IPCC MAY – 2012, TAXATION
(PAPER-4, SOLUTION)

Question No. 1 (a) **(10 Marks)**

Mrs. Purvi is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her income and Expenditure account for the year ended March 31, 2012 reads as follows:

Expenditure	₹	Income	₹	₹
Salary to Staff	5,50,000	Fees earned:		
Stipend to articled Assistants	37,000	Audit	7,88,000	
Incentive to Articled Assistants	3,000	Taxation Services	5,40,300	
Office rent	24,000	Consultancy	2,70,000	15,98,300
Printing and Stationery	22,000	Dividend on shares of Indian Companies(Gross)		10,524
Meeting, Seminar and Conference	31,600	Income from unit Trust of India		7,600
Purchase of car	80,000	Honorarium received from Various Institutions for valuation of answer papers		15,800
Repair, Maintenance And petrol of car	4,000	Rent Received from Residential flat let out		85,600
Travelling expenses	35,000			
Municipal Tax paid in respect of house Property	3,000			
Net profit	9,28,224			
	17,17,824			**17,17,824**

Other information:

(i) Allowable rate of depreciation on motor car is 15%

(ii) Value of benefits received from clients during the course of profession is ₹10,500.

(iii) Incentives to articled assistants represent amount paid to two articled assistants for the passing IPCC Examination at first attempt.

(iv) Repairs and maintenances of car include ₹ 2,000 for the period from 01.10.2011 to 30.09.2012.

(v) Salary include ₹30,000 to a computer specialist in cash for assisting Mrs. Purvi in one professional assignment.

(vi) The total traveling expenses incurred on foreign tour was ₹32,000 which was within the RBI norms.

(vii) Medical Insurance premium on the health of dependent brother and major son dependent on her amounts to ₹5,000 and ₹10,000 respectively paid in cash.

(viii) She invested an amount of ₹10,000 in National Saving Certificate.

Compute the total income and tax payable of Mrs. Purvi for the assessment year 2012-2013.

Solution:

Computation of Total Income of Mrs. Purvi

Income under the head business/profession	**₹**
Net profit as per profit and loss account	9,28,224.00
Add: Value of benefit received	10,500.00
• Purchase of car	80,000.00
• Municipal tax	3,000.00
• Payment made in cash in excess of ₹20,000 {Sec 40A(3)}	30,000.00
Less:	
• Dividend on shares	(10,524.00)
• Income from Unit Trust of India	(7,600.00)
• Honorarium received	(15,800.00)
• Rent received	(85,600.00)
• Depreciation on Car (80,000 x 15%)	(12,000.00)
Income under the head business/profession	9,20,200.00
Income under the head House Property	
Gross annual value	85,600.00
Less: Municipal Taxes	3,000.00
Net annual value	82,600.00
Less: 30% of NAV u/s 24(a)	24,780.00
Less: Interest on capital borrowed u/s 24(b)	Nil
Income from house property	57,820.00
Income under the head Other Sources	
Dividend from Indian company {exempt u/s 10(34)}	Nil
Income from UTI {exempt u/s 10(35)}	Nil
Honorarium received	15,800.00
Gross Total Income	9,93,820.00
Less: Deduction u/s 80C NSC	10,000.00
Total Income	9,83,820.00
Computation of Tax Payable	
Tax on ₹9,83,820 at slab rate	1,46,146.00
Tax before education cess	1,46,146.00
Add: Education cess @ 2%	2,922.92
Add: SHEC @ 1%	1,461.46
Tax Liability	1,50,530.38
Tax Payable	1,50,530.38
Rounded off u/s 288B	1,50,530.00

Question 1(b) **(5 Marks)**

Infotech software systems is an information technology software company. The receipts during financial year 2011-12 are as under:

	Particulars	₹
(i)	Receipts for the analysis of information technology software.	1,80,000
(ii)	Receipts for the providing advice, consultancy and assistance on matter related to specification to secure a database.	4,10,000
(iii)	Receipts for providing the right to use the canned software on which the amount of excise duty has been paid and the benefit under Notification (No.31/2010 cus Dated 27-02-2010 has not been availed).	5,10,000
(iv)	Receipts for the upgradation of the information technology software.	2,65,000
(v)	Infotech software systems in the financial year 2010-11 has provided the taxable services valuing of ₹15,00,000.	

Determine the value of taxable service and the amount of service tax, education cess and secondary and higher education cess payable by Infotech software systems for the financial year 2011-2012. The amount of service tax has been charged separately.

