# Tax Laws Paper of CS Exam

# Dec 2012 Exam

# (With Solutions)



## Classes AT:

| DEV SHARMA CLASSES/ Genius Instt of Commerce (GIC Classes) | CommerceShiksha Classes |
|---|---|
| 1/10 & 1/12, 2nd Floor (Above LG Showroom), Opp. Metro Pillar – 27, Near Gurudwara, LAXMI NGR<br>Ph: 011 - 42051063, 9910026558 | 289, 2nd Floor, SATYA NIKETAN<br>Opp. VENKY College, DhaulaKuan<br>Delhi - 21<br>Ph: 011 – 64641115; 9716670392 |

**Disclaimer Clause**: The answers prepared by CA. RAJESH GOYAL with a view to assist the students in their education. While due care is taken in preparation of the answers, if any errors or omissions are notices, then suggestions are most welcomed and the same may be considered, if found appropriate.

**Note**: 100% paper of Tax Laws of Dec 2012 and last 4 attempts is covered from CA. RAJESH GOYAL TAX CLASSES.

# SCHEDULE OF NEW BATCHES FOR CS EXEC.

## (For Laxmi Nagar Centre only)

### GROUP – 1

| Subject | Faculty | Timing | Days | Fees |
|---|---|---|---|---|
| **GCL** | CS. Dev Sharma | 9.30 – 11 | MWF | 4500 |
| **Cost & Co. A/c** | CA. Praveen Tawania | 8 – 9.30 am | MWF | 4500 |
| **Tax Laws** | **CA. RAJESH GOYAL** (ACA, AICWA, M.Com) | 11 – 1 pm | MWF | 4,500 |
| | | 4 – 6 pm | MWF | |
| | | 11 – 1 pm | TTS | |
| **TOTAL** | | | | **13,500** |
| **PACKAGE** | | | | **12,000** |

### GROUP – 2

| Subject | Faculty | Timing & Days | Fees |
|---|---|---|---|
| **Company Law** | **BY CS. DEV SHARMA** | Batch 1 – MWF (11-1) | 4,500 |
| **Economic & labour Law** | | Batch 2: SAT/SUN | 4,500 |
| **Securities Law& Comp** | | | 4,500 |
| **PACKAGE** | | | **12,000** |

**(Full 100% satisfactory classes in terms of understanding, Material and course completion, as per the feedback of old students from previous batches.)**

# CS DEC 2012 – TAX LAWS (With Solution)

**Time allowed: 3 Hours** **Max Marks: 100**
**Total no of questions: 8**

**All references to sections mentioned in Part A of the question paper relate to Income Tax Act 1961 and relevant AY 2012-13 unless stated otherwise.**

**Working Notes should form part of the answer.**

## PART-A
## (Answer Q. No. 1 which is compulsory and any 3 from the rest of this part)

**Question 1(a):** Choose the most appropriate alternative: **[1 mark each]**
(i) On 5th Feb 2012 Rajat gets a gift of motor car from a relativeMadan. FMV of the car is3,60,000. The amount taxable in the of Rajat under section 56(2) is-
(a) 3,60,000
(b) 3,l0,000
(c) Nil
(d) 50,000
**ANS: (c) NIL**.

(ii) Which of the following may be a 'not ordinarily resident' in India
Ans: (d) Hindu Undivided Family.

(iii) Salary received in lieu of unavailed leave during service shall be
**ANS:** (a) Fully taxable

(iv) The net wealth computed under the provisions of the Wealth-tax ct. 1957 shall be rounded off to the nearest :
**ANS:** (c) Multiple of 100

(v) A person carrying on profession is, requiredget his accounts compulsorily audited by a Chartered Accountant if his gross receipts from profession for theprevious year exceed -
**ANS: (b) 15,00,000**

**Question 1(b):** Rewrite the following sentence after filling the blank spaces: **[1 mark each]**
(i) The rate of depreciation on intangible asstes is **25%.**

(ii) For the assessment year 2012-13, the basic exemption limit in case of non-resident individual, aged 66 years isRs. **1,80,000**.

