Roll No. ....

Total No. of Questions – **7** | Total No. of Printed Pages – **8**

Time Allowed – **3** Hours | Maximum Marks – **100**

RAM

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi medium, his answers in Hindi will not be valued.

Question No. **1** is compulsory.

Attempt any **five** questions from the remaining **six** questions.

Wherever necessary suitable assumptions may be made and disclosed by way of a note.

Working Notes should form part of the answer.

Marks

1. (a) Mr. Hari provides the following information for the year ending 31-03-2012 : **10**

		₹
(i)	Rent from vacant site let on lease	1,12,000
(ii)	Rent from house property at Delhi	20,000 per month
(iii)	Turnover from retail trade in grains (No books of account maintained)	24,37,500
(iv)	Arrears of salary received from ex-employer	40,000
(v)	Purchase of 10,000 shares of X Co. Ltd., on 01-01-2008	1,00,000
	He received a 1 : 1 bonus on 01-01-2009. Sale of 5,000 bonus shares in September, 2011	2,20,000

Marks

(vi) Received ₹ 1,50,000 on 12-02-2012 being amount due from Mr. A relating to goods supplied by Hari's father, which was written off as bad debt by his father in Assessment Year 2010-11 and allowed as deduction. Hari's father died in July 2010.

(vii) Brought forward business loss relating to discontinued textile business of Hari relating to the Assessment Year 2010-11. 1,97,500

(viii) Brought forward depreciation relating to discontinued textile business of Hari. 1,50,000

(ix) Hari contributed ₹ 30,000 to Prime Minister's National Relief Fund and ₹ 40,000 to Charitable Trust enjoying exemption u/s 80G.

Compute the total income and the tax thereon of Mr. Hari for the Assessment Year 2012-13.

(b) Mr. Ghosh is a practising Chartered Accountant. He has furnished the following information for the month of January 2012. 5

(i) A bill for annual professional service was raised on Amco Ltd., for ₹ 7,20,000 on 22nd December 2011. However he received ₹ 7,00,000 in full and final settlement of the above bill on 23rd January 2012.

(ii) An advance of ₹ 3,00,000 was received from Atul Ltd., for services to be provided in the month of April and May.

(iii) Services were provided to a friend free of cost in January 2012 for which Ghosh normally charges ₹ 1,20,000 from other clients.

(iv) ₹ 1,00,000 was received on 20th January 2012 from client 'C' whom Ghosh represented in the Income-tax Appellate Tribunal which sent a notice to Mr. C.

(v) ₹ 1,00,000 was received on 18th January 2012 for services rendered as a part time lecturer in a local college.

Marks

Mr. Ghosh provides the following additional informations :

(i) In all the aforesaid cases the service tax has not been charged separately.

(ii) He is not eligible for the exemption available to the small service provider.

Compute the service tax, education cess and higher education cess payable by Mr. Ghosh for the month of January 2012. The rate of service tax is 10%, education cess is 2% and higher education cess is 1%.

(c) The following are details of purchases, sales, etc. effected by Varadan & Co., a registered dealer, for the year ended 31-03-2012 : 5

Particulars	Amount (₹)
Purchase of raw materials within State (500 units, inclusive of VAT levy at 12.5%)	11,25,000
Inter-State purchases of raw materials, inclusive of CST at 4%.	4,08,000
Import of packing material, inclusive of customs duty of ₹ 10,000	2,10,000
Capital goods purchased on 01-04-2011 of VAT levy at 10% (input credit to be spread over 2 financial years)	5,50,000
Sales of taxable goods within State, inclusive of VAT levy at 4%	40,24,000
Sales of goods within State, exempt from levy of VAT (Goods were manufactured from the Inter-State purchase of raw materials)	1,20,000

Compute the VAT liability of the dealer for the year ended 31-03-2012.

2. (a) Mr. B is the Kartha of a HUF, whose members derive income as given below : 8

		₹
(i)	Income from B's profession	45,000
(ii)	Mrs. B's salary as fashion designer	76,000
(iii)	Minor son D (interest on fixed deposits with a bank which were gifted to him by his uncle)	10,000
(iv)	Minor daughter P's earnings from sports	95,000
(v)	D's winnings from lottery (gross)	1,95,000

Discuss the tax implications in the hands of Mr. and Mrs. B.