Solution:

Computation of Value of Taxable Services

		₹
(i)	Receipts for the analysis of information technology software.	1,80,000
(ii)	Receipts for the providing advice, consultancy and assistance on matter related to specification to secure a database.	4,10,000
(iii)	Receipts for providing the right to use the canned software on which the amount of excise duty has been paid and the benefit under Notification (No.31/2010 cus Dated 27-02-2010 has not been availed) is exempt under service tax.	Nil
(iv)	Receipts for the upgradation of the information technology software.	2,65,000
Total Value of Taxable Services		**8,55,000**

Service Tax @ 10 %	85,500
Education Cess @ 2%	1,710
Secondary and Higher Education Cess @ 1%	855
Service Tax Payable	88,065

Question 1(c) **(5 Marks)**

R. Ltd of Mumbai made a total purchases of input and capital goods of ₹60,00,000 during the month of February ,2012. The following further information is available.

(i) Goods worth ₹15,00,000 were purchased from Assam on which C.S.T 2% was paid.

(ii) The purchases made in February, 2012 include goods purchased from unregistered dealers amounting to ₹18,50,000.

(iii) It purchased capital goods (not eligible for input credit) worth ₹6,50,000 and those eligible for input credit for ₹9,00,000.

(iv) Sales made in Mumbai during the month of February, 2012 is ₹10,00,000 on which VAT at 12.5% is payable.

Assuming that all purchases given are exclusive of tax and VAT 4% is paid on them calculate:

(a) the amount of purchases eligible for input credit.

(b) the amount of input credit available for the month of February, 2012.

(c) the VAT payable for the month of February, 2012.

The input VAT credit on eligible capital goods is available in 36 equal monthly instalments.

<u>Solution:</u>

		₹
(a) Computation of Amount of Eligible Purchases for Input Tax Credit		
Total Purchases		60,00,000
Less: Ineligible Purchases		
Purchase From Assam	15,00,000	
Purchase From Unregistered Dealer	18,50,000	
Capital goods not eligible	6,50,000	40,00,000
Eligible Purchases for Input Tax Credit		20,00,000

(b) Computation of Input Tax Credit for the month of February 2012	
Capital Goods (9,00,000 x 4%/36)	1,000
Inputs (11,00,000 x 4%)	44,000
Input Tax Credit	45,000

(c) Computation of VAT Payable for the month of February 2012

Output Tax (10,00,000 x 12.5%)	1,25,000
Less: Input Tax Credit	45,000
VAT Payable	80,000

Question 2(a) **(2 x 4 = 8 Marks)**

Answer any two sub-parts out of three sub-parts of the question.

(i) Paras is resident of India. During the F.Y. 2011-12 interest of ₹1,88,000 was credited to his Non-resident (External) Account with SBI. ₹30,000 being interest on fixed deposit with SBI was credited to his saving bank account during this period. He also earned ₹3,000 as interest on this saving account. Is Paras required to file return of income?

What will be your answer, if he owns one shop in Kerala having area of 150 sq. ft. ?

<u>Solution:</u>

Computation of Total Income

<u>Income under the head Other Sources</u> ₹

Interest credited to Non-Resident (External) Account with SBI	Exempt u/s 10(4)
Interest on Fixed Deposit	30,000
Interest on Saving account	3,000
Income under the head Other Sources	33,000
Gross Total Income	33,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	33,000

Paras is not required to file return of income as his gross total income do not exceeds the exemption limit i.e. ₹1,80,000 during the financial year 2011-12.

Answer will remain same even if Paras owns one shop at Kerala.

Question. 2. (a) (ii) Mr. Sharma has four children consisting 2 daughters and 2 sons. The annual incomes of 2 daughters were ₹9,000 and ₹4,500 and of sons were ₹6,200 and ₹4,300 respectively. The daughter who has income of ₹4,500 was suffering from a disability specified under section 80U. Compute the amount of income earned by minor children to be clubbed in hands of Mr. Sharma.

Solution:

Computation of Amount of Income of minor children to be clubbed in the income of Mr. Sharma

(i) Income of First Daughter	9,000
Less: Exemption u/s 10(32)	1,500
	7,500
(ii) Income of Second Daughter who is suffering from disability shall not be clubbed	
(iii) Income of First Son	6,200
Less: Exemption u/s 10(32)	1,500
	4,700
(iv) Income of Second Son	4,300
Less: Exemption u/s 10(32)	1,500
	2,800
Total Income to be clubbed (7,500 + 4,700 + 2,800)	15,000

Question. 2. (a) (iii) Explain the treatment of unrealized rent and its recovery in subsequent years under the provisions of Income Tax Act, 1961.

