

Computation of total income and tax payable of Ms. Purvi for the assessment year 2012-2013.
Ans 1 (a)

(1) Income from Business or profession (W.N.1)		9,20,200
(2) Income from house property		
Gross Annual Value (GAV)	85,600	
Less : Municipal Tax	(3,000)	
Net Annual Value (NAV)	<u>82,600</u>	
Less : Deduction u/s 24		
(a) Standard Deduction @ 30 % of NAV	(24,780)	
		57,820
(3) Income from other sources		
(a) dividend Income	Exempt u/s 10(34)	
(b) Income from Unit trust of India (UIT)	Exempt u/s 10 (35)	
(c) Honorarium for valuation of answer paper	15,800	
		15,800
Gross Total Income		9,93,820
Less: Deduction under chapter VI - A		
(1) 80 C National Saving Certificate (NSC)	10,000	
(2) 80 D (Medicliam policy)	Nil	
		(10,000)
Total Income		9,83,820
Tax on Total Income		146146
Add: Education cess @ 3%		4384
Total Tax Liability		150530

Working Notes:

(1) Net profit As per income and expenditure account.	9,28,224
Add: Disallowed Purchase of car expenditure (being a capital expenditure)	80,000
Add: Municipal tax paid in respect of house (Seperately allowed)	3,000
Add: Value of Benefits (Perks value)	10,500
Add: Salary paid to computer specialist in cash disallowed u/s 40 A(3)	30,000
Less: Dividend on share of Indian company gross [exempt u/s 10 (34)]	(10,524)
(seperately considered)	
Less: Income from unit trust of India Exempt u/s 10(35)	(7,600)
(seperately considered)	
Less: Rent received from residential flat (Let out property)	(85,600)
(seperately considered)	
Less: Allowed Depreciation u/s 32 (1) (ii) (80000 @ 15%)	(12,000)
Less: Honorarium for valuation of answer paper (taxable separately)	(15,800)
Profit and gains from business or profession	9,20,200

1.(b)

**Value of taxable service and amount of service tax payable
for infotech softwar systems
For financial Year 2011-2012**

1. Receipt for analysis of information technology software - Taxable	₹ 1,80,000	
2. Receipts for Providing advice , consultancy and assistance and matter related to specifications to secure a database - Taxable	4,10,000	
3. Receipts for providing the right to use the canned soft ware and which amount of expire duty has been paid and the benefit of notification No. 31/2010 cus has not been availed- exempted	—	
4. Receipts for the upgradation of the following technology software - Taxable	2,65,000	
Value of taxable service	<u>8,55,000</u>	
Service tax @ 10.% of ₹ 8,55,000		85,500
Add : Education cess @. 2% ₹ 85,500		1,710
Add : SHEC @ 1 % of ₹ 85,500		855
Total Service Tax Payable		<u>88,065</u>

1(c). (A) Computation of Total purchases eligible for input tax credit

Total purchase in month of Feb 2012	₹ 60,00,000
Less : Inter state purchase	(15,00,000)
Less : Purchase from unregistered Dealer	(18,50,000)
Less: Capital goods not eligible for input credit	(6,50,000)
Total purchase eligible for input credit	<u>20,00,000</u>

Purchase of capital goods eligible for input tax credit	Rs. 9,00,000
Purchase eligible (other than Capital goods) For ITC	Rs. 11,00,000

(B) Computation of input tax credit available : -

Input Tax Credit on Capital goods	₹
$900000 \times \frac{4}{100} \times \frac{1}{36} =$	1000
Input Tax Credit on Purchases other than Capital goods	
$11,00,000 \times 4 \% =$	44,000
Total input tax credit available	<u>45,000</u>

(C) Computation of Net VAT payable : -

VAT Payable on sales		
$10,00,000 \times 12.5 =$		1,25,000
Less: Input tax credit available		45,000
Net VAT payable		<u>80,000</u>

Ans. 2 (a) (i) Yes, he is required to file ROI as per section 139(1).

Computation of income which is clubbed with Mr. Sharma.