Marks

(b) D & Co. has been providing taxable services for the past few years. Its gross value of taxable services provided during the financial year 2009-10 and 2010-11 is 12 lakhs and 8.75 lakhs respectively. During the financial year 2011-12 it provided service for ₹ 13 lakhs. Calculate the service tax liability of D & Co. for the financial year 2011-12. Rate of Service Tax 10%, Education cess 2% and Higher Education cess @ 1%. 4

(c) How is VAT computed under the subtraction method ? 4

3. (a) Mr. C inherited from his father 8 plots of land in 1980. His father had purchased the plots in 1960 for ₹ 5 lakhs. The fair market value of the plots as on 1-4-1981 was ₹ 8 lakhs. (₹ 1 lakh for each plot) 8

On 1st June 2001, C started a business of dealer in plots and converted the 8 plots as stock in trade of his business. He recorded the plots in his books and ₹ 45 lakhs being the fair market value on that date. In June 2005, C sold the 8 plots for ₹ 50 lakhs.

In the same year he acquired a residential house property for ₹ 45 lakhs. He invested an amount of ₹ 5 lakhs in construction of one more floor in his house in June 2006. The house was sold by him in June 2011 for ₹ 63,50,000/-.

The valuation adopted by the registration authorities for charge of stamp duty was ₹ 85,50,000. As per the assessee's request the assessing officer made a reference to a valuation officer. The value determined by the valuation officer was ₹ 87,20,000. Brokerage of 1% of sale consideration was paid by C.

The relevant Cost Inflation Indices are

F.Y.	1981-82	100
F.Y.	2001-02	426
F.Y.	2005-06	497
F.Y.	2006-07	519
F.Y.	2011-12	785

Give the tax computation for the relevant assessment years with reasoning.

(b) State whether the following are true or false giving reasons to substantiate your answer : 4

(i) A multiple service provider should file multiple service tax returns, one for each service provided.

(ii) A Ltd., a foreign company incorporated in the U.K., provides taxable services in India to B Ltd., an Indian company incorporated in Mumbai. In the instant case, the service recipient and not the service provider is liable to service tax.

(iii) Even if no service has been provided during a half year and no service tax is payable; the assessee has to file a nil return within the prescribed time limit.

(iv) The assessee cannot file a revised return under Service Tax Law.

(c) Enlist any six purchases eligible for availing input tax credit. 4

4. (a) Following is the profit and loss account of Mr. Q for the year ended 31-03-2012 : 8

Particulars	₹	Particulars	₹
To Repairs on Building	1,81,000	By Gross Profit	6,01,000
To Amount paid to IIT, Mumbai for an approved Scientific research programme	1,00,000	By I.T. Refund	8,100
		By Interest on Company Deposits	6,400
To Interest	1,10,000		
To Travelling	1,30,550		
To Net Profit	93,950		
	6,15,500		**6,15,500**

Following additional informations are furnished :

(1) Repairs on building includes ₹ 1,00,000 being cost of laying a toilet roof.

(2) Interest payments include ₹ 50,000 on which TDS has not been deducted and penalty for contravention of Central Sales Tax Act of ₹ 24,000.

Compute the income chargeable under the head "Profits and gains of Business or Profession" of Mr. Q for the year ended 31-03-2012 ignoring depreciation.

Marks

(b) Pranav Private Ltd., is engaged in providing a taxable service and furnishes you the following information : 4

Services billed and received	Amount (₹)
December, 2011 (includes ₹ 2,00,000 for the services rendered to the United Nations Organisation)	5,00,000
January, 2012 (includes ₹ 1,50,000 for the services rendered within the Indian territorial waters)	4,00,000
February, 2012 (includes ₹ 1,75,000 for services rendered to the RBI)	5,00,000
March, 2012 Advance receipt for services to be rendered in April 2012 (includes ₹ 1,60,000 for services rendered in the State of Jammu & Kashmir)	5,00,000

Compute the taxable services for the year ended 31-03-2012.