(iii) The aggregate amount of deduction under sections 80C, 80CCC and 80CCD cannot exceed **Rs. 1,00,000.**

(iv) In case the income of an individual includes any income of his minor child interms of section 64(1) such individual shall be entitled to exemption of theamount ofsuch income or **Rs. 1,500,** whichever is less.

(v) In the case of income in the nature of family pension, the amount deductible is33.33% of such income or**Rs. 15,000**, whichever is less.

**Question 1(c):** Ramesh, aged 66 years, sold a residential house at Pune for Rs. 20,00,000 on 1st October, 2011. This house was acquired by his father on 1st Jan, 1979for Rs. 1,00,000. On the death of his father, he inherited the house on 5th July 1986. Fair market value of the house as on 1 st April, 1981 was Rs. 1,40,000. He paid brokerage @1% to the real estate agent at the time of sale. He purchased a residential house at Baramati on 7th March, 2012 for Rs.8,00,000 and on 20th April, 2012 purchased bonds of Rs. 3,00,000 (reedeemable after 3 years) of Rural Electrification Corporation ltd.

His other incomes are Rs. 50,000. He deposited Rs. 10,000 in public providentfund.
Compute the taxable income and tax liability of Ramesh for the assessment year 2012-13.
**Note**:Cost inflation indices -
1981-82 = 100; 1986-87 = 140; and 2011-12 = 785. **[5Mark]**

**OR**

(c) What are the provisions of section54F in relation to capital gains on transfer of asset other than a residential house ? **[5Mark]**

**Solution:** Part 1:

| | | |
|---|---|---|
| **LTCG**: 20,00,000 – [1% of 20L] – [1,40,000 / 140 X 785] | = 11,95,000 | |
| Less: Exemption u/s 54 (on purchase of new house) | = (8,00,000) | |
| Less: Exemption u/s 54EC (not available being after 6month) | = NIL | 3,95,000 |
| **Other Income** | | **50,000** |
| **GTI** | | **4,45,000** |
| Less: Deduction u/s 80C | | 10,000 |
| **Total Income** | | **4,35,000** |
| **Tax payable (Slab rate of senior citizen)** | **19,060** | |
| **(InclCess) (After r/off u/s 288B)** | | |

***[Many almost similar questions has been discussed in the class and given in CA. Rajesh Goyal Sir's Book in chapter of capital gains].***
**or**

**Part 2: Provision of section 54F: Please see chapter of capital gains of CA. Rajesh Goyal Sir's Book.**

**Question 2(a):** State, with reason, the true or false **[1Mark each]**

- **(i)** There is no difference between exemption and deduction. - ***False***
- **(ii)** It is not possible to have negative income under the head "House Property". - ***False***
- **(iii)** Loss in speculation as well as non-spcculation business can be c/f to a maximum of 4 consecutive assessment years immediately succeeding the AY for which loss was firstcomputed.***False***
- **(iv)** Every person is liable to pay wealth-tax.–***False***
- **(v)** Allowanccs paid by any employer outside India would be wholly exempted mcorne tax.- ***False***

**(All questions has been discussed in detail in CA. Rajesh Goyal Sir's class and book. Please refer the book for detail.)**

**Question 2(b)**: Following is trading and P&L a/c of Narendra for 31st March 2012

| | | | |
|---|---|---|---|
| Opening stock | 20,250 | Sales | 3,83,600 |
| Purchases | 1,80,500 | Closing stock | 23,200 |
| Wages | 10,200 | Gift from father | 10,000 |
| Donation to Prime Minister | | Income tax refund | 2,500 |
| National Relief Fund | 20,000 | | |
| Building rent | 60,000 | | |
| Repairs of car | 5,300 | | |
| Medical expenses (Personal) | 8,000 | | |

| | | |
|---|---|---|
| General expenses | 42,00 | |
| Depreciation on car | 12,000 | |
| Profit for the year | 98,850 | |
| | **4,19,300** | **4,19,300** |

