

MOCK TEST PAPER – 2
INTERMEDIATE (IPC) : GROUP – I
PAPER – 4 : TAXATION
SUGGESTED ANSWERS / HINTS

1. (a) Computation of total income of Dr. Siddharth for the A.Y. 2013-14

	Particulars	₹	₹	₹
I	Income from profession			
	Net profit as per Income and Expenditure account		2,51,000	
	Less: Items of income to be treated separately			
	(i) Income tax refund (including interest)	18,000		
	(ii) Dividend from Indian companies	25,000		
	(iii) Winning from lottery (net of TDS)	35,000		
	(iv) Rent received	<u>58,000</u>	<u>1,36,000</u>	
			1,15,000	
	Add: Expenditure debited but not allowable			
	(i) Rent for his residence	45,000		
	(ii) Municipal tax paid relating to residential house at Mangalore included in administrative expenses	<u>12,000</u>	<u>57,000</u>	
			1,72,000	
	Less: Expenditure allowed but not debited			
	Depreciation on Clinic equipments u/s 32			
	- on ₹ 3,00,000 @ 15%	45,000		
	- on ₹ 1,10,000 @7.5% (i.e.50% of 15%)	<u>8,250</u>		
		53,250		
	Additional deduction of 100% in respect of amount paid to IIT [since weighted deduction of 200% is available in respect of such payment under section 35(2AA)]	<u>80,000</u>	<u>1,33,250</u>	38,750
II	Income from house property			
	Gross Annual Value (GAV)		58,000	
	Less : Municipal taxes paid		<u>12,000</u>	
	Net Annual Value (NAV)		46,000	

	Less : Deduction under section 24 @ 30%		<u>13,800</u>	32,200
III	Income from other sources			
	Interest on Income-tax refund		2,000	
	Dividend from Indian companies	25,000		
	Less: Exempt under section 10(34)	<u>25,000</u>	Nil	
	Winnings from lottery (See Note 1)		<u>50,000</u>	<u>52,000</u>
	Gross Total Income			1,22,950
	Less: Deductions under Chapter VI A:			
	- Under section 80C			
	Tuition fee paid to university for full time education of his daughter		65,000	
	- Under section 80E			
	Interest on loan taken for higher education of son		<u>75,000</u>	
			<u>1,40,000</u>	
	but restricted to (See Note 2)			72,950
	Total income			<u>50,000</u>

Notes:

1. Winnings from lottery should be grossed up for the chargeability under the head "Income from other sources". The applicable rate of TDS is 30%. Gross income from lottery, would, therefore, be ₹ 35000/70% = ₹ 50,000.
2. Deduction under Chapter VI-A cannot exceed Gross Total Income. Further, no deduction is allowable from income by way of winning from lottery. Therefore the maximum deduction allowable would be ₹ 72,950.

₹

Gross Total Income 1,22,950

Less: Winnings from lottery 50,000

Maximum deduction under Chapter VI-A 72,950

The total income of ₹ 50,000 would, therefore, represent winnings from lottery taxable at a flat rate of 30%, without any basic exemption limit.

3. Dr. Siddharth is staying in a rented premises in Mangalore itself. Hence, he would not be eligible for deduction under section 80GG, since he owns a house in Mangalore which he has let out.

(b) "Selling of space or time slots for advertisements other than advertisements broadcast by radio or television" is included in the Negative List of services as per section 66D of the Finance Act, 1994. Hence, sale of space for advertisement in print media, sale of space for advertisement in bill boards, public places (including stadia), and Aerial advertising are not taxable as they are included in the negative list. However, following services are excluded from the negative list:-

- (i) Services provided by advertisement agencies relating to making or preparation of advertisements.
- (ii) Merely canvassing advertisement for publishing on a commission basis.
- (iii) Sale of space or time for advertisement to be broadcast on radio or television.

Hence, the aforesaid services are taxable.