Solution:

Unrealised Rent [Section 23(1)]

- While computing gross annual value of a let out property, the unrealized rent is to be deducted from actual rent received or receivable.
- The unrealized rent is deductible only on the fulfilment of the conditions prescribed under Rule 4.
- If the unrealized rent is subsequently recovered, it is taxable under section 25AA, in the year in which it is recovered and the deduction like legal expense etc is not allowed from unrealized rent so recovered.

Section 25AA – Where the assessee cannot realise rent from a property let to a tenant and subsequently the assessee has realised any amount in respect of such rent, the **amount so realised shall be deemed to be**

income chargeable under the head "Income from house property" and accordingly charged to income-tax as the income of that previous year in which such rent is realised whether or not the assessee is the owner of that property in that previous year. If the assessee has **incurred any expenditure on recovery, it will not be allowed to be deducted.** If the assessee has received any interest, it will be considered to be income under the head other sources.

Question 2(b) **(4 Marks)**

A Partnership Firm, gives the following particulars relating to the services provided to various clients by them for the half year ended on 30.09.2011.

(i) Total bills raised for ₹8,75,000 out of which bill for ₹75,000 was raised on an approved International Organization and payments of bills for ₹1,00,000 were not received till 30.09.2011.

(ii) Amount of ₹50,000 was received as an advance from XYZ Ltd. on 25.09.2011 to whom the services were to be provided in October, 2011. You are required to find out the:

(a) Taxable value of services
(b) Amount of service tax and education cess and secondary and higher education cess payable.

Solution:

Computation of Amount of taxable value of services & Service Tax Payable

Particulars	**₹**
Total bills raised	8,75,000
Less: Bill raised on an approved International Organisation (Note (i))	75,000
	8,00,000
Add: Advance received for the services to be provided in October '2011 (Note (ii) (50,000/110.3 x 100)	45,331
Taxable value of services	**8,45,331**
Computation of Service Tax Payable	
Taxable value of services	8,45,331
Service tax @ 10%	84,533.10
Add: Education cess @ 2%	1,690.66
Add: SHEC @ 1%	845.33
Total Service Tax Payable	**87,069.09**
Rounded off u/s 37D	**87,069**

Notes:

(i) Services provided to approved International Organisation are exempt from the service tax vide Notification No. 16/2002 ST dated 02.08.2002.
(ii) Service tax is payable on advance received for taxable services [Section 67 of the Finance Act, 1994].
(iii) Service tax is payable even on the value of the taxable services which are deemed to be provided even if payment has not been received [Rule 6(1) of Service Tax Rules, 1994].

Question 2(c)

Explain the consumption variant of VAT. Mention the reasons for the preference of this variant of VAT.

Solution:

It allows VAT credit on raw materials etc. and also on capital goods in the very first year.

Among the three variants of VAT, the consumption variant is widely used. Several countries of Europe and other continents have adopted this variant, because there is no multiple taxation and also there is no cascading effect .
Consumption variant of VAT allows for deduction on all business purchases including capital assets. Thus, gross investment is deductible in calculating value added. It neither distinguishes between capital and current expenditures nor specifies the life of assets or depreciation allowances for different assets.

Question 3(a) **(8 Marks)**
Anshu transfers land and building on 02.01.2012 and furnishes the following informations.

Particulars	₹
(i) Net consideration received	14,00,000
(ii) Value adopted by Stamp Valuation Authority	16,00,000
(iii) Value ascertained by Valuation Officer on reference by the Assessing Officer	17,00,000
(iv) This land was acquired by Anshu on 01.04.1981. Fair Market value of the land as on 01.04.1981 was	1,10,000
(v) A Residential building was constructed on land by Anshu at cost of ₹3,20,000 (construction completed on 01.12.2002 during financial year 2002-03.)	
Short term capital loss incurred on sale of shares during financial year 2007-08 b/f of ₹1,50,000	

Anshu seeks your advice to the amount to be invested in NHAI bonds so as to be exempt from capital gain tax under Income Tax Act.