(ii)	(i) Income of 2 Daughter (9,000 + Nil)	9,000		
	Less: Exemption u/s 10 (32)	1,500		
			(A)	7,500
	(ii) Income of 2 son (6,200 + 4,300)	10,500		
	Less: Exemption u/s 10 (32)			
	(1,500 + 1,500)	3,000		
			(B)	7,500
	Total Income to be clubbed as per section 64 (1 A)		(A + B)	15,000

Note: The income of daughter suffering from disability specified u/s 80U is not to be clubbed with the Income of Mr. Sharma.

- (iii) As per Explanation to section 23(1), the amount of rent which the owner cannot realize shall not be taxed / included while determining the annual value of the property. **Rule 4** prescribes the conditions, which are to be satisfied for excluding the unrealised rent from income which are given below :
- the tenancy must be bonafide
 - the defaulting tenant has vacated or steps have been taken to compel him to vacate the property.
 - the defaulting tenant is not in the occupation any other property of the assessee and
 - the assessee has taken all reasonable steps to institute legal proceedings for the recovery of unpaid rent or satisfies the Assessing Officer that the legal proceedings would be useless.

As per section 25AA, the unrealised rent when realised is chargeable to tax as income under the head 'house property', whether or not the assessee is the owner of the property at the time of receipt of unrealised rent. No deduction is allowable against the sum received towards unrealised rent.

2(b). Computation of taxable value of service and total service tax payable of a partnership firm for the half year ended on 30-09-2011.

(a) Taxable value of service	₹
Total bill Raised	8,75,000
Less: Service provided to Internation Organization (not taxable)	75,000
Balance	8,00,000
Add: Advance Received for Services to be Provided In Oct. 11 (asssuming service tax not included)	50,000
Taxable value of Service	8,50,000
(b) Computation of Amount of service tax payable	
Service tax @ 10 % of 8,50,000	85,000
Add : Education cess @ 2 % of 85,000	1,700
Add: secondary and higher education cess @ 1% of 85,000	850
Total service tax payable	87550

2(c) Consumption Variant:

- Taxation : VAT is levied on all sales i.e. there is multipoint tax system
- Scope of credit : 100% VAT credit/set-off/ deduction is allowed of VAT paid on all raw material and compounds as well as capital goods.
- merits: **The merits of consumption variant are as follows-**
 - Cascading effect is eliminated
 - It reduces the working capital requirement, due the least payment of VAT on sales.
 - It helps in modernization and upgradation of plant and machinery.
 - It reduces litigation, as there is no need for any differentiation between capital goods and non-capital goods , both of which are treated alike. Further, there is no need to specify life of capital goods and rate of depreciation allowance, as is required in case of Income Variant.
 - Since the VAT paid on capital goods is set-off against VAT liability on sales, this system is tax neutral in respect of techniques of production (viz. labour - intensive or capital-intensive). Therefore, there will be no effect on tax liability due to the method of production (i.e. substituting capital goods for labour or vice versa).

- (vi) Since VAT credit is available irrespective of whether purchased goods have been consumed or are available in stock, this system is neutral between the decision to save or to consume.
- (vii) Tax administration is simpler, easier and more expeditious due to lesser controversies.

Ans. 3. (a) Computation of capital gain of Mr. Anshu for the assessment year 2012-13

1. Net sale consideration received	14,00,000	
2. Stamp Duty valuation	16,00,000	
3. Valuation by valuation officer	17,00,000	
Sale consideration as per section 50 B (Stamp Duty Valuation)		16,00,000
Period of holding 1/04/1981 to 1/10/12 → Long Term		
Less: Indexed cost of acquisition of land		
	$1,10,000 \times \frac{785}{100} =$	8,63,500
Indexed cost of acquisition Building		
	$3,20,000 \times \frac{785}{447} =$	5,61,969
		14,25,469
Long term capital gain		1,74,531
Less: BIF short term capital loss (Adjusted with section 74)		1,50,000
Balance taxable Long Term Capital Gain (LTCG)		24,531
Amount to be invested in NHAI = 24,531		