Thus, the amount of service tax payable by M/S Rohini Advertising agency for the quarter ending 31.03.2013 would be as follows:-

Particulars	Amount(₹)
Aerial bill-boards	Nil
Sale of time for advertisement to be broadcast on TV Channel	1,10,000
Advertisement via banner at public places	Nil
Services related to preparation of advertisement	95,000
Sale of space for advertisement in newspaper	Nil
Sale of time for advertisement to be broadcast on FM Radio	55,000
Canvassing advertisement for publishing on a commission basis	<u>25,000</u>
Value of taxable service	<u>2,85,000</u>
Service tax @ 12% [2,85,000×12%]	34,200
Education cess @ 2% [34,200×2%]	684
Secondary and higher education cess @ 1% [34,200×1%]	<u>342</u>
Service tax liability	<u>35,226</u>

(c) **Computation of total turnover, input VAT and output VAT:-**

Goods	Purchases	Input VAT credit	Sales	Output VAT
	₹	₹	₹	₹
X	3,00,000	Nil (since exempt)	3,50,000	Nil (since exempt)
Y (Refer Note)	3,25,000	40,625	3,57,500	44,688

below)				
Z	4,00,000	16,000	6,50,000	26,000
Total	10,25,000	56,625	13,57,500	70,688

Hence, the total turnover is ₹13,57,500, input VAT is ₹56,625 and output VAT is ₹70,688.

Computation of VAT payable for the month of April, 2013:-

Particulars	₹	₹
Opening balance of Input VAT credit		5,500
Add: Input VAT credit for April, 2013		56,625
Total Input VAT credit available		62,125
Less: Output VAT payable on taxable turnover		<u>70,688</u>
Net VAT payable		<u>8,563</u>

Note: Purchase value of Goods Y (excluding VAT)	3,25,000
Add: Profit on cost @ 10%	<u>32,500</u>
Selling price before VAT	<u>3,57,500</u>
VAT @ 12.5% on selling price (rounded off)	44,688

2. (a) Computation of total income of Mr. Chandan for the A.Y. 2013-14

Particulars	₹
Basic salary (₹ 6,500 x 12)	78,000
Dearness Allowance (₹ 2,200 x 12)	26,400
Commission (₹ 4,00,000 x 1%)	4,000
Value of unfurnished accommodation at concessional rate (Note 1)	620
Gift voucher given on the occasion of marriage anniversary (Note 2)	Nil
Medical Reimbursement (₹ 25,000 – ₹ 15,000) (Note 3)	10,000
Perquisite value of Alto owned by Beta Ltd. and provided to Mr. Chandan for his personal and official use [(₹ 1,800 + ₹ 900) x 12]	32,400
Professional tax paid by the employer	2,000
Gross salary	1,53,420
Less : Deduction under section 16(iii) - professional tax paid (Note 4)	5,000
Net Salary/ Gross Total Income	1,48,420
Less: Deduction under Chapter VI-A	
Deduction under section 80D in respect of medical insurance premium paid by cheque (premium paid in cash not eligible for deduction)	3,200
Total Income	1,45,220

Notes:

- (1) In case of accommodation taken on lease by the employer, there would be deemed concession in the matter of rent i.e. the rent paid by the employer or 15% of salary, whichever is lower, exceeds rent recoverable from the employee.

15% of salary for the relevant period (i.e. 5 months from 1.11.2012 to 31.03.2013)

$$= 15\% \text{ of } [(\text{₹ } 6,500 \times 5) + (\text{₹ } 2,200 \times 30\% \times 5) + (\text{₹ } 4,000 \times 5/12)]$$

$$= 15\% \text{ of } [(32,500 + 3,300 + 1,667)]$$

$$= \text{₹ } 5,620$$

Hence, 15% of salary is ₹ 5,620. Rent paid by the employer is ₹ 7,500 (i.e. ₹ 1,500 x 5). The lower of the two is ₹ 5,620, which exceeds the rent paid by the employee i.e., ₹ 5,000 (₹ 1,000 x 5). Therefore, there is a deemed concession in the matter of rent. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent free unfurnished accommodation	₹ 5,620
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Less: Rent paid by the employee (₹ 1,000 X 5)	<u>₹ 5,000</u>
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Value of unfurnished accommodation given at a concessional rent	<u>₹ 620</u>
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Note- Since Mr. Chandan has occupied the house only from 1.11.2012, salary would be considered only in respect of the months during which he has occupied the accommodation. Hence, salary for 5 months (i.e. from 1.11.2012 to 31.3.2013) would be considered.

- (2) The value of gift voucher does not exceed ₹ 5,000 during the previous year and hence, not taxable.
- (3) Clause (v) of the proviso to section 17(2) exempts any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family to the extent of ₹ 15,000. Since Mr. Chandan's brother is wholly dependent on him, he is covered under the definition of "family". Therefore, in this case, the balance of ₹ 10,000 (₹ 25,000 – ₹ 15,000) is a taxable perquisite.
- (4) Professional tax is allowed as deduction only when it is actually paid by the employee during the previous year. If professional tax is reimbursed or directly paid by the employer on behalf of the employee, the amount so paid is first included as salary income and then allowed as a deduction under section 16.
- (b) (i) **The statement is false.** The rate of service tax will be the rate in force at the time when the taxable service has been provided or agreed to be provided.

