SOLUTIONS [JUNE-2014]
CS-EXECUTIVE (NEW)
TAX LAW & PRACTICE
BY CA SANDEEP SAHRAWAT

Answer No. 1

(a) : See page No. 267 of our Class Book [Miscellaneous Topics].

(b) : See page No. 146 of our Class Book [Capital Gains].

(c) : Analysing the argument of Mr. A :

Particulars	*Period 1 (April, 2013 – Sep. 2013) 6 months (Rs.)*	*Period 2 (Oct, 2013 – Mar 2014) 6 months (Rs.)*
Lower of the following amount is exempt :		
(a) Actual amount of H.R.A. received	30,000	30,000
(b) Rent paid in excess of 10% of salary	Nil	36,000 [60,000 – 24,000]
(c) 40% of salary	96,000 [4,80,000 × 6/12 × 40%]	96,000 [4,80,000 × 6/12 × 40%]
Exempt amount (*i.e.* lower of the above)	*Nil*	30,000
Taxable amount (i.e. Received – Exempt)	**30,000**	**Nil**

Based on the above calculation, we conclude that argument of Mr. A is NOT correct.

(d) : 'Assets' or 'Not':

Answer	*Reason [based on Section 2(ea) of Wealth Tax Act, 1957]*
(i) YES it is an 'ASSET'	Since it is situated within 22 KMs. from the municipal limits of Vidisha.
(ii) YES it is an 'ASSET'	Since factory building is a 'commercial property' it will be treated as an 'assets' EVEN though it is leased out.
(iii) NO it is not 'ASSET'	Where any residential house is let-out for 300 days or more during the relevant year, it ceases to be an 'asset'.
(iv) YES it is an 'ASSET'	Since it is not meant for 'commercial purpose' rather it is meant for exclusive use of M.D. therefore, is an 'asset'.
(v) NO it is not 'ASSET'	Recorded cash in case of company is not regarded as 'asset'.

(e) : See page No. 89 of our Class Book. [Income from House Property]

Answer No. 2

(a) : Difference between TDS and TCS

TDS	*TCS*
1. Provisions relating to TDS are (mainly) covered under sections 190 to 200.	1. Provisions relating to TCS are (mainly) covered under sections 206C and 206CA.
2. As the name implies, TDS means deduction from the income of the 'payee'. Thus payment is made SHORT.	2. On other hand, TCS means paying the amount of TCS over and above the 'sale price'. Thus payment is made MORE.
3. Here the obligation for payment of TDS to the credit of Govt. is on the 'payer'.	3. Here the obligation for payment of TCS to the credit of Govt. is on the 'payee'.
4. Instances where TDS is made : ▪ Salary payments ; ▪ Rent payments ; ▪ Professional and technical fees; ▪ Payments to contractors etc.	4. Instances where TCS is made : ▪ Sale of 'scrap', 'Minerals'; ▪ Sale of Jewellery and Bullion; ▪ Lease of Mines, Toll Plaza, Parking lots.

(b) : See page No. 155 of our Class Book.

(c) : See page No. 313 of our Class Book.

Answer No. 2A

(i) : See page No. 115 of our Class Book [PGBP].

(ii) : Calculation of deduction under section 80D :

Payment for whom	*Particulars and amount of payment*		*Deduction*
1. *For himself and wife*	Medical insurance premium Central Government's Health Scheme P.H. Scheme **Total** **Limit**	: Rs.10,000 : Rs.4,400 : Rs.3,000 **: Rs.17,400** **: Rs.15,000**	**Rs. 15,000**
2. *For Senior Citizen Father*	Medical insurance premium P.H. Scheme **Total** **Limit**	: Rs.17,000 : Rs.4,000 **: Rs.21,000** **: Rs.20,000***	**Rs. 20,000**

* For senior citizens, the limit of Rs. 15,000 is increased to Rs. 20,000.

Total Deduction under section 80D = Rs. 35,000

(iii) : See page No. 238 of our Class Book [Return of income and assessment procedure].