Additional information: (i) Opening stock has been undervaluedby 10% of cost while closing stock has been valued at its cost.
(ii) One-third of the building rent is related to self-residential house.
(iii) The car is used equally for business as well as for personal purposes.
(iv) Wages includes wages of household servant Rs. 250 pm.
From the above information, you are required to determine the taxable income of Mr. Narendraunder the head income from business and profession. **[10Mark]**

| | | |
|---|---|---|
| **Solution: PGBP Income :** | **98,850** | |
| **Opening stock adjustment** | **– 2,250** | |
| **Rent of self residential house** | **+ 20,000** | |
| **Half personal expense in CAR** | **+ 8,650** | |
| **Personal wages** | **+ 3,000** | |
| **Donation to PM fund** | **+ 20,000** | |
| Personal medical exp | + 8,000 | |
| Gift from father | - 10,000 | |
| Tax refund | - 2,500 | |
| **PGBP Income** | | ***1,43,750*** |

**Note**: Only PGBP income is asked in the questions.

***(Many Almost similar questions has been discussed in CA. Rajesh Goyal Sir's Book. For detailed discussion and working please refer the book.)***

**Question 3(a)**:Compute advance tax payable by Mr. Rohan for the below details:

| | |
|---|---|
| Salary Income | 5,80,000 |
| Rent from House property | 3,60,000 |
| Intt on govt securities (Gross) | 25,000 |
| Intt on saving bank deposits | 3,000 |
| Receipt from horse races (Net) | 14,000 |
| Agriculture income | 90,000 |
| PPF Deposit | 60,000 |

TDS deducted on salary = 37,080 **[7Mark]**

**Solution: Advance tax payable by Mr. Rohan = Rs. 76,400 (See working notes)**

**[Working Note 1]: Computation of total income**

| | | |
|---|---|---|
| **Salary** | = | **5,80,000** |
| **HP Income** | = | **252,000** |
| Intt on govt sec | = | 25,000 |
| Bank intt | = | 3,000 |
| Horse races winning Gross of TDS) [14,000 / 70% ] | = | 20,000 |
| GTI | = | 8,80,000 |
| Less: Deduction 80C | = | 60,000 |
| **Total Income** | = | **8,20,000** |

**[WN 2] Computation of Tax**

| | |
|---|---|
| **Step 1: Tax on** (Agriculture income + Non-agriculture income) | = 1,25,000 |
| Step 2: Tax on (Agriculture income + basic exemption limit) | = 9,000 |
| Tax Payable (Step 1 – Step 2) | = 1,16,000 |
| **+ Cess @3%** | **= 3,480** |
| **Less: TDS (37,080 + 6000)** | **= 43,080** |
| **Balance Advance tax payable** | **= 76,400** |

***(Many Almost similar questions has been discussed in CA. Rajesh Goyal Sir's class and Book).***

**Question 3(b):** State, with reasons, in brief, whether the following expenses are admissible asdeduction while computing the 'income from other sources';
(i) Interest of Rs. 10,000 paid on money borrowed for purchasing shares to be held as investment –***Not allowed.***
(ii) Expenditure of Rs.20,000 incurred for purchase of lottery tickets - ***Not allowed***
(iii) An expenditure of Rs.40,000 incurred for the activity of owning and maintaining race horses – ***Yes, Allowed***
***(For detailed discussion and working please refer the CA. Rajesh Goyal Sir's book.)***

**Question 3(c):** For the previous year 2011-12, Ajit did not file the return of income on the due date. Can he file the return of income after due date? State in brief. (2 marks)
Solution: Discuss Sec 139(4) – See chapter of Return of Income from CA. Rajesh Goyal Sir's Book.