Cost inflation index of FY 1981-1982 = 100
Cost inflation index of FY 2002-2003 = 447
Cost inflation index of FY 2011-2012 = 785

Solution:
Computation of Long term Capital Gain for A.Y. 2012-13

As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the valuation by the stamp valuation authority, such value adopted or assessed by the stamp valuation authority shall be deemed to be the full value of consideration. Where a reference is made to the valuation officer, and the value ascertained by the valuation officer exceeds the value adopted by the stamp valuation authority, the value adopted by the stamp valuation authority shall be taken as the full value of consideration.

Sale consideration	₹ 14,00,000
Valuation made by registration authority for stamp duty	₹ 16,00,000
Valuation made by the valuation officer on a reference	₹ 17,00,000

Applying the provisions of section 50C to the present case, ₹ 16,00,000, being, the value adopted by the registration authority for stamp duty, shall be taken as the sale consideration for the purpose of charge of capital gain.

Sale consideration as per section 50C of the Act	16,00,000

Less: Indexed cost of acquisition		
1,10,000 x 785/100	= 8,63,500.00	
Indexed cost of improvement		
3,20,000 x 785/447	= 5,61,968.68	14,25,468.68
Long term capital gain		1,74,531.31
Less: Short term capital loss 111A 2007-08		1,50,000.00
In order to get exemption, amount to be invested in NHAI shall be		**24,531.31**

Question 3(b) **(8 x ½ = 4 Marks)**

Test the veracity of the following assertions with reference to the statutory provisions relating to service tax. Do not assign any reason for them.

(a) Services provided by consulting engineers in computer hardware engineering and computer software engineering are not includible in their taxable services.

(b) Services provided to any person by a mandap keeper for the use of the precincts of a religious place as a mandap are not exempt from service tax.

(c) The following are the person(s) who provides scientific or technical consultancy service
   (i) a scientist
   (ii) a technocrat
   (iii) any engineering organisation

(d) Pre-school coaching institutions services are taxable.

(e) X-took certificate of practice with effect from 25.01.2012. He has to make an application for registration before 24.03.2012.

(f) Small scale service provider who is claiming exemption of ₹10 lakh shall have to apply for registration where the aggregate value of taxable services exceeds ₹9 lakhs.

(g) Gross amount charged for taxable services includes only that amount received towards the taxable service which is received after the provision of such services.

(h) Service tax for the month of March or quarter ending March should be deposited by 5th April

Solution:

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

Question 3(c) **(8 x ½ = 4 Marks)**

Test the veracity of the following assertions with reference to the statutory provisions relating to value added tax. Do not assign any reason for them.

(a) Input credit under VAT is available in respect of Central Sales Tax paid on purchases.

(b) VAT is leviable at the first stage of sale.

(c) Input credit in available in respect of customs duty paid on goods imported from a country outside India.

(d) Input credit is available only if the purchaser has obtained proper tax invoice.

(e) No registration is required under any VAT regime.

(f) A trader can take credit of the inputs purchased by him only if he has obtained proper tax invoice from the valuer.

(g) VAT is inflationary in nature.

(h) White paper on State level VAT provides a framework for drafting various State VAT legislations.

Solution:

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

Question 4(a) **(8 Marks)**

Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31.03.2012 revealed the following information:

(1) The net profit was ₹11,20,000.

(2) The following incomes were credited in the profit and loss account:

(a) Dividend from UTI ₹ 22,000.
(b) Interest on debentures ₹17,500
(c) Winnings from races ₹15,000.

(3) It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:
Opening stock ₹8,000.
Closing stock ₹12,000

(4) ₹1,00,000 was debited in the profit and loss account being contribution to a University approved and notified under section 35(1)(ii).

(5) Salary includes ₹20,000 paid to his brother which is unreasonable to the extent of ₹2,500.

(6) Advertisement expenses include 15 gift packets of dry fruits costing ₹1,000 per packet presented to important customers.

(7) Total expenses on car was ₹78,000. The car was used both for business and personal purposes. 3/4th is for business purposes.

(8) Miscellaneous expenses included ₹30,000 paid to A & Co., a good transport operator in cash on 31.01.2012 for distribution of the company's product to the warehouses.

(9) Depreciation debited in the books was ₹55,000. Depreciation allowed as per IT rules was ₹50,000.

(10) Drawing ₹10,000

(11) Investment in NSC ₹15,000.

Compute the total income of Mr. Y for the assessment year 2012-13.

