

MOCK TEST PAPER – 1

PCC: GROUP – II

PAPER – 5 : TAXATION

SUGGESTED ANSWERS / HINTS

1. (a) Computation of taxable income of Dr. Sandeep for the previous year ended 31.03.2012

Particulars	₹	₹
Income from Salaries		
Salary received @ ₹ 5,000 per month		60,000
Income from house property		
Gross annual value	27,000	
Less: Municipal tax	<u>2,000</u>	
Net annual value	25,000	
Less: Deduction under section 24 @ 30%	<u>7,500</u>	17,500
Income from business or profession		
Net income as per income & expenditure account	2,46,000	
Add: Rent paid for residence at Delhi	30,000	
Medicines consumed – personal use	10,000	
Municipal tax relating to let out property included in administrative expenses – disallowed	<u>2,000</u>	
	2,88,000	
Less: Depreciation (See working note 2)	90,000	
Rent credited to income & expenditure account	27,000	
Dividend from Indian companies [Exempt under section 10(34)]	<u>9,000</u>	1,62,000
Capital Gains (Long term capital gains)		
Sale consideration	5,00,000	
Less: Indexed cost acquisition (1,50,000 x 785/331)	<u>3,55,740</u>	<u>1,44,260</u>
Gross Total income		3,83,760
Less: Deduction under chapter VIA – section 80GG (See Note 1)		
Under section 80GG, rent paid would be allowable as a deduction to the extent of the least of the following :-		
(i) 25% of total income = 25% of ₹ 2,39,500	59,875	
(ii) Excess of rent paid over 10% of total income (₹ 30,000 - ₹ 23,950)	6,050	
(iii) ₹ 2,000 per month	24,000	
Least of the above		<u>6,050</u>
Total Income		<u>3,77,710</u>

Note :

1. Deduction under section 80GG is to be made from Gross total income. Gross total income as defined under section 80B(5) means the total income computed in accordance with the provisions of this Act, before making any deduction under Chapter VI-A. Under section 112(2), Long term capital gains have to be reduced from Gross total income and Chapter VI-A deductions should be allowed as if the Gross total income so reduced were the Gross total income of the assessee. Therefore, in this case, for the purpose of allowing deduction u/s 80GG, Total Income = ₹ 3,83,760 – ₹ 1,44,260 = ₹ 2,39,500.

2. Depreciation on plant & machinery

	₹
On opening WDV of ₹ 5,00,000 @ 15%	75,000
On equipment acquired ₹ 2,00,000 @ 15%	
(50% thereon, since acquired in December i.e. held for less than 180 days)	<u>15,000</u>
	<u>90,000</u>

3. Since the property was acquired by Dr. Sandeep through inheritance, the cost of acquisition to him will be the cost to the previous owner. However, indexation will be from the year in which the assessee (i.e., Dr. Sandeep in this case) first held the asset i.e. F.Y. 1997-98.

- (b) (i) According to section 10(17A), any award either in cash or in kind instituted in the public interest by the Central or State Government or by any approved body is exempt from tax. In this case, ₹ 1,00,000 cash prize is awarded under the scheme of National award for films instituted by the Central Government. Therefore, the amount received is exempt.

- (ii) Section 10(23C) of the Income-tax Act, 1961 provides exemption for any income earned by a hospital or medical institution which is established not for the purposes of profit and :

- (1) which is wholly or substantially financed by the Govt.; or
- (2) whose aggregate annual receipts do not exceed the prescribed amount i.e. ₹ 1 crore or
- (3) which may be approved by the prescribed authority.

In the given case, Sumit, Mohit and Amit have formed a partnership firm (Nursing home) for the purpose of earning profits and sharing them. Exemption under section 10(23C) is not available to hospitals established with profit motive. Therefore, the entire profit of ₹ 25,00,000 earned by the firm during the year is taxable under the head 'Profits and Gains of Business or Profession'.

(iii) The amount of ₹ 20,000 has been received by Atul from out of the rental income of the family in which he is a coparcener. Since the Hindu Undivided Family consisting of himself, his father and two elder brothers has not yet been partitioned, the income of the family is assessable in the status of the Hindu Undivided Family. The share received by Atul as a member is exempt on account of the specific provision under section 10(2). In respect of the salary of ₹ 2,60,000 earned by Atul from his employer, he is chargeable to tax in his individual status.

(c) As per Rule 3 of Point of Taxation Rules, 2011,

The point of taxation shall be -

(a) the time when the invoice for the service provided/to be provided is issued.

