5 (C) Required to be worked out (Thoery question from VAT) 4 Marks

Question 6 (a) required to be worked out (tax treatment of LLP) 8 Marks

Question 6 (b) required to be worked out (service tax practical problem) 4 marks

Question 6 (C) Required to be worked out (Theory from VAT) 4 marks

7 (a)

Organisation	person responsible to file Returns
Political party	CEO of political party
Local authority	Principal officer
Association of person	Any member or principal officer
LLP	Designated partner

7 (2)

(i) Fact of the case: - Cash gift Rs 51,000/- received on the occasion of “shastiaptha Poorthi” from Friend.
Provision as per Income tax Act 56 (2):- Any sum of money received without consideration in aggregate exceeding Rs 50,000/- from a Non relative then Whole of such sum shall be chargeable to tax.
Conclusion: - Rs 51,000 received from her friend shall be charable fully to tax. Since the Gift was received from a non relative and the value of Gift exceeds Rs 50,000

(ii) Fact of the cases: - Diamond neck less worth Rs 2 lacs were received from her sister Living in Dubai.
Provision as per Income tax Act 56 (2):- Gift from a Non relative only chargeable to tax.

Conclusion: - The above transaction shall not be liable for any tax since the gift was received from her sister (Relative).

(iii) Fact of the cases :- Assigning FD held in a bank by friend Rs 51,000

Provision as per Income tax Act 56 (2):- Any sum of money received without consideration in aggregate exceeding Rs 50,000/- from a Non relative then Whole of such sum shall be chargeable to tax.

Conclusion: - Rs 51,000 received from her friend shall be charable fully to tax. Since the Gift was received from a non relative and the value of Gift exceeds Rs 50,000

7 (3)

Provision as per 40 (a) Disallowance in all the cases: - Interest, salary, royalty, fee for technical service or any other sum payable outside India or payable in India to a NRI or a foreign company is not deductible unless tax is deducted at source. Apart from this, the relevant provisions in TDS required to be taken in to consideration for a comprehensive view.

i) This is not a disallowable items under the above provisions since interest is paid in India to a resident partnership firm (Reshman and company)
TDS provisions
In interest other than interest other than securities, TDS is required to be deducted by a resident individual if and only if the Total Turnover, Gross receipts etc Exceed Rs

40 Lakh. In this case the total Turn over of the assessee is just 39 Lac. There is no question of disallowance.

ii) This item will be disallowed under 40 (a) since it is clearly mentioned u/s 40 (a) that interest paid outside India or inside India to a foreigner will be disallowed fully.

TDS rule: - Section 40 (a) will override. Under TDS rule there is an amount wise limit and after crossing the amount (Rs 10,000) TDS will be applicable. This will be over ride.

iii) This is not a disallowable items under the above provisions since Salary is paid in India to a resident Individual

TDS provisions

If TDS is not deducted on Salary Income, then, whole of such amount shall be disallowed.

iv) Cash discount Will not subject to disallowance under 40 (a) (i) Since it is allowed to a residential individual
Commission will not subject to disallowance under 40 (a) (i) Since it is allowed to a residential individual.

TDS rules :- Since there is no question of disallowance under TDS rule since the total turn over is less than 40 lakh.

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