3(b)	(a)	False	(b)	False	(c)	True	(d)	False
	(e)	False	(f)	True	(g)	False	(h)	False
3(c)	(a)	False	(b)	False	(c)	False	(d)	True
	(e)	False	(f)	False	(g)	False	(h)	True

Ans. 4(a) Computation of total income of Mr. Y for the assessment year 2012-13

(1) Net Profit	11,20,000
Add: Adjustment of Closing stock	12,000
Add: Contribution to a university approved u/s 35 (1) (ii)	1,00,000
Add: Excessive or unreasonable Expenditure u/s 40 A (2)	2,500
Add: Disallowed personal Expenditure u/s 37 (1) (78,000 × 1/4)	19,500
Add: Disallowed Depreciation	55,000
Add: Drawings (Personal Expenditure)	10,000
Add: Investment In National Saving Certificate (allowed as deduction u/s 80C)	15,000
Less: Income credited to Profit and Loss A/c but not taxable under this Head	
(i) Dividend from Unit Trust of India (UTI)	22,000
(ii) Interest on debentures	17,500
(iii) Winning from races	15,000
	54,500
Less: Adjustment of Opening stock	8,000
Less: Contribution to a university approved u/s 35 (1) (ii) @ 175% of contribution.	1,75,000
Less: Depreciation allowed as per section 32(1)	50,000
Profits and Gains of business or Profession	10,46,500

(2)

(a) Dividend from Unit Trust Of India (UTI) Exempt u/s 10 (35)	Nil
(b) Interest on Debenture	17,500
(c) Winning from Races	15,000
Income from other sources	<u>32,500</u>
Gross Total Income (1 + 2)	10,79,000
Less: Deduction under chapter VI-A National Saving Certificate (Sec. 80C)	(15,000)
Total Income	<u>10,64,000</u>

**4(b). Computation of taxable turn over and amount of service tax payable
of Punjabi Banquets
for month of January, 2012**

1	Charge for shooting of marriage sequence of daily soap opera not an optical, social or business function . Hence not covered under this service. -(not taxable under this service)	₹	Nil
2	Amount collected for letting out the hall for All India dance competition - (There are social function hence covered under this service)		5,00,000
3	Renting of hotel room for stay of guest attending the marriage Does not amount to providing temporary occupation of mandap. Hence not covered under this service *[Alternate view : Renting of rooms by the hotel for marriage function as a package deal along with marriage hall and other mandap Keeper services for marriage is covered by the Mandap Keeper Service ' and liable to service tax.]		Nil
4.	Charges for Banquet hall - Let out for marriage function includes catering charges	6,00,000	
	Less: Abatement @ 40%	<u>2,40,000</u>	3,60,000
	Total Taxable value of service		<u>8,60,000</u>
	Service tax @ 10 % on 860,000		86,000
	Add: Education cess @ 2% of 86,000		1,720
	Add: Secondary and higher education cess @ 1% of 86,000		860
	Total Service Tax Payable		<u>88,580</u>

*** If we take alternative view than total service tax payable will be increase by Rs 2472 as under:-**
Rs 40,000 - 40% of 40,000 = RS 24,000 x 10.3 % = Rs 2472
total service tax payable = Rs 88,580 + RS 2472 = 91,052

4.(c) Computation of total taxable turn over and net VAT liability
of Mr. X.
For the month of Dec. 2011
(By invoice method)

(a) Computation of total taxable turnover	₹
Cost of purchase = Rs. 52,00,000 × $\frac{100}{104}$	50,00,000
Add: Transportation, Insurance, warehousing and handling charges	20,000
Total cost	50,20,000
Add: Profit margin @. 14% on cost 50,20,000	7,02,800
Total Taxable turnover	57,22,800
(b) Computation of Net VAT payable	
VAT on total taxable turnover @ 12.5 % on 57,22,800	7,15,350
Less: VAT on purchase 52,00,000 × 4/104	2,00,000
NET VAT Liability under Invoice method	
(Net VAT payable = VAT on sales - VAT on Purchase)	5,15,350