Solution:

Computation of Total Income of Mr. Y for the assessment year 2012-13

Income under the head Business/Profession

	₹
Net profit as per profit and loss account	11,20,000
Add: inadmissible expenses	
• Car used for personal purpose (78,000 x 1/4)	19,500
• Under valuation of closing stock	12,000
• Salary disallowed u/s 40A(2)	2,500
• Depreciation (55,000 – 50,000)	5,000
• Drawing	10,000
• Investment in NSC	15,000
• Total	11,84,000
Less:	
• Dividend from units of UTI	22,000
• Interest on debentures	17,500
• Winning From Races	15,000
• Under valuation of opening stock	8,000
• Contribution to approved university section 35(1)(ii)	75,000
Business income	10,46,500

Income under the head Other Sources

Dividend from units of UTI exempt u/s 10(35)	Nil
Interest on debentures	17,500
Winning From Races	15,000
Income under the head Other Sources	32500
Gross Total Income	10,79,000
Less: Deduction u/s 80C	15,000
Total Income	10,64,000

Question 4(b) **(4 Marks)**

Punjabi Banquets is engaged in providing "mandap keeper services". For the month of January, 2012, it provided the following information:

S. No.	Particulars	Amount ₹
(1)	Banquet hall let out for marriage function: The gross amount charged for banquet hall including catering charges (Catering charges have been separately indicated in the invoice).	6,00,000
(2)	Amount received for rooms let out for stay of guests attending the marriage.	40,000
(3)	Amount collected for letting out the hall for All India Dance Competition. No food was supplied along with it.	5,00,000
(4)	Mandap for shooting of marriage sequence of a Daily Soap Opera	2,40,000

Compute the amount of service tax, education cess and secondary and higher education cess payable by Punjabi Banquets for the month of January, 2012.

Additional Informations:

(1) Point of taxation in all the aforesaid case is January, 2012.

(2) All the amounts stated above are exclusive of service tax.

(3) Punjabi Banquet is not eligible for small service providers exemption under notification. No.6/2005 ST dated 01-03-2005 for the financial year 2011-12.

Solution:

Computation of Service Tax Payable by Punjabi Banquets	₹
Total Value Charged	6,00,000
Less: Abatement N.N. 01/2006 (40% of gross amount charged)	2,40,000
Taxable value	3,60,000
Amount received for rooms let out for stay of guests	40,000
Amount collected for letting out the hall for All India Dance Competition (No food was supplied along with it.)	5,00,000
Mandap for shooting of marriage sequence of a Daily Soap Opera	2,40,000
Value of Taxable Services	11,40,000
Service Tax @ 10.3% on ₹11, 40,000	1,17,420

Question 4(c) **(4 Marks)**

Determine the liability of VAT of X for the month of December 2011 using invoice method of computation from the following data:

Purchase price of goods acquired from local market (Including VAT)	₹ 52 lakhs
VAT rate on input	4%
Transportation, insurance, warehousing and handling cost incurred by X	₹ 20,000

Goods sold at a profit margin	14%
VAT rate on sales	12.50%

Solution:

Computation of Sales Value

	₹
Local purchases of raw material (52/104x4)	50,00,000
Transportation, insurance, warehousing and handling cost	20,000
Cost of production	50,20,000
Add : Profit margin 14%	7,02,800
	57,22,800
Add: VAT @ 12.5%	7,15,350
	64,38,150

Computation of VAT Liability:-	₹
VAT on above sales price @ 12.5%	7,15,350
Less: Set off of VAT on purchases (52/104 x 4)	2,00,000
Net VAT Liability	5,15,350

Question 5(a) **(8 Marks)**

During the previous year 2011-12 the following transactions occurred in respect of Mr. A.

(a) Mr. A had a fixed deposit of ₹ 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 01.04.2011 to 31.03.2012 to the savings bank account of Mr. B, son of his brother, to help him in his education.

(b) Mr. A holds 75% share in a partnership firm. Mrs. A received a commission of ₹25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.

(c) Mr. A gifted a flat to Mrs. A on April 1, 2011. During the previous year the flat generated a net income of ₹52,000 to Mrs. A.

(d) Mr. A gifted ₹2,00,000 to his minor son who invested the same in a business and he got a share income of ₹ 20,000 from the investment.

(e) Mr. A's minor son derived an income of ₹20,000 through a business activity involving application of his skill and talent.

During the year Mr. A got a monthly pension of ₹10,000. He had no other income. Mrs. A received salary of ₹ 20,000 per month from a part time job.