However, in case the invoice is not issued within 14 days of the completion of the provision of the service, the point of taxation shall be date of such completion.

(b) in a case, where the person providing the service, receives a payment before the time specified in clause (a), the time, when he receives such payment, to the extent of such payment.

For the purpose of this rule, wherever any advance by whatever name known, is received by the service provider towards the provision of taxable service, the point of taxation shall be the date of receipt of each such advance.

Advance portion

Particulars	₹
Advance received towards all services in October, 2011	= 60,000
Amount billed for taxable services	= 2,50,000 – 50,000 = 2,00,000
Advance received towards taxable services	= $\frac{60,000}{2,50,000} \times 2,00,000$ = 48,000
Service tax @ 10% (since, service tax is charged separately)	= 48,000 x 10%
	= 4,800
Education cess @ 2%	= 96
Secondary and higher education cess @ 1%	= 48
Total service tax liability	= 4,944

In this case, the due date for payment of service tax will be 5th November, 2011.

Balance portion

Particulars	₹
Amount billed for taxable services	= ₹ 2,00,000
Advance received towards taxable services	= 48,000
Amount billed but not received towards taxable services	= ₹ (2,00,000-48,000)
	= 1,52,000
Service tax @ 10%	= 1,52,000 x 10%
	= 15,200
Education cess @ 2%	= 304
Secondary and higher education cess @ 1%	= 152
Total service tax liability	= 15,656

In this case, the due date for payment of service tax will be 5th February, 2012.

2. (a) **Computation of Total Income of Mrs. Akanksha for A.Y. 2012-13**

Particulars	₹	₹
Income from salary		
Basic salary		6,00,000
Dearness allowance		2,40,000
Bonus		1,00,000
Commission (calculated as percentage of turnover)		1,50,000
Entertainment allowance		30,000
Children's hostel allowance	15,000	
Less : Exemption (300 x 12 x 2)	<u>7,200</u>	7,800
Excess contribution to recognized provident fund by employer (Refer working Note 1)		1,81,200
Interest credited to recognized provident fund account (exempt)		-
Rent free unfurnished accommodation (Refer working Note 2)		70,000
Gross salary		13,79,000
Less : Deduction u/s.80C		
Life insurance premium paid for insurance of life of her major son.	15,000	
Employee's contribution to recognized provident	3,00,000	

fund		
Deduction u/s.80CCC in respect of LIC pension fund	<u>12,000</u>	
	3,27,000	
Deduction limited to ₹ 1,00,000 as per section 80CCE		1,00,000
Deduction u/s 80D		<u>12,000</u>
Total income before deduction u/s.80G		12,67,000
Deduction u/s.80G :		
Actual Donation to public charitable institution = ₹ 2,00,000		
Restricted to the maximum of 50% of 10% of total income before allowing deduction under section 80G i.e. 50% of ₹ 1,26,700 (10% total income)		<u>63,350</u>
Total income		<u>12,03,650</u>
Tax on total income		2,06,095
Add : Education cess @ 2%		4,122
Add : Secondary and higher education cess @ 1%		<u>2,061</u>
Total tax liability		<u>2,12,278</u>
Rounded off		<u>2,12,280</u>

Working Notes:

(1) Employer's contribution to R.P.F. in excess of 12% of salary

Employer's contribution	3,00,000
Less : 12% of basic salary, dearness allowance & commission i.e. 12% of ₹ 9,90,000	<u>1,18,800</u>
	<u>1,81,200</u>

(2) Value of rent free unfurnished accommodation

Basic salary	6,00,000
Dearness allowance	2,40,000
Bonus	1,00,000
Commission @ 0.2% of turnover	1,50,000
Entertainment allowance	30,000
Children's hostel allowance	<u>7,800</u>
Gross Salary	<u>11,27,800</u>

15% of salary	1,69,170
Actual rent paid by the company	70,000
The least of the above is chargeable perquisite i.e. ₹ 70,000	