(c) What are the conditions to be fulfilled by the dealer accepting the composition scheme under the value added tax ? 4

5. (a) Mr. Rahul an assessee aged 61 years gives the following information for the previous year 31-03-2012 : 8

Sr.	Particulars	₹
a.	Loss from profession	1,05,000
b.	Capital loss on the sale of property-short term	55,000
c.	Capital gains on sale of shares-long term	2,05,000
d.	Loss in respect of self occupied property	15,000
e.	Loss in respect of let out property	30,000
f.	Share of loss from firm	1,60,000
g.	Income from card games	55,000
h.	Winnings from lotteries	1,00,000
i.	Loss from horse races in Mumbai	40,000
j.	Investment in infrastructure bonds	21,000
k.	Medical Insurance premium paid by cheque	18,000

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

Marks

(b) What are the consequences of non-payment or delayed payment of service tax ? **4**

(c) What is meant by input tax credit in the context of VAT provisions ? How does input tax credit help in achieving the essence of VAT ? **4**

6. (a) Discuss whether the following receipts are taxable and also indicate the head of income under which the same is taxable : **8**

(i) Bonus shares received by equity shareholder and preference share holder.

(ii) Loan advanced by a company in which public are not substantially interested to a person holding 15% of the beneficial ownership of the share capital of the company.

(iii) Medical allowance received by an employee, the entire amount of which has been spent by him for medical treatment.

(iv) Receipt of a cash gift of ₹ 60,000/- from a friend on the occasion of wedding anniversary.

(v) Contribution to provident fund recovered from an employee by an employer.

(vi) Gift of a plot of land given to a chartered accountant by one of his clients. The chartered accountant has been fully compensated for his services and this gift has been given in appreciation of his personal qualities.

(vii) A lawyer closed down his profession. Subsequently he accepted a case on the insistence of his friend but advised his friend to pay the fee payable to him directly to a charitable trust.

(viii) Payment from unrecognised provident fund at the time of retirement which consists of employee's contribution, employer's contribution and interest on both contributions.

(b) Briefly explain the provision relating to advance payment of Service Tax. **4**

(c) Discuss the compulsory and voluntary registration under VAT. **4**

Marks

7. (a) Answer any **two** of the following, three subsidiaries : 2×4 =8

(i) Bharghav doing textiles business furnishes you the following information : 4

Total turnover for the financial year :

	₹
2010-11	61,00,000
2011-12	59,00,000

State whether the provisions of tax deduction at source are attracted for the following expenses incurred during the financial year 2011-12 :

	₹
Interest paid to Indian Bank on Term Loan	92,800
Advertisement expenses to R (two individual payments of ₹ 24,000 and ₹ 34,000	58,000
Factory rent paid to C	1,85,000
Brokerage paid to B, a sub-broker	6,000

(ii) Enumerate the circumstances in which an individual assessee is empowered to sign & verify his return of income u/s 139 by himself or otherwise by an authorized signatory. 4

(iii) Discuss the tax implication arising consequent to conversion of a Capital Asset into stock-in-trade of business and its subsequent sale. 4

(b) Explain the treatment for excess amount of service tax collected from the Recipient under Service Tax. 4

(c) Since the VAT system emphasizes on self assessment the need for a system of cross-checking has arisen. Elaborate. 4

Computation of Total Income of Mr.Hari for A/Y 12/13

Ans. 1(a) :

HEADS OF INCOME		**Rs.**
Income from Salary (Arrears of salary)		40,000
Income from house property		
GAV / NAV	2,40,000	
Less: Deduction u/s 24(a) @ of 30% of NAV	72,000	1,68,000
Profits and Gains of Business or Profession		
Presumptive Income u/s 44AD (Rs.24,37,500 × 8%)	1,95, 000	
Less: B/F loss Rs.1,97,500 but restricted to . Balance of Rs.2,500 shall be c/ f.	1,95,000	Nil
Capital Gains		
POH 1-1-2009 to Sept.2011 = LTCA		
Sales Consideration (Bonus Share)	2,20,000	
Less: Indexed cost of Acquisition	NIL	
	2,20,000	
: B/F depreciation	1,50,000	70,000
Income from other sources (rent from vacant site)		1,12,000
Gross Total Income		3,90,000
Less: Deduction u/s 80G		
1. Prime Minister's National Relief Fund (30,000 × 100%)	30,000	
2. Charitable Trust [40,000 or 32,000 ,lower] × 50%	16,000	46,000
Total Income		3,44,000

Computation of Tax Liability of Mr. Hari for A/Y 12/13

LTCG on Bonus share **;** 20% of 70,000		14,000
Balance income at slab rates : Rs.2,74,000	2,20,000	9,400
		23,400
ADD : Education Cess @ 3%		702
Tax liability (R/O)		24,100

Working note :

1. Qualifying limit u/s 80G
   3,90,000 – 70,000 = 3,20,000
   Qualifying limit = 10% of 3,20,000 = 32,000

2. Bad debt recovered by son is not taxable as recovery is taxable in hands of that assessee who had claimed deduction of bad debt earlier

3 Bonus shares are assumed as unlisted shares therefore Sec.10(38) not available

100% COVERED

Ans.1(b) :

Computation of Service Tax & Education Cess Payable by Mr. Ghosh for January 2012.