- (ii) **The statement is true.** Services provided by RBI are not chargeable to service tax as they are included in the negative list of services.
 - (iii) **The statement is true.** Provision of service by an employee to the employer is outside the ambit of service tax because it has been specifically excluded from the definition of service. Hence, service tax cannot be levied on it.
 - (iv) **The statement is false.** Explanation to the definition of service clarifies that the term 'service' does not cover duties performed by Members of Parliament and State Legislatures. Hence, they are not liable to service tax.
- (c) **The statement is valid.** Under the VAT system, credit of duty paid is allowed against the liability on the final product manufactured or sold. Therefore, unless proper records are kept in respect of various inputs, it is not possible to claim credit. Hence, suppression of purchases or production will be difficult because it will lead to loss of revenue. A perfect system of VAT is a perfect chain where tax evasion is difficult. Hence, it is said that VAT is a logical beauty.

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

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

He possesses a self-occupied house at Phoenix as well as at Surat. At his option, one house shall be treated as self-occupied, whose annual value will be nil. The other self-occupied house property will be treated as "deemed to be let out property".

The annual value of the Phoenix house is ₹ 11,34,000 and the Surat flat is ₹ 4,00,000. Since the annual value of Phoenix house is obviously more, it will be beneficial for him to opt for choosing the same as self-occupied. The Surat house will, therefore, be treated as "deemed to be let out property".

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

Accordingly, the income from house property of Mr. Khurana will be calculated as under -

	Particulars	₹	₹
1.	Self-occupied house at Phoenix		
	Annual value	Nil	
	Less: Deduction under section 24	Nil	
	Chargeable income from this house property		Nil
2.	Deemed let out house property at Surat		
	Annual value (Higher of municipal value and fair rent) [₹ 40,000 x 10]		4,00,000
	Less: Municipal taxes paid		<u>17,400</u>
	Net Annual Value (NAV)		3,82,600
	Less: Deductions under section 24 -		
	30% of NAV	1,14,780	
	Interest on borrowed capital (See Note below)	<u>1,99,940</u>	<u>3,14,720</u>
			67,880
3.	Arrears in respect of Warangal property		
	Arrears of rent received	88,000	
	Less: Deduction @ 30%	<u>26,400</u>	61,600
	Income chargeable under the head "Income from house property"		1,29,480

Note : Interest on borrowed capital	₹
Interest for the current year (₹ 42,000 + ₹ 1,50,100)	1,92,100
Add: 1/5th of pre-construction interest (₹ 39,200 x 1/5)	7,840
Interest deduction allowable under section 24	1,99,940

- (b) 'Monetary consideration' means any consideration received in the form of money. According to Section 65B(33) "money" means legal tender, cheque, promissory note, bill of exchange, letter of credit, draft, pay order, traveller cheque, money order, postal or electronic remittance or any such similar instrument but shall not include any currency that is held for its numismatic value. On the other hand, 'Non-monetary consideration' essentially means compensation in kind. For instance:

- (A) Supply of goods and services in return for provision of service.
- (B) Refraining or forbearing to do an act in return for provision of service.
- (C) Tolerating an act or situation in return for provision of a service.
- (D) Doing or agreeing to do an act in return for provision of a service.

(c) Computation of VAT and invoice value:-

Particulars	₹
Imported material cost	2,00,000
[Since, this is not a VAT levied inside the State, it will form part of cost of input]	25,000
Add: Cost of local materials	2,25,000
Less: VAT@12.5%	<u>25,000</u>
[Since, credit of ₹ 25,000 would be available, it will not be included in cost of input]	2,00,000
Add: Other expenses and profit	<u>90,000</u>
Sales Price of goods	5,15,000
Add: VAT on the above @12.5%	<u>64,375</u>
Invoice value charged by Mr. Vivek to the manufacturer	5,79,375

VAT charged by Mr. Vivek Gupta is ₹ 64,375.