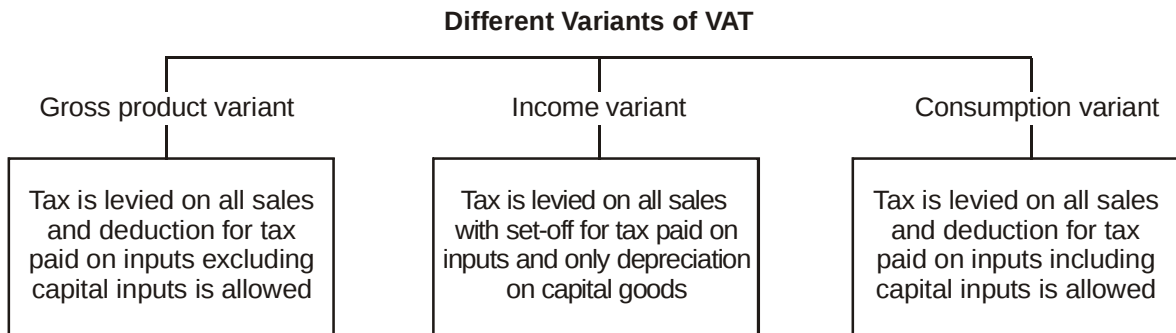
Ans. 5(a)

	Mr.A	Mrs. A	Minor
(1) Interest on fixed deposit (Clubbed with sec. 60)	45,000	—	—
(2) Comission income [Sec. 64(1) (ii)]	25,000	—	—
(3) Income from house property [concept of deemed ownership Sec. 27]	52,000	—	—
(4) Share of business income 20,000 [(Clubbed with Sec. 64(1A)]	—	—	—
Less: Exemption u/s 10(32) 1,500	18,500		
(5) Business income (with minor personal skill & talent)	—	—	20,000
Other Income	1,20,000 (10,000 × 12)	2,40,000 (20,000 × 12)	
Gross Total Income	2,60,500	2,40,000	20,000

- 5.(b)** The following documents to be attached by a service provider along with an application for registration under service tax
1. Permanent Account Number (PAN)
 2. Affidavit declaring the commencement of the services (Format)
 3. Copy of passport or ration card or any other document as residential proof
 4. Passport size photograph of the assessee in case of individual and of partners in the case of partnership firm and of directors in the case of a company.
 5. Partnership deed in case of firm.
 6. Memorandum and Articles of Association in case of company.

5(c) (i) **Variants of VAT**

VAT has three variants viz, (a) gross product variant (b) income variant and (c) consumption variant. These variants are presented in a schematic diagram given below:



The gross product variant of VAT allows deduction for taxes on all purchases of raw materials and components, but no deduction is allowed for taxes on capital inputs.

The Income variant of VAT on the other hand allows for deduction on purchases of raw materials and components as well as depreciation on capital goods.

Consumption variant of VAT allows for deduction on all business purchases including capital assets.

(ii) The value Added TAX (VAT) is a multistage tax levied as proportion of the value added (i.e. sale minus purchases) which is equivalent to wages plus interest, other costs and profits. In an economy, part from the manufactures 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 consumers. VAT will be collected at each state, 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 bases tax covering the value added to each commodity by parties during the various stages of production and distribution.

Ans. 6 (a) Income of M/s MNP Ltd. for the assessment year 2012-13

(1) New four star hotel business.

Income before 35 AD	80,00,000
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Less: Deduction u/s 35 AD

(1) Capital Expenditure (Incurred in P.Y. 2010-11)	40,00,000	
(2) Capital Expenditure (other than land)	1,50,00,000	(1,90,00,000)
Losses from Business or Profession		(1,10,00,000)

Losses carried forward to next year as per section 73 A Rs. 1,10,00,000

Losses u/s 35 AD cannot be adjusted with income from other than specified business

(2) Old four star hotel business.

Business profit	1,30,00,000
Gross Total Income	1,30,00,000

(6b)

**Calculation of the value of taxable service and service tax
of Mr. Avinash (Chartered Accountant)
for the F.Y. 2011-2012 :**

In this case the sums given in the question are receipts of the assessee and the receipts are inclusive of service tax, the service tax is to be computed by making backward calculation as given below.