Discuss the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child.

Solution:

(a) As per Section 60 of the Income Tax Act, if any person has transferred any income without transferring the asset in such case clubbing provision shall be applicable.
In the given case, Mr. A transferred interest on fixed deposit to Mr. B (son of his brother) without transferring the fixed deposit, such income shall be clubbed in the hands of Mr. A as per section 60.
Amount to be clubbed = ₹5, 00,000 x 9 % = ₹45,000

(b) As per Section 64(1) of the Income Tax Act, if any person is getting salary income from a concern in which his or her spouse has substantial interest and further salary income is received without any professional or technical qualification ,in such case, salary income so received shall be clubbed in the income of the spouse having substantial interest.
In the given case Mr. A is having substantial interest in the partnership firm and Mrs. A received a commission of ₹25,000 from the firm for promoting the sales of the firm without any technical or professional qualification. So the commission shall be clubbed in the hands of Mr.A

(c) As per section 27, An individual who transfers otherwise than for adequate consideration any house property to his or her spouse, not being a transfer in connection with an agreement to live apart shall be deemed to be the owner of the house property so transferred.
In the given case Mr. A transfers flat to Mrs. A without adequate consideration on April 1, 2011.
So Mr. A shall be deemed to be the owner of the house property and income ₹52,000 shall be considered as income of Mr. A.

(d) As per section 64(1A),if any income accrues or arises to a minor child, such income shall be clubbed in the income of mother or father whosoever has higher income before taking in to consideration the income to be clubbed. So in the given case, income of ₹ 20,000 shall be clubbed in the income of mother or father whosoever has higher income before taking in to consideration the income to be clubbed. Amount to be clubbed = 20,000 – 1500 = 18,500

(e) As per section 64(1A), If any minor child has income from manual labour or through activity involving application of his skill, talent or specialized knowledge and experience, such income shall not be clubbed but if such income has been invested further, any new income shall be clubbed in the income of mother or father.
In the given case clubbing provision is not applicable as Mr. A's minor son derived an income of ₹20,000 through a business activity involving application of his skill and talent.

Computation of Total Income of Mr. A	**₹**
Income under the head Salary	
Pension (10,000 x 12)	1,20,000
Commission given to Mrs. A	25,000
(Since Mr. A is having substantial interest in firm)	
Income under the head Salary	1,45,000
Income under the head House property	
(Since asset is transferred to wife hence deeming provision shall apply)	
Income under the head house property	52,000.00
Income under the head other sources	
Interest on Fixed transferred to Mr.B	45,000.00
Income from investment made by Minor son	18,500.00
Income under the head other sources	63,500.00
Gross Total Income	2,60,500.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	2,60,500.00

Computation of Total Income of Mrs. A

Income from Salary	2,40,000.00
Gross Total Income	2,40,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	2,40,000.00

Computation of Total Income of Minor Child

Income from Business	20,000.00
Gross Total Income	20,000.00
Less: Deduction u/s 80C to 80U	Nil
Total Income	20,000.00

Question 5(b) **(4 Marks)**
What are documents to be attached by a service provider along with an application for registration under service tax?

<u>Solution:</u>
There are the following documents to be attached along with an application for registration under service tax.
i. A requisition letter for allotment of service tax payers code no.(in duplicate)
ii. Attested copy of PAN card or PAN allotment letter. If not available , attested copy of FORM 49A,duly acknowledged by Income Tax Department.
iii. Proof of address
iv. The following documents are also be submitted along with ST-1 Application Form.
I. In case of companies registered under the Indian Companies Act,1956

- Memorandum and Article of Association.
- List of Directors with contact addresses along with telephone/telex/fax/E-mail.
- Extracts of the Board Resolution authorizing any of the directors/employees of the company to sign, deal and comply with the provision of the Service Tax Rules.

II. In case of Partnership Firm

- Partnership Deed.
- Power of attorney authorizing any of the partner/employees of the firm to sign deal and comply with the provision of the Service Tax Rules.
- In the absence of power of attorney,ST-1 Application and other documents relating to Service Tax should be signed by all the partners.
- Name of the partners with contact addresses along with telephone/telex/fax/E-mail.

III. In case of Proprietorship Firm.

- ST-1 Application and other documents relating to Service Tax should be signed by the Proprietary or any other person duly authorized by him to sign deal and comply with the provision of the Service Tax Rules by executing a power of attorney in favour of the said person.