**Question 4(a):** Anand owns a house at Delhi. From the following particulars, compute the incomefrom house property for the assessment year 2012-13:

| | |
|---|---|
| Municipal valuation | 2,50,000 |
| Fair rent | 2,80,000 |
| Actual rent (25,000 per month) | 3,00,000 |
| Standard rent | 2,60,000 |
| Municipal taxes paid (half of it was borne by the tenant) | 25,000 |
| Expenses on repairs | 5,000 |
| Fire insurance premium paid | 5,000 |
| Ground rent | 6,000 |
| Unrealised rent | 1 Month |
| Vacancy period | 1 month |

He had borrowed a sum of Rs. 20,00,000 @10% p.a. from LIC housing on 1st August 2007 and theconstruction of the house was completedon 1st Jan 2011.
Total loan is still unpaid. **[5 Marks]**

**Question 4(b) (i):** What is Minimum alternate tax? [2M]

**Question 4(b) (ii): Explain the provision relating to** Taxation of winning from lottery. (3M)

**Question 4(c): "Capital gains** arises in the previous year in which the transfer takes place." Are there any exceptions to it? Discuss. **[5Marks]**

***(Please see CA. Rajesh Goyal Sir's book for the above answers)***

**Question 5(a):Lalit** submits the following information for AY 2012-13:

| | |
|---|---|
| Income from salary | 3,00,000 |
| Loss from let out house property | 40,000 |
| Income from sugar business | 50,000 |
| Brought forward loss of iron ore business (discontinued in Financial year 2005-06) | 1,20,000 |
| Short term capital loss | 60,000 |
| LTCG | 40,000 |
| Dividend | 5,000 |
| Income from lottery winning (gross) | 50,000 |
| Winning in card games (Gross) | 6,000 |
| Agriculture income | 20,000 |
| LTCG on shares (STT paid) | 10,000 |
| Short term capital loss from shares u/s 111A | 15,000 |
| Bank Interest | 5,000 |

Calculate GTI and losses to be carried forward. **[5M]**

| **Solution:** | **Set off u/s 70** | **Set off u/s 71** | **Income** |
|---|---|---|---|
| Income from salary | | 3,00,000 | |

| | | | |
|---|---|---|---|
| Loss from let out house property | | (40,000) | 2,60,000 |
| | | | |
| Income from sugar business | 50,000 | | |
| Brought forward loss of iron ore business (discontinued in Financial year 2005-06) | (1,20,000) | (70,000) | |
| | | | |
| Bank Interest | | 5,000 | |
| ***Business loss to be carried forward*** | | ***(65,000)*** | |
| | | | |
| Short term capital loss | (60,000) | | |
| LTCG | 40,000 | | |
| Short term capital loss from shares u/s 111A | (15,000) | | |
| ***Loss to be carried forward*** | ***(35,000)*** | | |
| | | | |
| Income from lottery winning (gross) | | | 50,000 |
| Winning in card games (Gross) | | | 6,000 |
| **GTI** | | | **3,16,000** |

**Note**: 1. Dividend is exempt income so no loss can be set off against it.
2. Agriculture income is exempt so no loss can be set off against it.
3. LTCG on shares (STT paid) is an exempt income so no loss can be set off against it.
4. Capital loss of Rs. 35,000 shall be carried forward.
5. Business loss of Rs. 65,000 shall be carried forward.
6. No loss can be carried forward against Lottery winning / card games winnings.

**Question 5(b)**: **Explain the** procedure of assessment after partition of a HUF. **[4M]**

**Question 5(c)**:Explain the different methods of collection and recovery of income tax? **[4M]**

**Question 5(d)**: The power of rectification of mistakes lies with the authority who passed the order. Explain briefly. **[2M]**

**Question 6(a)**:Write short notes on any two:
(1) Best Judgement assessmentunder section 144
(2) Deemedassets under wealth tax Act, 1957.
(3) Due date of filing of the return of income under the Income-tax Act, 1961. **(2Mark each)**