Particulars	Value of Taxable Service	
1.Amount received in full and final settlement of bill raised on Amco Ltd.	7,00,000	(WN1)
2.Advance received form Atul Ltd.	3,00,000	(WN1)
3.Service provided to friend free of cost	Nil	(WN2)
4.Amount received for represented in Income Tax Appellate Tribunal	1,00,000	(WN3)
5.Amount received for service rendered as a part time lecturer in a local college.	Nil	(WN4)
Value of Total Taxable Service	11,00,000	

Total Service Tax Payable = 11,00,000 × 10.3 / 110.3 : 1,02,720
Basic Service tax : 99,728
Primary Education Cess : 1,995

W Note :

1. It is assumed that Chartered Accountant has availed option to pay service tax on received basis
2. Free Coaching is not liable to service tax.
3. Representational services by CA are chargeable to Service Tax.
4. Teaching activity by Chartered Accountant is not rendered in professional capacity & therefore would not be covered under Service Tax.

Ans.1(c) **Computation of VAT Liability of Varadan & Co. for the year ended on 31.3.2012**

Output VAT		
VAT Sale of taxable goods with in state (40,24,000 × 4 / 104)		1,54,769
Input VAT		
VAT on Purchase of Raw Material with in state (11,25,000 × 12.5 / 112.5)	1,25,000	
VAT on Purchase of capital goods (5,50,000 × 10 / 110 X ½)	25,000	1,50,000
Total Vat Payable		4,769

Working note : Import duty & CST is not allowed as Input tax Credit

100% COVERED

Ans. 2(a) :

Computation of Total Income of Mr and Mrs B

		Mr. B	Mrs. B
Income from B's profession		45,000	----
Income from Salary(as fashion designer)		----	76,000
Bank interest to Minor son D Clubbed u/s 64(1A) with Mrs.B		----	
Less :Exemption u/s 10(32) [10,000 – 1,500] :	8,500		
Lottery Income of D clubbed u/s 64(1A)	: 1,95,000		2,03,500
Income of minor daughter P's from sports (Not clubbed)			
Total Income		45,000	2,79,500

Ans.2(b) : Computation of service Tax liability for FY 11-12 of D & Co.

Total Service Provided	13,00,000
Less : Exemption limit (WN-1)	10,00,000
Value of Taxable Service	3,00,000

Service Tax Payable 3,00,000 × 10 %	30,000
Education cess @ 2% on 30,000	600
Higher Education cess @ 1% on 30,000	300
Total Service Payable	30,900

WN -1 : Small service provider exemption upto 10 lacs is available during F/Y 11/12 as value of taxable services is upto 10 lakhs in the Preceding financial year.

Ans.2(c) : **SUBTRACTION METHOD**

(a) In this method sales tax is levied at every stage of sale only on amount of value addition made at that stage.

(b) Value Added = Sales-Purchases.

(c) Since, in this method, tax is computed by applying tax rate to value added there is no need for any tax credit because the purchases have already been taxed, are not considered for taxation again.

(d) Formula for computation of VAT liability :

$$\text{VAT PAYABLE} = \frac{\text{VAT rate}}{100} \times \text{Value addition (Sales price less purchase price)}$$

(e) The subtraction method of computing VAT is normally applied where :
(i) Tax is not charged separately and
(ii) Same rate of tax is attracted on purchase as well as sale.