Question 5(c) **(2 Marks)**
(i) What are the different variants of VAT and how is deduction available for tax paid on inputs including capital inputs?

<u>Solution:</u>

There are the different Variants of VAT:
(a) Gross Product Variant
(b) Income Variant
(c) Consumption Variant

(a) Gross Product Variant
Gross Product Variant allows VAT credit on the raw materials, but tax credit is not allowed on capital goods like plant and machinery etc.
(b) Income Variant of VAT
The Income Variant of VAT allows VAT credit on raw materials etc and also on capital goods but VAT credit on capital goods is allowed in instalments depending on the life of capital goods.
(c) Consumption Variant
It allows VAT credit on raw materials etc. and also on capital goods in the very first year.

(2 Marks)
(ii) What are the different stages of VAT? Can it be said that the entire burden falls on the final consumer?

Solution:
Value Added Tax is a Multi Stage tax and is being charged at every stage of sale and these stages are called stages of VAT and are as given below:

1. Manufacturer to Distributor
2. Distributor to Wholesaler
3. Wholesaler to Retailer
4. Retailer to Consumer

Question 6(a) **(8 Marks)**
MNP Ltd. Commenced operations of the business of a new four-star hotel in Chennai on 01.04.2011. The company incurred capital expenditure of ₹40 lakh during the period January, 2011 to March, 2011 exclusively for the above business, and capitalized the same in its books of account as on 1st April, 2011. Further, during the Previous Year 2011-12, it incurred capital expenditure of ₹ 2.5 crore (out of which ₹ 1 crore was for acquisition of land) exclusively for the above business. Compute the income under the heading "profit and gains of business or profession" for the assessment year 2012-13, assuming that MNP Ltd. has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C-Deductions in respect of certain incomes". The profits from the business of running this hotel (before claiming deduction under section 35AD) for the assessment year 2012-13 is ₹ 80 lakhs. Assume that the company also has another existing business of running a four-star hotel in Kanpur, which commenced operations 5 years back, the profits from which was ₹130 lakhs for assessment year 2012-13.

Solution:

Deduction allowable under section 35AD	₹
Capital Expenditure before commencement	40,00,000
Capital Expenditure during the year	150,00,000
Total	190,00,000
Profit of specified business	80,00,000
Less: Deduction under section 35AD	190,00,000
Loss to be carried forward indefinitely	110,00,000

The loss of ₹110,00,000 can be set-off only against the profits of specified business in current year and next years. Such loss can be carried forward indefinitely. Therefore Profit from other business cannot be used for set-off the loss of specified business.
The hotel at Kanpur was commenced before 01.04.2010, so the business at Kanpur cannot be specified business.

Capital Expenditure on Land shall not be allowed u/s 35AD

Income under the head business or profession
Income from four star hotel at Kanpur 1,30,00,000

Question 6(b) **(4 Marks)**
Avinash is a qualified Chartered Accountant. He acquired the certificate of practice from ICAI in May, 2010. For the financial year 2011-12 his receipts (including service tax) are as follows:

Particulars	Amount ₹
Services rendered in tax planning	50,000
Representation of client before CESTAT	40,000
Preparation of financial statements of XYZ Ltd.	4,00,000
Certification of documents under Export and Import policy of Government of India.	1,50,000
Receipts for the legal advice given to clients in the month of December, 2011	50,000

In the financial year 2010-11 he has provided the value of taxable service of value of ₹ 11,00,000.

Using the above information, calculate the value of taxable services for the financial year 2011-12.

Solution:
Calculation of the value of taxable services for the financial year 2011-12.:-

Particulars	**Amount (₹)**
Services rendered in tax planning	50,000
Representation of the client before CESTAT	40,000
Preparation of the financial statement of XYZ Ltd.	4,00,000
Certification of documents under Export and Import policy of Government of India.	1,50,000
Receipts for the legal advice given to clients in the month of December, 2011	50,000
Total	6,90,000
Value of Taxable Services (6,90,000/110.3 x 100)	6,25,566.64
Rounded off u/s 37D	6,25,567

Question 6(c) **(4 Marks)**
Ms. Pragya, a dealer submits the following information. Compute the net VAT liability from the following information:

	₹
Import of raw material (including 10% import duty)	1,10,000
Raw material purchased from Kerala. (including excise duty @ 12%)	2,24,000
VAT @ 4% on the above purchase	
Raw material purchased from Karnataka	85,000
Transportation and manufacturing expenses	47,000

Pragya sold entire stock to Nishu at a profit of 10% on the cost of production. VAT rate on such sale is 4%.