- (b) (i) **True:** A HUF is considered to be a non-resident where the control and management of its affairs are situated wholly outside India. In the given case, since all the policy decisions of HUF are taken from Japan, the HUF is a non-resident.
- (ii) **True:** A person is said to be “not-ordinarily resident” in India if he satisfies either of the conditions given in sub-section (6) of section 6. This sub-section relates to only individuals and Hindu Undivided Family. Therefore, only individuals and Hindu Undivided Family can be resident, but not ordinarily resident in India. All other classes of assesseees can be either a resident or non-resident for the purpose of Income-tax Act, 1961. Firms and companies can, therefore, either be a resident or non-resident.
- (c) Rule 7 of Point of Taxation Rules 2011, inter alia provides that in case of Individuals or proprietary firms or partnership firms providing the any of the following taxable services:-
- Architect's Services
 - Interior Decorator's Services
 - Practicing Chartered Accountant's Services
 - Practicing Cost Accountant's Services
 - Practicing Company Secretary's Services
 - Scientific or Technical Consultancy Services
 - Legal Consultancy Services
 - Consulting Engineer's Services (inserted vide *Notification No. 41/2011 ST dated 27.06.2011*)

the date of receipt or payment of consideration would be the point of taxation

In the given case, amount of service tax liable to be paid by Mr. Y

$$= \frac{\text{Gross Amount} \times \text{Rate of tax}}{(100 + \text{Rate of tax})} = \frac{2,26,640 \times 10.30}{110.30} = 21,164$$

M/S Sharda & Co. is required to deposit service tax of ₹ 21,164 on or before 31.03.2012.

3. (a) Since the assessee is a resident and ordinarily resident in India, her global income would form part of her total income i.e., income earned in India as well as outside India will form part of her total income.

She possesses a self-occupied house at London as well as at Jaipur. At her option, one house shall be treated as self-occupied, whose annual value will be nil. The other self-occupied house property will be treated as "deemed let out property".

The annual value of the London house is ₹ 9,00,000 and the Jaipur flat is ₹ 3,15,000. Since the annual value of London house is more, it will be beneficial for her to opt for choosing the same as self-occupied. The Jaipur house will, therefore, be treated as "deemed let out property".

As regards the Mumbai house, arrears of rent will be chargeable to tax as income from house property in the year of receipt under section 25B. It is not essential that the assessee should continue to be the owner. 30% of the arrears of rent shall be allowed as deduction.

Accordingly, the income from house property of Mrs. Neha will be calculated as under:

	Particulars	₹	₹
1.	Self-occupied house at London.		
	Annual value	Nil	
	Less: Deduction under section 24	Nil	
	Income from house property	Nil	
2.	Deemed let out house property at Jaipur		
	Annual value (Higher of municipal value and fair rent) [4,20,000 x 9/12]		3,15,000
	Less: Municipal Taxes (Property tax+Sewerage tax)		<u>18,000</u>
	Net Annual Value (NAV)		2,97,000
	Less: Deductions under section 24		
	30% of NAV	89,100	
	Interest on borrowed capital (See Note below)	<u>1,91,940</u>	<u>2,81,040</u>
			15,960
3.	Arrears in respect of Mumbai property		
	Arrears of rent received	60,000	
	Less: Deduction @ 30%	<u>18,000</u>	<u>42,000</u>
	Income chargeable under the head "Income from house property"		<u>57,960</u>

Note : Interest on borrowed capital		₹
Interest for the current year (₹ 50,800 + ₹ 1,31,300)		1,82,100

Add: 1/5th of pre-construction interest ($\text{₹ } 49,200 \times 1/5$)	<u>9,840</u>
Interest deduction allowable under section 24	<u>1,91,940</u>

- (b) As per Rule 3(8), where the shares are listed in recognized stock exchange, the average of the opening and closing price of such share on the date of exercising the option would be adopted.

	₹
Average of the opening and closing price of shares on the date of exercising the option 700 shares @ ₹ 300 each	2,10,000
Less: Amount paid by the assessee = 700 @ ₹ 20 per shares	<u>14,000</u>
Value of perquisite for 700 shares	<u>1,96,000</u>

- (c) (a) Every assessee shall file a half yearly return in Form ST-3. Even if there is no service provided during a half year, a Nil return has to be filed. Therefore, Ms. Priyanshi Jain is required to file a service tax return.
- (b) The said statement is not tenable in law. An assessee can submit a revised return, in Form ST-3, in triplicate, to correct a mistake or omission, within a period of 90 days from the date of submission of the original return. Hence "Once filed, service tax return can be revised further."
4. (a) (i) **True:** As per section 40A(3A), in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment exceeding ₹ 20,000 has been made in the subsequent year otherwise than by account payee cheque or account payee bank draft, then the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.
- (ii) **True:** Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.
- (iii) **True:** According to the Explanation 5 to section 32(1), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business / profession whether or not the assessee has claimed the same while computing his total income.
- (iv) **False:** Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing. In this case, the assessee is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, the assessee will not be entitled to claim additional depreciation under section 32(1)(ia).