100% COVERED

Ans. 3(a)

Computation of Capital Gains u/s 45(2) for PY 05-06 / AY 06-07
(P/Y of sale of SIT)

POH : 1960 to 1/6/2001 = LTCA

1. Consideration [FMV on 1.6.2001]	45,00,000
Less: Indexed Cost of Acquisition u/s 49(1) (8,00,000 × 426 / 100)	34,08,000
Long Term Capital Gain	10,92,000
Less: Exemption u/s 54F (45,00,000 × 10,92,000 /45,00,000)	10,92,000
Taxable Long Term Capital Gain	Nil
2. Income from Business or Profession (50 lakh – 45lakh)	5,00,000
Taxable Income	5,00,000

Computation of Capital Gains for PY 2011-12 / AY 2012-13

POH : 2005 to June 2011 : LTCA

Sales Consideration u/s 50C (Stamp Duty Valuation)	85,50,000
Less: Indexed Cost of Acquisition (45,00,000 × 785 / 497)	71,07,646
Less: Indexed Cost of Improvement (5,00,000 × 785 / 519)	7,56,262
Less: Cost of transfer (1% of 63,50,000)	63,500
Long Term Capital Gain	6,22,592

Taxable income for PY 11-12 is = 6,22,592 & Tax @ 20% u/s 112 is 1,24,518 + 3% E/C 3,736 =1,28,250
After proviso to Sec 112 is 6,22,592 – 1,80,000 x 20% =88,518 + 3% E/C 2,656 = 91,170

Ans.3(b)

(i) The statement is False : Assessee providing more than one taxable service, can file a single return for all services provided by him. However, the details of each of the taxable service rendered by him shall be separately shown under columns of the form ST-3 .

(ii) The statement is True : As per Sec 66A of Chapter V of Finance Act,1994, In case of Import of service in India, the service receiver is liable to pay service tax. Therefore In present case Bltd is liable to pay service Tax

(iii) The statement is True : As per Sec 69 of Chapter V of Finance Act,1994,Every service provider is liable to liable to file return. Therefore even if no service has been provided during a half year and no service tax is payable, the assessee has to file a Nil return within the prescribed time limit.

(iv) The statement is False : As per Rule 6B of service Tax Rules,1994, 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 original return.

100% COVERED

Ans.3(c) **Eligible purchases for availing Input tax credit** (Mention any 6)

1. Purchase of goods for sale in same state
2. Purchase of goods for sale in other state
3. Purchase of capital goods for manufacturing goods
4. Purchase of capital goods for Resale in same state/other state
5. Purchase of goods for execution of a works contract
6. Purchase of goods for Export
7. Purchase of goods for Other zero rated sale
8. Purchase of Goods for packing

Ans. 4(a) **Calculation of Profits and Gains of Business or Profession in hands of Mr.Q for A/Y 12/13**

Net profit as per P & L account	93,950
Add : Capital Repairs (Roof of building	1,00,000
Add: Interest paid without TDS (Disallowed u/s 40(a)	50,000
Add: Penalty for contravention of CST	24,000
Less: Weighted deduction on donation for approved Scientific Research u/s 35(2AA) [1,00,000 X 200% – 1,00,000 = 1,00,000]	(1,00,000)
Less: Income Tax Refund	(8,100)
Less: Interest on company deposit	(6,400)
Profits and Gains of Business or Profession	1,53,450

Working Note : Depreciation is ignored as per requirement of question

Ans.4(b) : **Computation of Taxable Services for Pranav Private Ltd for year ended 31-03-2012**

Particular	**Amount**
1.Service rendered in Dec.11to United Nations Organisation (WN1)	Exempt
2.Service rendered in Dec.11 other than to UNO (5,00,000 – 2,00,000)	3,00,000
3.Service rendered in January 12 (including 1,50,000 for the services rendered within the Indian territorial waters)	4,00,000
4.Service rendered to RBI in February 12 (WN3)	Exempt
5.Service rendered other than to RBI in February 12 (5,00,000 – 1,75,000)	3,25,000
6.Advance received for service in the State of Jammu & Kashmir (WN4)	Exempt
7.Advance received for Service rendered other than in State of Jammu & Kashmir in March,2012(WN 5)	3,40,000
Value of Taxable Service	13,65,000

WN-1 Services provided to United Nations are exempted from the service tax.

WN-2 India includes territorial waters of India .Therefore Service tax extends to territorial waters of India

WN-3 All taxable services provided To/By RBI are exempt from service tax.

WN-4 Service tax is not levied if the services are provided in the state of Jammu and Kashmir.

WN-5 Advance received is liable to Service tax. If advance is received without service tax than value shall be 3,40,000 x 100/110.3

100% COVERED

Ans.4(c) **Conditions to be fulfilled by dealer accepting the Composition Scheme**

(a) Optional : The composition scheme is optional for the dealers having turnover greater than 10 lakhs upto 50 Lakhs```.