***(Please see CA. Rajesh Goyal Sir's book for the above answers)***

**Question 6(b)**:Piyush is engaged in the construction of residential flats. For thc valuation date 31st March, 2012 he furnishes the following data:

| | **Rs. In Lakhs** |
|---|---|
| Land in urban area (construction not permittedas per Municipal laws in force) | 20 |
| Motor cars | 5 |
| Jewellery (investment) | 10 |
| Cash balance (as per books) | 2 |
| Bank balance (as per books) | 3 |
| Guest House (situated in rural area) | 4 |
| Residential flat occupied by the Manager for residence (annualsalary being Rs.6L) | 8 |
| Residential house let-out for 100 days in the financial year | 7 |
| Loans obtained for purchase of motor car | 2 |
| Loans obtained for purchase of jewellery | 2 |

Compute the taxable net wealth and state the reason for inclusion/exclusion of each item in thecomputation. **[5M]**

**Solution:**

| | | |
|---|---|---|
| Land in urban area | NIL | ***Being not an asset*** |

| | | |
|---|---|---|
| Motor cars | 5 | |
| Jewellery (investment) | 10 | |
| Cash balance (as per books) | 1.5 | ***Rs. 50,000 is exempt*** |
| Bank balance (as per books) | NIL | ***being not an asset*** |
| Guest House (situated in rural area) | 4 | |
| Residential flat occupied by the Manager for residence | Nil | Exempted u/s 5 |
| Residential house let-out for 100 days in the financial year | 7 | |
| Less: Loans obtained for purchase of motor car | (2) | |
| Loans obtained for purchase of jewellery | (2) | |
| **Net wealth** | **23.5** | |
| Less; Exemption as per Law | 30L | |
| **Taxable Wealth** | **NIL** | |

**Question 6(C)**:Distinguish between any two of the following :
(i) 'Recognised provident fund' and 'unrecognised provident fund',
(ii) 'Normal depreciation' and 'additional depreciation'.
(iii)'Taxation of ‘unrealised rent received' and 'taxation of arrears of rent’ **[3M each]**

## PART B

**7. Attempt any four of the following:**

(i) Re-write the following after filling the blank spaces: **[1M each]**

(a) Return of service tax is required to be filed in Form **ST – 3.**

(b) Every small service provider who aggregate value of taxable services in a FY exceeds **Rs. 9,00,000**must mandatorily get registered.

(c) From lstApril, 2012. th applicable rate of service tax is **12.36%.**

(d) In India, service tax was introduced in the year **1994**.

(e) If a personollects from person an amount representingit as service tax when not required to be collected, he shall forthwith deposit the amlout so collected to **the Central Government.**

(ii) What general exemptions are availabte to service providers from payrnent of the whole amount of service tax? Explain In brief. [5M]

(iii) X &. Co. of Jammu rendered taxable services both within and outside the State of Jammu & Kashmir. It received Rs.53,24 000 for the services rendered inside the J&K and Rs. 45,00,000 for the services rendered outside the State of J&K.
Compute the value of taxable services. **[5M]**

**Solution: Assuming the figure are inclusive of service tax.**
So, value of taxable services = 45,00,000 / 110.3 X 100 = Rs. 40,79,782

**Note**: No service tax is payable on service provided in the state of J&K.

(iv) State, with reasons in brief whether the following statement arc true or false:

(a) No service tax is payable on free services – ***True.***
(b) ***Service*** tax is always paid by the service provider–***False***
(c) The provisions of service tax extend to whole of India – ***False (Excluding J&K)***
(d) Services provided to developer of special economic zone are liable for service tax–***False.***
(e) The fee for application for advance ruling of service tax is Rs. 10,000. – False.