4. (a) Computation of total income of Shikha for the A.Y. 2013-14

Particulars	₹	₹
Profit of business of consumer and house-hold products	50,000	
Less: Loss of business of readymade garments for the year adjusted under section 70(1)	<u>10,000</u>	
	40,000	
Less: Brought forward loss of catering business closed in A.Y. 2012-13 set off against business income for the current year as per section 72(1)	<u>15,000</u>	25,000
Profit of speculative transaction		<u>12,500</u>
Total Income		<u>37,500</u>

Notes :

1. Loss of speculative transaction of A.Y.2008-09 is not allowed to be set off against the profit of speculative transaction of the A.Y.2013-14, since, as per the provisions of section 73(4), such loss can be carried forward and set-off for a maximum period of 4 assessment years i.e. up to A.Y.2012-13.
2. Short term capital loss of ₹ 15,000 on sale of securities and shares has to be carried forward as per section 74 since there is no income under the head Capital Gains for the A.Y.2013-14. The loss is to be carried forward for set off in future years against income chargeable under the head "Capital Gains". Such loss can be carried forward for a maximum period of 8 assessment years

immediately succeeding the assessment year in which the loss was first computed.

- (b) An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A, exceeds the maximum amount not chargeable to tax i.e. ₹ 2,00,000 (for A.Y. 2013-14).

Computation of total income of Mr. Saurabh for A.Y. 2013-14

Particulars	₹
Income from other sources	
Interest earned from Non-resident (External) Account ₹ 2,00,000 [Exempt under section 10(4)(ii), since Mr. Saurabh has been permitted by RBI to maintain the aforesaid account]	NIL
Interest on fixed deposit with SBI	51,000
Interest on savings bank account	7,500
Gross Total Income	58,500
Less: Deduction under section 80TTA (Interest on saving bank account)	7,500
Total Income	51,000

Since the total income of Mr. Saurabh for A.Y.2013-14, before giving effect to the deductions under Chapter VI-A, is less than the basic exemption limit of ₹ 2,00,000, he is not required to file return of income for A.Y.2013-14.

Owning a shop having area of 170 sq.ft in Cochin would not make any difference to the answer.

- (c) As per rule 3 of the Point of Taxation Rules, 2011, point of taxation would be determined as follows:-

1. Date of invoice or payment, whichever is earlier, if the invoice is issued within 30 days from the date of completion of service.
2. Date of completion of provision of service or payment, if the invoice is not issued within 30 days from the date of completion of service.

Point of taxation in each of the three given cases will be as under:

CASE I-The point of taxation is date of payment [15th February, 2013] as date of payment falls before date of issuance of invoice [20.02.2013] and invoice has been issued within 30 days of completion of service.

CASE II- The point of taxation is date of completion of service [5th February, 2013] as date of completion of service falls before date of payment [15.02.2013] and invoice [06.03.2013] has not been issued within 30 days of completion of service.

CASE III- The point of taxation is 10th February, 2013 as date of invoice [10.02.2013] falls before date of payment [15.02.2013] and invoice has been issued within 30 days of completion of service.

(d)

Computation of invoice value	₹	₹
Cost of goods purchased		5,00,000
Add: Manufacturing and transport expenses	25,000	
Add: Profit margin	<u>30,000</u>	<u>55,000</u>
Sale Value		5,55,000
Add: VAT @ 12.5%		<u>69,375</u>
Invoice Value		6,24,375
Computation of amount of VAT payable	₹	₹
VAT charged on sales		69,375
Less: Input credit of VAT paid on purchases @ 12.5% on 5,00,000		<u>62,500</u>
Tax payable under VAT		<u>6,875</u>

5. (a) **Computation of “Profits and gains of business or profession” of Mr. Suri for the A.Y. 2013-14**

Particulars	₹	₹
Net profit as per Profit and Loss Account		24,84,000
Add : Expenses not deductible		
Donation to Prime Minister Relief Fund (Note 1)	80,000	
Provision for bad debts (Note 2)	45,000	
Family planning expenditure incurred on employees (Note 3)	28,000	
Depreciation as per profit and loss account	18,000	
Income-tax (Note 4)	1,20,000	
Employer's contribution to recognized provident fund (Note 5)	<u>29,000</u>	<u>3,20,000</u>
		28,04,000
Less : Expenses allowed		
Depreciation as per Income-tax Rules, 1962		<u>28,000</u>
		27,76,000
Add : Employee's contribution included in income as per section 2(24)(x) (Note 6)		<u>26,000</u>
Income under head Profits and gains of business or profession		<u>28,02,000</u>