(b) Intimation : A dealer, intending to avail such composition scheme, will have to exercise the option in writing for a year or a part of the year in which he gets himself registered.

(c) No need to maintain statutory records : If a dealer avails of the composition scheme, he need not maintain any statutory records as required under the VAT-law. He will be required to maintain only the records of purchase or sales invoices

(d) Restrictive Purchases : The dealer opting for composition scheme should not purchase goods outside the state or outside country or from unregistered dealer

(e) No input credit: The dealer will not be allowed to claim input tax credit on his purchases

Ans 5(a) **Computation of Total Income of Mr.Rahul for A/Y 12/13**

Heads of Income		Amount
Income under Capital Gain		
Long Term Capital Gain on Sale of share	2,05,000	
Less: Short term capital loss on sale of property	(55,000)	
Less: loss from House Property (15,000 + 30,000)	(45,000)	
Less: loss from Profession	1,05,000	Nil
Income from Other sources		
Winning from lottery	1,00,000	
Income from card game	55,000	1,55,000
Gross Total Income		1,55,000
Less: Deduction u/s 80C to 80U		Nil
Total Income		1,55,000

Note : 1. Share of loss / profit from firm is exempt u/s 10(2A)
2. Deductions under chapter VI-A are not available from lottery winnings / card games i.e. casual income
3. Loss from horse races (Not eligible for set off)

Ans.5(b)

Interest for late payment of Service tax (Sec 75 of Chapter V of Finance Act ,1994)
Any person liable to pay the Service tax ,who fails to pay such tax or any part thereof within the period prescribed, shall pay Simple interest @ 18% p.a. for the period of Delay

In case of a service provider, whose value of taxable services provided in a financial year is upto 60,00,000 during the last preceding financial year such rate of interest, shall be reduced by 3% p.a.

Penalty for Non Payment of Service tax (Sec 76 of Chapter V of Finance Act ,1994)
Any person liable to pay Service tax who fails to pay such tax shall pay, in addition to such tax and interest u/s 75 a Penalty of Rs.100 for every day of failure or @ 1 % of such tax, per month, whichever is higher,
Starting with the first day after the due date till the date of actual payment of the outstanding amount of service tax The penalty payable u/s 76 shall not exceed 50% of Service tax payable.

100% COVERED

Ans.5(c)

<u>INPUT TAX CREDIT (ITC) means</u> VAT paid on Raw Material,Capital Goods or Packing material purchased within the state for manufacturing/processing/resale of goods is allowed as set off against tax on Sale of goods within same state or other state

Input Tax Credit :

i. Helps in determining the input tax credit;
ii. Prevents cascading effect of taxes;
iii. Facilitates multi-point taxation on the value addition;
iv. Assists in performing audit and investigation activities effectively;

Ans. 6(a)

(i) Bonus Share received by Preference shareholder is deemed as dividend u/s 2(22)(b) of Income Tax Act.But the Company is liable to pay CDT u/s 1150.Hence receipt in hands of Equity Shareholder is exempt u/s 10(34). However,Bonus received by Equity shareholder is not deemed as dividend. Hence tax free in hands of Equity shareholder

(ii) Loan received by shareholder holding minimum 10% beneficial ownership in a Closely held company is deemed as dividend u/s 2(22)(e).Hence shareholder is taxable under the head <u>Income from other sources</u>.

(iii) Medical allowance is fully chargeable to tax under the head <u>Salary</u> as no exemption is allowed

(iv) 60,000 is taxable under the head Income from <u>Other Sources</u> u/s 56(2) as it exceeds 50,000

(v) Deemed as Income under the head <u>PGBP</u> u/s 2(24)(x)

(vi) Perquisites u/s 28 under the head <u>PGBP</u>.

(vii) Taxable under head <u>PGBP</u> as It is application of income.

(viii) Employer's contribution & Interest is taxable under <u>Salary</u> u/s 17(3). Employee's contribution is not taxable. However, interest on employee's contribution is taxable under <u>Other Sources</u>.