- (v) **True:** Section 36(1)(ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 36(1)(ib).
- (vi) **False:** Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which payment there of is made to the employee.

(b) **Computation of Total Income of Mr. Mahesh for the A.Y.2012-13 :**

	Particulars	₹	₹
(i)	Business income	1,00,000	
	Less : Current year depreciation	<u>90,000</u>	
		10,000	
	Less : Brought forward business loss	<u>10,000</u>	NIL
(ii)	Income from Salary		80,000
(iii)	Income from other sources (interest income)	6,000	
	Less : Unabsorbed depreciation	<u>6,000</u>	<u>NIL</u>
	Total Income		<u>80,000</u>

Notes:

- Under section 72(2), business loss brought forward should be adjusted first and thereafter unabsorbed depreciation should be adjusted against business income.
- Balance brought forward business loss of assessment year 2011-12 of ₹ 40,000 (₹ 50,000-₹ 10,000) has to be carried forward to the next year.
- Unabsorbed depreciation can be set off against income from any head (except salary income). Therefore, unabsorbed depreciation of ₹ 20,000 can be set off to the extent of income from other source i.e. ₹ 6,000. Unabsorbed depreciation of ₹ 14,000 (₹ 20,000-₹ 6,000) not set off during the year shall be carried forward to the next year.

Note: There is an alternate view, that the provisions of section 71(2A) that the business loss cannot be set-off against salary income does not apply to unabsorbed depreciation. In case this view is taken then, the unabsorbed depreciation of ₹ 14,000 will be set-off from the salary income and the total income in that case would be ₹ 66,000.

- Brought forward loss from house property can only be set off from income from house property. Therefore brought forward loss from house property of ₹ 45,000 has to be carried forward to next year.

(c) Computation of VAT and invoice value:-

Particulars	₹
Imported material cost	50,000
[Since, this is not a VAT levied inside the State, it will form part of cost of input]	6,250
Add: Cost of local materials	1,50,000
Less: VAT @12.5%	<u>18,750</u>
[Since, credit of ₹ 18,750 would be available, it will not be included in cost of input]	1,31,250
Add: Other expenses and profit	<u>96,500</u>
Sales Price of goods	2,84,000
Add: VAT on the above @12.5%	<u>35,500</u>
Invoice value charged by Mr. Shanky to the manufacturer	3,19,500

VAT charged by Mr. Shanky is ₹ 35,500.

5. (a) Computation of total income and tax liability of Mr. Yogesh for the A.Y.2012-13

Particulars	₹	₹
Capital Gains:		
Sale price of the residential house	31,00,000	
Valuation as per Stamp Valuation authority	35,00,000	
(Value to be taken is the higher of actual sale price or valuation adopted for stamp duty purpose as per section 50C)		
Therefore, Consideration for the purpose of Capital Gains	35,00,000	
Less: Indexed Cost of Acquisition = 5,00,000 x 785/244	<u>16,08,607</u>	
	18,91,393	
Less: Exemption under section 54 ₹ 12,00,000		
Exemption under section 54EC ₹ 5,00,000	<u>17,00,000</u>	
Long-term Capital Gain		1,91,393
Income from other sources:		
Interest on bank deposits		<u>32,000</u>
Gross Total Income		2,23,393

Less: Deduction under Chapter VI-A		
Section 80C – Investment in PPF (restricted to ₹ 32,000) (See Note 1)		<u>32,000</u>
Total Income		<u>1,91,393</u>
Total Income (Rounded off)		<u>1,91,390</u>
Tax liability		
Tax@20% on ₹ 11,390, being (₹ 1,91,390–₹ 1,80,000) (See Note 2)		2,278
Add: Education Cess @ 2%		46
Secondary and Higher Education Cess @ 1%		<u>23</u>
Total tax liability		<u>2,347</u>

Note:

- (1) Deduction under section 80C should be restricted to gross total income excluding long term capital gain.
 - (2) The basic exemption limit can be adjusted against long term capital gains, since the entire income comprises of only long term capital gains. The balance long term capital gains of ₹ 11,390 is taxable @ 20% plus education cess @ 2% and secondary and higher education cess @ 1%.
- (b) Mr. Sumit, an employee of a Construction company, has received a car as a gift from a supplier of the company. Since there is no employer-employee relationship in this case between the supplier and Mr. Sumit, the value of gift is **not** a perquisite chargeable to tax under the head “Salaries”.