<u>Solution:</u>

Computation of VAT Payable of Ms. Pragya:-

Particulars	₹	₹
Raw materials purchased from foreign market (including 10% import duty)		1,10,000
Raw material purchased from Kerala:-		
Cost of raw material	2,00,000	
Add: Excise duty @ 12%	24,000	2,24,000
Raw material purchased from Karnataka		85,000
Transportation cost Manufacturing expenses		47,000
Cost of production		4,66,000
Add: Profit @ 10% of cost of production		46,600
Sale Price		5,12,600
VAT @ 4% on ₹5,12,600		20,504

Net VAT Liability of Ms. Pragya:-

VAT on sale price	20,504
Less: Input tax credit	
Basic custom duty paid on imports	Nil
VAT paid on local purchases (2,24,000 X 4%)	8,960
Net VAT Liability by Ms. Pragya	11,544

Question 7(a) **(8 Marks)**

Mr. Mohit is employed with XY Ltd. on a basic salary of ₹10,000 p.m. He is also entitled to Dearness allowance @ 100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of ₹ 6,000 p.m. which was increased to ₹ 7,000 p.m. with effect from 01.01.2012. He also got an increment of ₹ 1,000 p.m. in his basic salary with effect from 01.02.2012. Rent paid by him during the previous year 2011-12 is as under:

April and May, 2011	-	Nil, as he stayed with his parents.
June to October, 2011	-	₹ 6,000 p.m. for an accommodation in Ghaziabad.
November, 2011 to March, 2012	-	₹ 8,000 p.m. for an accommodation in Delhi.

Compute the gross salary for assessment year 2012-13.

<u>Solution:</u>

Computation of gross salary for assessment year 2012-13.

	₹
Basic Pay [(10,000 x 10) + (11,000 x 2)]	1,22,000
Dearness Allowance	1,22,000
House rent allowance {Sec 10(13A) Rule 2A}	21,300

Working Note:

<u>From April to May</u>

Received = ₹12,000

Exempt = ₹ Nil

Taxable = ₹12,000

<u>From June to October</u>

Least of the following is exempt:

1. ₹30,000

2. ₹30,000 – ₹7,500 = ₹22,500
3. 40% of retirement benefit salary = ₹30,000
(Retirement benefit salary = ₹75,000)
Received = ₹30,000
Exempt = ₹22,500
Taxable = ₹7,500

For November to December

Least of the following is exempt:
1. ₹12,000
2. ₹16,000 – ₹3,000 = ₹13,000
3. 50% of retirement benefit salary = ₹15,000
(Retirement benefit salary = ₹30,000)
Received = ₹12,000
Exempt = ₹12,000
Taxable = Nil

For January

Least of the following is exempt:
1. ₹7,000
2. ₹8,000 – ₹1,500 = ₹6,500
3. 50% of retirement benefit salary = ₹7,500
(Retirement benefit salary = ₹15,000)
Received = ₹7,000
Exempt = ₹6,500
Taxable = ₹500

For February to March

Least of the following is exempt:
1. ₹14,000
2. ₹16,000 – ₹3,300 = ₹12,700
3. 50% of retirement benefit salary = ₹16,500
(Retirement benefit salary = ₹33,000)
Received = ₹14,000
Exempt = ₹12,700
Taxable = ₹1300
Total = 12,000 + 7,500 + Nil + 500 + 1300 = ₹21,300

Gross Salary	2,65,300

Question 7(b) **(4 Marks)**

Mention the due dates for filing of service tax returns. Can an assessee submit a revised return?

Solution:

The service tax return (in Form ST-3) should be filed on half yearly basis by the 25th of the month following the particular half-year. The due dates on this basis are tabulated as under:

Half year	**Due date**
1st April to 30th September	25th October
1st October to 31st March	25th April

In case the due date of the filing of return i.e. either 25th October or 25th April falls on a public holiday, the assessee can file the return on the immediately succeeding working day.

Yes an assessee can submit a revised return, in Form ST-3 in triplicate, to correct a mistake or omission in the original return, within a period of 90 days from the date of submission of the original return.

Question 7(c) **(4 Marks)**
Briefly explain the system of cross checking under VAT Act.

Solution:
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 Government 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.