Answer No. 3

(a) : Calculation of Advance Tax payable by Kiran :

	(Amount in Rs.)
Gross total income (including LTCG)	30,75,000
Gross total income	30,75,000
Less : Deductions of Chapter VI-A:	
♦ Deduction of section 80C : Investment in PPF	80,000
Taxable income	29,95,000
Tax on 'normal income' at the rate of 'slabs' [i.e. tax on 19,95,000]	4,28,500
Tax on LTCG at the rate of 20% [10,00,000 × 20%]	2,00,000
Total	6,28,500
EC + SHEC @ 3% of tax amount	18,855
Total tax (rounded off)	6,47,360

Q—2 (i.e. 'Due Date' 15th Sep) : Advance tax liability—

[6,47,360 — 2,06,000 (i.e. tax on LTCG) — 1,85,000 (i.e. TDS)] × 30% — 76,908

Q—3 (i.e. 'Due Date' 15th Dec) : Advance tax liability—

[6,47,360 — 1,85,000 (i.e. TDS)] × 60% = 2,77,416 — 76,908 — 2,00,508

Q—4 (i.e. 'Due Date' 15th Mar) : Advance tax liability—

[6,47,360 — 1,85,000 (i.e. TDS)] = 4,62,360 — 2,77,416 — 1,84,944

(b) : Calculation of value of property as per Schedule-III of Wealth Tax Act, 1957 :

Calculation of Gross Maintainable Rent (GMR) :	Rs.	Rs.
Rent (Annual) [2,00,000 × 12]		24,00,000
Add : Municipal taxes paid by the tenant		90,000
Add : Proportionate amount of non-refundable deposit i.e. (2,00,000 × 5 ÷ 10) × 6/12		50,000
		25,40,000
Calculation of Net Maintainable Rent (NMR) :		
Gross Maintainable Rent (GMR)		25,40,000
Less: Municipal taxes		90,000
Less: Standard deduction (i.e.15% of 25,40,000)		3,81,000
Net Maintainable Rent (NMR)		20,69,000
Capitalised value i.e. 20,69,000 × 12.5*		2,58,62,500

* Since the property is owned by Jay Ltd., therefore capitalization will be made on 12.5.

(c) : See page No. 133 of our Class Book [PGBP].

Answer No. 4

(a) : Computation of total income Ms. Malani for A.Y. 2015-15 :

Income from 'salary'	1,00,000	
Set–off : Loss from house property	–40,000	60,000
PGBP :		
♦ Loss from 'speculative' business [To be carried forward]	–	
♦ Income from 'textile' business	50,000	
Set–off : Brought forward losses of 'textile' business	–50,000	–
♦ Income from 'activity of owning and maintaining race horses'	15,000	
Set–off : Brought forward losses of such business	–15,000	–
Capital Gains :		
♦ LTCG on sale of land	30,000	
Set–off : Long Term Capital loss on sale of 'shares'	–30,000	
♦ STCG on sale of Equity Shares (STT Paid)	1,40,000	1,40,000
	Gross Total Income	**2,00,000**

Carry forward of losses for A.Y. 2015-16 :	Rs.	Years of c/f
1. Loss from 'speculative' business [Section 73]	60,000	4 years
2. Losses of 'textile' business [Section 72]	–	No more c/f
3. Losses of 'activity of owning and maintaining race horses' [Section 74A] (Rs.25,000 –Rs.15,000)	10,000	2 years
4. Long Term Capital loss on sale of 'shares' [Section 74]	70,000	8 years

(b) : Calculation of taxable income and amount of tax liability of Aaram Company (firm) :

		(Rs.)
Net profit		7,35,200
Add :		
1. Depreciation debited to profit and loss account	1,00,000	
2. Donation included in 'sundry expenses'	30,000	
3. Remuneration to partners	7,40,000	
4. Interest to partners in excess of 12% p.a.		
♦ Vinay [54,000 × 6/18]	18,000	
♦ Vivek [81,000 × 6/18]	27,000	**9,15,000**
Less :		
1. Depreciation admissible as per Income Tax Rules	1,36,000	
2. Dividend [Other source item].	28,200	