Particulars	Receipts (Inclusive of tax ₹)	Taxable Value (₹)	Service Tax (₹)
1. Certification of document under export import policy of Govt. of India	1,50,000	1,35,993	14,007
2. Preparation of financial statement of ABC Ltd.	4,00,000	3,62,647	37,353
3. Representation of client before CESTAT	4,00,000	36,265	3,735
4. Service Rendered in tax planning	50,000	45,331	4,669
5. Receipts for the legal advice given to client in the month of Dec. 2011 ⇒ as per POT CA service is liable to receipts basis	50,000	45,331	4,669
	6,90,000	6,25,567	64,433

6(c).

Purchase of Raw material (including import duty)	₹ 1,10,000
Purchase of Raw material (excluding excise and excluding VAT)	2,00,000
Purchase of Raw material from Kanataka (inter state purchase)	85,000
Total cost of Raw Material	3,95,000
Add : Cost of transportation Manufacturing exp.	47,000
Total cost of production	4,42,000
Add: Profit @10% on cost of production	44,200
Sale price	4,86,200
VAT Payable on Sale @ 4 % on 4,86,200	19,448
Less : VAT Paid on Purchase 224000 × 4 %	8,960
	10,488

Ans. 7 (a) Computation of Salary Income of Mr. Mohit for the assessment year 2012-13

1. Basic Salary (10,000 × 10 + 11000 × 2)	1,22,000
2. Dearness allowance (100% of Basic salary) (50% of it is meant for Retirement Benefits.)	1,22,000
3. House Rent Allowance 6,000 × 9 = 54,000 7,000 × 3 = 21,000	75,000
Less: Exemption u/s 10(13A) (W.N. 1)	53,700
Gross Taxable Salary	2,65,300

Working Note:

(1) For HRA Exemption u/s 10(13A).

- 7(b) FILING OF RETURNS UNDER SERVICE TAX LAW [SECTION 70 AND RULES 7, 7B AND 7C]:**
 the provisions relating to filing of returns as given under section 70 of the Finance Act, 1994 and Rules 7, 7B and 7C of the service Tax Rules, 1994 are as follows -
- (1) Persons liable to file returns: Every person liable to pay service tax and also an input service distributor is liable to file service tax returns.
 - (2) Filing of half - yearly returns: The returns are to be filed as follows:

Assessee	Authority to Whom filed	Duration of Return	Form	No. Of Copies	Time of filling return**
All Assesseees	Superintendent	Half yearly	ST-3 or ST- 3A	Triplicate	by 25 th of the month following the end of the said half -year
Input service distributor	Superintendent	Half yearly	ST-3	Single	by the last day of the month following the half-year period.

Mandatory e-filing w.e.f . 1-10-2011: Every assessee shall submit such return electronically.

[Law Upto 30-09-2011 - Mandatory e-filing of if gross service tax liability is ₹ 10 lakhs or more: Where an assessee has paid a total service tax of ₹ 10 lakh or more including the amount paid by utilisation of Cenvat credit, in the preceding financial year, he shall file the return electronically.]

Revision of Return[Rule 7B] : An assessee may submit a revised return in form ST-3, in triplicate, to correct a mistake or omission, within 90 days from date of submission of original return. Where an assessee submits a revised return, the relevant date' for the purpose of recovery of service tax u/s 73 of the act shall be the data of submission of such revised return.

7(C) System of cross checking under VAT

In the VAT system more emphasis has been laid on self-assessment. Hence, a system of cross-checking is essential. Dealers may be asked to submit the list of sales or purchases above a certain monetary value or to give the dealer-wise list from whom or to whom the goods have been purchased/sold for values exceeding a prescribed monetary ceiling.

A cross-checking computerized system is being worked out on the basis of coordination between the tax authorities of the State Governments and the authorities of Central Excise and Income-tax to compare constantly the tax returns and set-off documents of VAT system of the States and those of Central Excise and Income-tax. This comprehensive cross-checking system will help reduce tax evasion and also lead to significant growth of tax revenue. At the same time, by protecting the interests of tax-complying dealers against the unfair practices of tax-evaders, the system will also bring in more equal competition in the sphere of trade and industry.