Ans.6(b) : <u>Advance Payment of Service tax</u>

Every person liable to pay service tax, may, on his own volition, Pay an amount as Service tax in advance & Adjust the amount so paid against the service tax payable for the subsequent period

The assessee shall intimate Details of the amount of service tax paid in advance, to the jurisdictional Superintendent of Central Excise within <u>15 days</u> from the date of such payment & Indicate the details of the advance payment made and its adjustment in the subsequent return to be filed under section 70 of the Act

Ans.6(c) :

Dealers, whose Annual turnover exceeds 5 lakhs has to compulsory register themselves [White Paper on state level VAT].However, Empowered committee allowed states to increase the limit to 10 lakhs. A new dealer commencing business has to get himself registered within 30 days from the date of liability to get registered. Application for registration shall be made to Vat commissioner

<u>Compulsory registration</u> : If an assessee fails to obtain registration under the VAT act, he may be compulsorily registered by the commissioner**.**Then the commissioner shall assess the tax due from the assessee. Failure to get registered shall also result in penalty and forfeiture of eligibility to set off input tax credit

<u>Voluntary registration</u> : Any dealer not liable for registration may apply for voluntary registration. If commissioner is satisfied that business of applicant requires voluntary registration, the he may grant such registration. Commissioner may also impose any terms and conditions as he deem fit.

100% COVERED

Ans 7(a)(i) : As turnover exceeds 60 lacs during last financial year(F/Y10/11) ,TDS will apply if applicable

(i) Interest to Indian Bank : TDS provisions not applicable as per Sec 196 of Income tax Act
(ii) Advertisement expenses : TDS @ 1% u/s 194C on full 58,000 as one payment has exceeded 30,000
(iii) Factory Rent : TDS @ 10% u/s 194I on full 1,85,000 as payment exceeds 1,80,000
(iv) Brokerage : TDS @ 10% u/s 194H on full 6,000 as payment exceeds 5,000

Ans. 7(a)(ii)

As per Sec 140 of Income tax Act, A return shall be signed

In case of individual assessee :

(a) By the individual himself or
(b) Where individual is absent from India, then by individual himself or by any other person duly authorized by him.
(c) If he is mentally incapacitated, by his guardian.
(d) If for any other reason the individual is not able to sign, then by any person duly authorized by him.

Note : In case of (b) & (d) above,person signing the return should have valid power of attorney from the individual.

Ans. 7(a)(iii)

Section 45(2): Conversion of Capital Asset into Stock in Trade

Overriding Sec. 45 (1), Where assessee Converts a Capital Asset into Stock in Trade Capital Gain arising on above transfer shall be chargeable in hands of Assessee In P/Y in which such SIT is Sold or otherwise transferred

Special Points:

1. **Period of Holding** : Date of Acquisition to Date of conversion of asset to SIT
2. **Full value of Consideration** : FMV of such Capital Asset on Date of conversion
3. **Indexation** : P/Y of Holding to P/Y of conversion

4. Where Sale price is *greater* than FMV on date of conversion then (Sale Price – FMV) is taxable under head P/G/B/P

Ans 7(b) :

Payment of Excess Service tax to Govt (Sec 73A of Chapter V of Finance Act,1994)

Person liable to pay service tax shall pay Excess Service tax OR Person not liable to collect tax & who have collected any service tax shall pay such Service tax To the Central Government. If such person does not pay such amount , the central excise officer shall service on him a notice requiring him to pay such tax.

Interest payable on amount collected in Excess (Sec 73B of the same act)

Where amount has been collected in excess from the recipient of such service the person liable to deposit tax shall in addition to such excess amount be liable to pay interest @ 18%p.a The interest shall be payable from the 1st day of the month succeeding the month in which amount should have been paid till date of payment.

In case of a service provider, whose value of taxable services provided in a financial year is upto 60,00,000 during the last preceding financial year such rate of interest shall be reduced by 3% cent p.a.

Adjustment of Excess service Tax

Where assessee has paid to the credit of Central Government any amount in excess of the amount required to be paid towards service tax liability for a month or quarter, as the case may be, the assessee may adjust such excess amount paid by him against his service tax liability for the succeeding Month/Quarter upto 2,00,000 (W.E.F 1/4/12 100% amount)

Provided that the adjustment of excess amount paid as above shall be not due to wrong interpretation of law, taxability, classification, valuation or applicability of any exemption notification.

Ans 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 thx-evaders, the system will also bring in more equal competition in the sphere of trade and industry.

The aforesaid system of cross-checking will act as a deterrent for tax-evaders and will also lead to significant growth of tax revenue. Since there will be early identification of tax-evasion, the habitual offenders will fear adopting tax evasion practices and, therefore, there will be equal competition amongst the traders/ dealers.