***(For detailed discussion and working please refer the CA. Rajesh Goyal Sir’s book on Service tax and VAT. All question in Service tax are covered from CA. Rajesh Goyal Sir’s classes and discussed in very detail by Sir)***

(v) What do you mean by ‘Reverse charge’ and under what circumstances the service receivers are liable to pay service tax? **[5M]**

## PART C

**8. Attempt any 4 of the following:**

(i) State, with reasons, true of false:

(a) as a result of introduction of VAT, the CST will be phased out. **- *True***

(b) The white paper specified that registration under the VAT is not compulsory for the small dealers with gross annual turnover not exceeding Rs. 10L. **- *False***

***(c)*** Punjab was the first state to implement VAT – ***False***

(d) The rate of VAT for precious and semi-precious metals is 4% **- *False***.

(e) There are certain cases of purchasein respect of which generally no input tax credit is available - ***True***. **[1 Mark each]**

(ii) Tulip Traders, a registered dealer under the local VATlaw, having stock of goods purchased from outside the State, wishes to opt for the composition scheme. Advise the dealer whether it is possible?Will the VAT chain be broken if the dealeroptsfor the said scheme? **[5M]**

**Solution**: A dealer making inter state purchases cannot apply for composition scheme.

Further, in case of a dealer opting for composition scheme the VAT chain is broken completely.

***(For detailed discussion and working please refer the CA. Rajesh Goyal Sir's book on Service tax and VAT. All question in VAT are covered from CA. Rajesh Goyal Sir's classes and discussed in very detail by Sir)***

(iii) Ghanshyam is a trader in Delhi who has purchased certain goods from Punjab for Rs.4,00,000and paid CST @2. He has sold all the goods in Delhi for Rs. 6L plus VAT @12.5%.

He has purchased certain goods in Delhi for Rs. 5L and paid VAT @12.5% and all the goods were sold by him under inter-State sale to some persons in UP for Rs. 7L plus central sales tax @2%.

Show the VAT calculations. (5M)

Solution: Output VAT = 6L X 12.5% = 75,000
Input VAT = 5L X 12.5% = 62,500
VAT Payable = 12,500

(iv) Compute the VAT amount payable by a trader who purchases goods from a manufacturer on payment ofRs. 6,75,000(including VAT) and earns 25% profit on sale to retailers. VATrate on purchase and sale is 12.5%. (5M)

**Solution**: Input VAT = 6,75,000 / 112.5 X 12.5 = Rs. 75,000
Net purchases = 6,00,000
Sales figure = 6,00,000 + 25% profit = 7,50,000
Output VAT = 7,50,000 X 12.5% = Rs. 93,750
VAT payable = Rs. 18,750

(v) Rohit, a manufacturer in Delhi, purchased raw material 'A' from Haryana for Rs. 6,00,000 and paid CST@2%. He purchased raw material 'B' from Delhi for Rs. 8,00,000 and paid VAT @4%. He incurred Rs. 2,00,000 as manufacturing and other expenses and earneda profit of Rs. 1,00,000.

60% of the goods were sold in Delhi and VAT charged was 12.5% and remaining 40% of the goods were soldto dealer in Maharashtra and CST was charged @2%.

Compute the VAT and CST payable. **(5M)**

**Ans:** Input VAT = 8L X 4% = 32,000
Total Sales figure = 6,12,000 + 8,00,000 + 2,00,000 + 1,00,000 = 17,12,000
Output Vat = 17,12,000 X 60% X 12.5% = 1,28,400
VAT Payable in cash = 96,400
CST Payable in cash = 17,12,000 X 40% X 2% = Rs. 13,696.

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| | | 4 – 6 pm | MWF | |
| | | 11 – 1 pm | TTS | |
| **TOTAL** | | | | **13,500** |
| **PACKAGE** | | | | **12,000** |

### GROUP – 2

| Subject | Faculty | Timing & Days | Fees |
|---|---|---|---|
| **Company Law** | **BY CS. DEV SHARMA** | Batch 1 – MWF (11-1) | 4,500 |
| **Economic & labour Law** | | Batch 2: SAT/SUN | 4,500 |
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**(Full 100% satisfactory classes in terms of understanding, Material and course completion, as per the feedback of old students from previous batches.)**