Notes:-

- (1) Donation to Prime Minister Relief Fund is not allowed as deduction from the business income. It is allowed as deduction under section 80G from the gross total income.
 - (2) Provision for bad debts is allowable as deduction under section 36(1)(viia) (subject to the limits specified therein) only in case of banks, public financial institutions, State Financial Corporation and State Industrial Investment Corporation. Therefore, it is not allowable as deduction in the case of Mr. Suri.
 - (3) Expenditure on family planning is allowed as deduction under section 36(1)(ix) only to a company assessee. Therefore, such expenditure is not allowable as deduction in the hands of Mr. Suri.
 - (4) Income-tax paid is not allowed as deduction as per the provisions of section 40(a)(ii).
 - (5) Since Mr. Suri's contribution to recognized provident fund is deposited after the due date of filing return of income, the same is disallowed as per provisions of section 43B.
 - (6) Employee's contribution is includible in the income of the employer by virtue of section 2(24)(x). The deduction for the same is not provided for as it was deposited after the due date. It has been assumed that it has not been already debited in the given profit and loss account.
 - (7) TDS provisions under section 194A are not attracted in respect of payment of interest on bank loan. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.
 - (8) Since, the payment of bonus is made in October 2012, hence, no disallowance is attracted.
- (b) Yes, Mrs Neelam Goyal, can adjust ₹ 2,60,000, the excess payment of service tax against her liability of service tax for the subsequent periods subject to the fulfillment of specified condition.
- Rule 6(4B) provides for only one condition for adjustment of excess amount paid towards service tax liability that is the excess amount paid is on account of reasons not involving interpretation of law, taxability, classification, valuation or applicability of any exemption notification. Hence, unlimited amount of permissible adjustment is allowed of excess service tax paid.
- (c) Among the three variants of VAT, the consumption variant is widely used. Several countries of Europe and other countries have adopted this variant. The reasons for preference of this variant are:

Firstly, it does not affect decisions regarding investment because the tax on capital goods is also set-off against the VAT liability. Hence, the system is tax neutral in respect of techniques of production (labour or capital-intensive).

Secondly, the consumption variant is convenient from the point of administrative expediency as it simplifies tax administration by obviating the need to distinguish between purchases of intermediate and capital goods on the one hand and consumption goods on the other hand.

- 6 (a) As per Circular No. 4/2008 dated 28th April, 2008 issued by the CBDT, the service tax paid by the tenant does not partake the nature of income of the landlord. The landlord only acts as a collecting agency for collection of service tax. Therefore, tax under section 194-I is required to be deducted at source on the amount of rent paid or payable excluding the amount of service tax, i.e. tax has to be deducted under section 194-I on ₹ 8.4 lakh @ 10%.

Hence, in the given case, TDS under section 194-I would amount to ₹ 14,000, to be deducted every month.

- (b) (i) As Mr. Foogy visits India for 90 days every year, he would be visiting less than 365 days during four preceding years though he remains in India for more than 60 days in the relevant previous year. He does not satisfy any of the basic conditions viz. (i) stay during the relevant previous year of 182 days; or (ii) stay of 365 days in four preceding previous years and 60 days in the relevant previous year.

Since he has not satisfied any of the basic conditions, he will be a non-resident for the assessment year 2013-14.

- (ii) Ms. Madhu has left India for the first time. She has not remained in India for 182 days during the previous year, hence, she does not satisfy first of the two basic conditions.

However, she has remained in India for 365 days in *four* preceeding previous years and 60 days in the relevant previous year. Thus, she satisfies the second condition of the basic conditions.

Therefore, she is a resident during the A.Y. 2013-14. To be a resident and ordinarily resident, she should satisfy both the following conditions:

- (1) She should be a resident in any 2 out of the last 10 years preceeding the P.Y. 2012-13.
- (2) Her total stay in India in the last 7 years preceeding the P.Y. 2012-13 should be 730 days or more.

It can be seen that Ms. Madhu also satisfies both the additional conditions, hence her status would be "resident and ordinarily resident" for the

assessment year 2013-14.

Note: The extended stay period of 182 days will not be applicable to Ms. Madhu since she has not gone out of India for the purpose of employment outside India.

- (c) Where neither of the currencies exchanged is Indian Rupee, the value shall be equal to 1% of the lesser of the two amounts the person changing the money would have received by converting any of the two currencies into Indian Rupee on that day at the reference rate provided by RBI.