Section 56(2)(vii), brings within its scope the value of any property received by an individual or hindu undivided family without consideration. For this purpose, “property” means immovable property being land or building or both, shares and securities, jewellery, archaeological collections, drawings, paintings, sculptures or any work of art.

Therefore, for the purpose of attracting the provisions of section 56(2)(vii) for chargeability under the head “Income from Other Sources”, an individual should be in receipt of property as defined therein. Since, car is not included in the definition of “property”, the provisions of section 56(2)(vii) would not be attracted in the hands of Mr. Sumit.

Therefore, the Maruti car received by Mr. Sumit as a gift is not taxable.

- (c) The advice given by Honey Limited to sub-contractor Moon Ltd. is not tenable in law.

A sub-contractor is also a taxable service provider. The services provided by sub-contractor which are used by main contractor does not in any way alter the fact of provision of taxable service by the sub-contractor.

Service tax paid by the contractor to sub-contractor will be eligible for input credit to the main contractor.

A given taxable service which is intended for use as an input service by another service provider would not alter the taxability of the service provided.

6. (a) **Computation of total income of Mr. Amit for the A.Y. 2012-13.**

Particulars	₹
Income from retail trade – as per books (See Note 1 below)	75,000
Income from plying of vehicles – as per books (See Note 2 below)	<u>2,10,400</u>
	2,85,400
Less: Set off of brought forward depreciation relating to A.Y. 2011-12	<u>1,00,000</u>
Gross total income	1,85,400
Less: Deduction u/s.80C – Contribution to PPF and bank fixed deposit	<u>1,00,000</u>
Taxable income	<u>85,400</u>
Tax liability	Nil

Note :

- (1) **Income from retail trade:** Presumptive business income under section 44AD is ₹ 1,73,600 i.e. 8% of turnover of ₹ 21,70,000. However, the income computed as per books is ₹ 75,000 which is to be further reduced by the amount of unabsorbed depreciation. Since the income computed as per books is lower than the income deemed under section 44AD, the assessee can adopt the income as per books.

The requirement to maintain books of accounts under section 44AA and to get them audited under section 44AB in case the assessee claims the profit and gains of business to be lower than the presumptive income determined under section 44AD, would arise only if the total income exceeds the basic exemption limit. In this case, since the total income does not exceeds the basic exemption limit, this mandatory requirement does not arise.

The total unabsorbed depreciation is ₹ 1,00,000. Out of this, ₹ 75,000 can be set-off against income from retail trade. The balance of ₹ 25,000 remains to be set-off from income from plying of vehicles.

- (2) **Income from plying of vehicles** : Income calculated under section 44AE(1) would be ₹ 5,000 x 12 x 5 which is equal to ₹ 3,00,000. However, the income from plying of vehicles is ₹ 2,10,400 less ₹ 25,000, being the balance unabsorbed depreciation remaining to be set-off under section 32(2). Therefore, the taxable income from plying of vehicles is ₹ 1,85,400, which is lower than the presumptive income of ₹ 3,00,000 calculated as per section 44AE(1). Hence, the assessee can consider the taxable income i.e. ₹ 1,85,400, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.

It is to be further noted that in both the above cases, had presumptive income provisions been opted, all deductions under sections 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable.

If the assessee opted for income to be assessed on presumptive basis, his total income would be as under:

Particulars	₹
Income from retail trade u/s 44AD [₹ 21,70,000 @ 8%]	1,73,600
Income from plying of vehicles u/s 44AE [₹ 5,000 x 12 x 5]	<u>3,00,000</u>
	4,73,600
Less: Set off of brought forward depreciation – not possible and it is deemed that it has been allowed and set off.	<u>Nil</u>
Gross total income	4,73,600
Less: Deduction u/s.80C - Contribution to PPF and bank fixed deposit	<u>1,00,000</u>
Taxable income	<u>3,73,600</u>
Tax thereon	19,360
Add: Education cess @ 2% and Secondary and higher education cess @ 1%	<u>581</u>
Total tax liability	<u>19,941</u>

Note: If the assessee has not maintained books of account as required under section 44AA for the business of plying of vehicles, then, he has to offer income only on presumptive basis given above.

- (b) Since Mrs. Shah is not professionally qualified for the job, the clubbing provisions shall be applicable.