3. Winnings from lotteries [Other source item].	1,40,000	**3,04,200**
Book Profit		**13,46,000**
Less : Remuneration of partners (LOWER of the following) :		
(i) Limit of section 40(b) [(3,00,000 × 90%) + 10,46,000 × 60%]	8,97,600	
(ii) Actual remuneration thereof	7,40,000	7,40,000
Income under the head PGBP		**6,06,000**
Income from 'Other Sources' : Dividend [Exempt u/s 10(34)]		Exempt
Income from 'Other Sources' : Lottery [1,40,000 ÷ 70 × 100%]		2,00,000
GTI of the firm		**8,06,000**
Less: Deduction of section 80G i.e. Donation to Prime Minister's National Relief		**30,000**
Taxable income		**7,76,000**

PART -B

Answer No. 5

(a) : Computation of Net VAT liability of Vishnu :

Particulars	VAT credit	Cost
Import	–	2,40,000
Purchased from local market	33,708	8,42,700
Purchased from other State	–	1,02,000
Storage and transportation cost		51,000
Manufacturing expenses		2,60,000
Total cost of production		14,95,700
Profit @ 20%		2,99,140
Total Sale Price		17,94,840
VAT @ 4%		71,794
Invoice Amount		**18,66,634**
VAT payable		
Output VAT	71,794	
Less : Input VAT	33,708	**38,086**

(b) : Chargeability of service tax :

Answer	*Reason*
(i) NO, Service Tax	In case free services are provided, no service tax will be payable. Service means an 'activity' carried out by one person to another FOR A CONSIDERATION.
(ii) Service tax will be levied	If services are received from outside India, the importer will be liable to pay service tax under REVERSE CHARGE.
(iii) Service tax will be levied	If services are received are provided by an Advocate or Advocate

	Firm to a business entity whose turnover exceeds Rs. 10,00,000., the service tax will be paid by such Business Entity under REVERSE CHARGE.
(iv) NO, Service Tax	If a match 'referee' provides services to a recognised sports body, that service will be exempt from service tax. [Mega Exemption N.N. 25/2012]
(v) NO, Service Tax	Pre-school education is under 'Negative List'. Therefore, no service tax will be payable.

(c) : Calculation of Service Tax, EC and SHEC :

		(Rs.)
Value of inclusive of all		75,00,000
Service tax = (75,00,000 × 12 ÷ 112.36)	8,00,997	
E.C. = (8,00,997 × 2 %)	16,020	
S.H.E.C. = (8,00,997 × 1 %)	8,010	

'Due date' for payment of service tax will be 31st March, 2014 since in this case, the Point of taxation is in the month of March, 2014.

Answer No. 6

(a) : See page No. 349 of our Class Book [Service Tax].

(b) : Computation of Net VAT liability of Vishnu :

Particulars	VAT credit	Cost
Purchased	62,500	5,00,000
Purchased of other material	12,500	1,00,000
Imported material	–	2,26,000
Manufacturing expenses		84,000
Total cost of production		9,10,000
Profit @ 25%		2,75,000
Total Sale Price		**11,37,500**

	X-1 (80%)	X-2 (20%)
Proportionate Sale Price	9,10,000	2,27,500
Output VAT	1,13,750 (@ 12.5%)	11,375 (@ 5%)
Sale price (i.e. invoice amount)	**10,23,750**	**2,38,875**

VAT payable :	
Output VAT	1,25,125
Less : Input VAT	75,000
VAT Payable	**50,125**

(c) : See page No. 377 of our Class Book [VAT].

Answer No. 6A

(i) : See page No. 360 of our Class Book [Service Tax].

(ii) : (a) See page No. 380 of our Class Book [VAT].

(b) See page No. 386 of our Class Book [VAT].

(iii) : See page No. 383 of our Class Book [VAT].