Hence, in the given case, value of taxable service would be 1% of the lower of the following:-

- (a) US dollar converted into Indian rupees = \$ 1,80,000 × ₹ 45
= ₹ 81,00,000
- (b) UK pound converted into Indian rupees = £ 90,000 × ₹ 80
= ₹ 72,00,000

Value of taxable service = 1% of ₹ 72,00,000 = ₹ 72,000

- (d) (i) The statement is **false**. Taxpayer's Identification Number (TIN) is a 11 digit numeral. The first two characters represent State Code as used by the Union Ministry of Home Affairs and the next nine characters will be different in different states.
- (ii) The statement is **true**. In view of the fact that lot of time and energy is wasted by the dealer in getting the declaration forms from the Department, most of earlier forms have been dispensed with. There is no declaration form prescribed under VAT.
7. (a) The following persons (mentioned in Column III below) are authorised as per section 140, to sign and verify the return of income filed under section 139.

I	II	III
(i)	Local authority	Principal Officer thereof
(ii)	Association of Persons	Any member of the association or the principal officer thereof.
(iii)	LLP	Designated partner, or Where the designated partner is not able to sign and verify the return for any unavoidable reason or where there is no designated partner, any partner of the LLP can sign the return.

(b) **Computation of total income of Mr. Ashutosh for the A.Y. 2013-14**

	Particulars	₹	₹
(i)	Income from house property		
	Rent from let out residential house	2,40,000	
	Less: Deduction under section 24 @ 30%	<u>72,000</u>	1,68,000
	Arrears of rent taxable u/s 25B	60,000	
	Less: Deduction @ 30%	<u>18,000</u>	<u>42,000</u>
			2,10,000
(ii)	Income from business or profession		
	Business income : Manufacture of latex (See Note below)		1,40,000
(iii)	Subsidy from rubber board for replacement of rubber plants [Exempt under section 10(31)]		Nil
(iv)	Net income from growing of bamboo- agricultural income [Exempt under section 10(1)]		Nil
	Total income		3,50,000

Note-

Total profit from sale of latex = 16 lakhs - 7 lakhs - 5 lakhs = 4 lakhs

Agricultural income = 65% of ₹ 4 lakhs = 2,60,000

Business income (As per Rule 7A) = 35% of ₹ 4 lakhs = 1,40,000

(c) **Computation of the value of taxable service and the service tax payable:**

Particulars	Amount ₹
Advances received from clients for which no service has been rendered so far (Note-1)	8,00,000
Demurrage charges recovered for use of the services beyond the agreed upon period (Note-2)	50,000
Security deposits forfeited for damages done by service receiver owing to his negligence in the course of receiving a service (Note-2)	5,00,000
Payment received from ABC Ltd. (Note-3)	<u>1,50,000</u>
Total	<u>15,00,000</u>
Value of taxable service = ₹ 15,00,000 × $\frac{100}{112.36}$	13,34,995
Service tax liability = ₹ 15,00,000 × $\frac{12.36}{112.36}$	1,65,005

Notes:

1. Advances received in March, 2013 shall be taxable in the month of receipt of advance only [Explanation to rule 3 of the Point of Taxation Rules, 2011].
 2. As per rule 6 of the Service Tax Valuation (Determination of Value) Rules, 2006, following charges are includible in the value of taxable service:-
 - (a) Demurrage charges recovered for use of the services beyond the period agreed upon.
 - (b) Security deposits forfeited for damages done by service receiver in the course of receiving a service. However, if the forfeited deposits relate to accidental damages due to unforeseen actions not relatable to provision of service, then such forfeited deposits would be excluded.
 3. Excess payment made as a result of a mistake, if not returned and retained by the service provider, becomes a part of the taxable value. Hence, entire ₹ 1,50,000 would form part of taxable value.
- (d) Under gross product variant of VAT, deduction for taxes on all purchases of raw materials and components is allowed. However, deduction for tax paid on capital goods is not allowed. Hence, the VAT liability under gross product variant would be calculated as under:

Computation of VAT liability under Gross Product Variant

Particulars	₹
VAT payable on sales (9,00,000 × 4%)	36,000
Less: Input VAT allowed on raw material (6,00,000 × 4%)	<u>24,000</u>
Net VAT payable	12,000

Under consumption variant of VAT, deduction for taxes paid on all business purchases including capital goods is allowed. Hence, VAT liability under consumption variant would be calculated as under:

Computation of VAT liability under Consumption Variant

Particulars	₹	₹
VAT payable on sales (9,00,000 × 4%)		36,000
Less: Input VAT allowed on raw material (6,00,000 × 4%)	24,000	
Input VAT allowed on capital goods (2,50,000 × 4%) (whole input tax credit is allowed in the year of acquisition itself)	<u>10,000</u>	34,000
Net VAT payable		<u>2,000</u>

Since, the net VAT liability under consumption variant is less than the VAT liability under gross product variant, consumption variant is beneficial to the dealer.