Computation of Gross total income of Mr. Shah

	₹
Income from Salary	
Salary received by Mr. Shah [₹ 20,000 × 12]	2,40,000

Salary received by Mrs.Shah	[₹ 12,000 × 12]	<u>1,44,000</u>
		3,84,000
Income from other sources		
Interest on securities		<u>30,000</u>
		<u>4,14,000</u>

Computation of Gross total income of Mrs.Shah

	₹	₹
Income from Salary [clubbed in the hands of Mr. Shah]		Nil
Income from house property		
Gross Annual Value [₹ 6,000 × 12] (rent received has been assumed to be Gross Annual Value in the absence of other information)	72,000	
Less: Municipal taxes paid	<u>Nil</u>	
Net Annual Value (NAV)	72,000	
Less: Deductions u/s 24		
- 30% of NAV i.e. 30% of ₹ 72,000	21,600	
- Interest on loan	<u>Nil</u>	<u>50,400</u>
Gross total income		<u>50,400</u>

(c) Payment of tax in cases of new services [Rule 5 of Point of Taxation Rules 2011] - Where a service, not being a service covered by rule 6, is taxed for the first time, then, –

- (a) no tax shall be payable to the extent the invoice has been issued and the payment received against such invoice before such service became taxable;
- (b) no tax shall be payable if the payment has been received before the service becomes taxable and invoice has been issued within the period referred to in rule 4A of the Service Tax Rules, 1994.

The facts given in the question does not fall under any of the above two clauses. Hence service tax is payable on the same.

7. (a) (i) Since the total income of ₹ 3,20,000 exceeds the basic exemption limit of ₹ 1,80,000, the mandatory requirement of filing return under section 139(4C) will apply.

The accounts of the charitable trust running an educational institution with an aggregate annual receipt of less than ₹ 100 lacs is eligible for exemption under

section 10(23C)(iiiad) and therefore, the accounts of such trust need not be audited under section 44AB.

Therefore, the due date of filing of return of income of the public charitable trust running an educational institution eligible for exemption under section 10(23C)(iiiad) is 31st July 2012.

- (ii) A registered trade union is having income from property, which is exempt under section 10(24).

Section 139(4C) mandates filing of return only when the total income exceeds the maximum amount which is not chargeable to tax without giving effect to the provisions of section 10. Even without giving effect to section 10(24), the total income is below basic exemption limit and therefore, there is no mandatory requirement to file the return of income.

- (iii) Since the total income of the public trust hospital, without giving effect to the exemption under section 10(23C)(via), is less than the basic exemption limit of ₹ 1,80,000, the trust need not file its return of income.

- (iv) The fourth proviso to section 139(1) requires every person, whose total income without giving effect to the provisions of, *inter alia*, Chapter VIA exceeds the maximum amount not chargeable to tax, to compulsorily furnish the return of income for the relevant assessment year on or before the due date. The gross total income of Mr. Vimal before deduction under section 80C exceeds the basic exemption limit of ₹ 1,80,000 and therefore, Mr. Vimal has to furnish his return of income for the assessment year 2012-13. The due date for filling return of income is 31st July, 2012.

- (b) (1) As per *Circular No. 4/2008 dated 28th April, 2008* issued by the CBDT, the service tax paid by the tenant does not partake the nature of income of the landlord. The landlord only acts as a collecting agency for collection of service tax. Therefore, tax deducted at source under section 194-I would be required to be made on the amount of rent paid or payable excluding the amount of service tax, i.e. tax has to be deducted under section 194-I on ₹ 12 lakh.

- (2) Tax is deductible @ 10% under section 194-I.

- (3) Hence, in the given case, TDS under section 194-I would amount to ₹ 10,000, to be deducted every month.

- (4) Tax deducted should be deposited within prescribed time i.e. on or before seven days from the end of the month in which the deduction is made and upto 30th April for the month of March.

- (c) It is said that VAT is a logical beauty. Under VAT, credit of duty paid is allowed against the liability on the final product manufactured or sold. Therefore, unless proper records are kept in respect of various inputs, it is not possible to claim credit. Hence, suppression of purchases or production will be difficult because it will lead

to loss of revenue. A perfect system of VAT will be a perfect chain where tax evasion is difficult.

Further, the greatest advantage of the system is that it does not interfere in the choice of decision for purchases. This is because the system has anti-cascading effect. How much value is added and at what stage it is added in the system of production/distribution is of no consequence. The system is neutral with regard to choice of production technique, as well as business organisation. All other things remaining the same, the issue of tax liability does not vary the decision about the source of purchase. VAT facilitates precise identification and rebate of the tax on - purchases and thus ensures that there is no cascading effect of tax. In short, the allocation of resources is left to be decided by the free play of market forces and competition. Hence, it can be concluded that VAT helps in checking tax evasion and in achieving neutrality.