

Gurukripa's Guideline Answers to May 2014 Exam Questions CA Inter (IPC) – Income Tax, Service Tax and VAT

Q.1 is compulsory **(20 Marks)**. Attempt **any 5** Qns from **remaining 6** Qns. **(16 × 5 = 80)**. [Internal Choice in Qn.7(A)]
Working Notes should form part of the answer. All Qns in Income Tax pertain to **AY 2014–2015** unless otherwise stated.
Wherever necessary, suitable assumptions should be made and stated clearly by way of a Note.

**Note: All Page Numbers and Question Number References are given from
Padhuka's Students' Referencer on Income Tax Service Tax & VAT – CA Inter (IPC)**

Question 1 (A): Computation of Total Income (10 Marks)

From the following details compute the Total Income of Kamal, a Resident individual aged 54 years for the year ended 31–3–2014. Tax Payable need not be calculated.

1. Salary including Dearness Allowance	₹ 5,00,000
2. Bonus	₹ 15,000
3. Salary to Servant provided by Employer	₹ 12,000
4. Bill paid by Employer for Gas, Electricity and Water provided Free of Cost at his Flat	₹ 14,500
5. Cost of Laptop provided by the Employer (Used both for Official and Personal Purpose)	₹ 40,000

Following additional information is provided:

- (1) Kamal purchased a Flat in a Co-operative Housing Society in Delhi for ₹ 10,75,000 in April, 2010 by taking Loan from State Bank of India amounting to ₹ 5,00,000 at 15% per annum interest, ₹ 65,000 from his own savings and a deposit from a Nationalized Bank, to whom this flat was given on lease for 10 years at a monthly lease rental of ₹ 5,500. The outstanding amount of loan is ₹ 1,60,000.
- (2) Municipal Taxes paid by Kamal ₹ 4,500 P.A.
- (3) Insurance in respect of the said Flat ₹ 1,275
- (4) Kamal earned a Profit of ₹ 15,000 in Shares Speculation Business and incurred a Loss of ₹ 20,200 in Speculation Business of Cotton.
- (5) In the year 2008–09, he had gifted ₹ 50,000 to his wife and ₹ 30,000 to his son who was aged 11 years then. These amounts were advanced to Mr. Mohan at 15% per annum interest.
- (6) Kamal received a gift of ₹ 25,000 each from his four friends on the occasion of his birthday.
- (7) He contributed ₹ 10,500 to Public Provident Fund and ₹ 6,000 to Unit Linked Insurance Plan.
- (8) He deposited ₹ 60,000 in Tax Saver Deposit with a Nationalised Bank in the name of his married son.
- (9) He has taken a policy on life for his married daughter on 01.04.2013, and paid a premium of ₹ 25,000. The sum assured for policy is ₹ 2,00,000.

Solution:

Refer Computation Principles in various Illustrations in Chapter 14.

Assessee: Mr. Kamal

Previous Year: 2013–2014

Assessment Year: 2014–2015

Computation of Total Income

Particulars	₹	₹
Salaries (W.N.1)		5,41,500
Income from House Property (W.N.3)		19,050
Income from Speculative Business (W.N 4)		–
Income from Other Sources: Gift received on Birthday fully taxable u/s 57(2) (₹ 25,000 × 4)		1,00,000
Clubbing of Income (W.N 5)		10,500
Gross Total Income		6,71,050
Less: Deduction under Chapter VI A – Sec.80C		
– Contribution to PPF	10,500	
– Tax Saver Deposit (not eligible as Deposit is in Son's name)	–	
– Unit Linked Insurance Plan	6,000	
– Life Insurance Premium [DOP is 1.4.13 – restricted to 10% of sum assured] (Lower of Actual Premium ₹ 25,000 or 10% of 2,00,000)	20,000	36,500
Total Income		6,34,550
Loss to be Carried Forward from Speculative Business of Cotton		5,200

Working Note – 1: Computation of Salary

Particulars	₹
Salary including Dearness Allowance	5,00,000
Bonus	15,000
Perquisites (W.N.2)	26,500
Income From Salaries	5,41,500

Working Note – 2: Computation of Perquisites

Particulars	₹
Salary to Servant Provided by Employer (Since Assessee earns a Salary more than ₹ 50,000, he is a Specified Employee)	12,000
Gas, Electricity & Water provided by Employer	14,500
Cost of Laptop provided by the Employer (not a Taxable Perquisite)	–
Total Perquisites	26,500

Working Note – 3: Computation of Income from House Property

Particulars	₹	₹
Lease Rent (₹ 5,500 × 12 months)		66,000
Less: Municipal Taxes Paid		(4,500)
Net Annual Value		61,500
Less: Deduction u/s 24		
(a) 30% of Net Annual Value	(18,450)	
(b) Interest (₹ 1,60,000 × 15%) (See Note)	(24,000)	(42,450)
Income from House Property		19,050

Note: In the absence of information, it is assumed that O/s Loan of ₹ 1,60,000 is at the beginning of the PY 2013–14, and Interest is computed @ 15% thereon, and there is no repayment of principal during the Previous Year.

Working Note – 4: Income from Speculation Business

Particulars	₹
Income from Speculation Business (Shares)	15,000
Loss from Speculation Business (Cotton)	(20,200)
Loss to be Carried Forward	(5,200)

Note: Speculation Loss cannot be adjusted against any other Head of Income. It will be carried forward to next 4 Assessment Years. [Sec.73]

Working Note – 5: Income from Other Sources / Clubbing of Income

Particulars	₹
– Interest earned from Gift to Wife (₹ 50,000 × 15%)	7,500
– Interest earned from Gift to Minor Child (₹ 30,000 × 15%)	4,500
Less: Exemption u/s 10(32) Minor Income	(1,500)
Clubbing Income	10,500

Note: Where Original Asset is converted into any other form, Income from converted Asset is clubbed [Expl.1 to Sec.64]

Question 1 (B): Computation of Value of Taxable Services**(5 Marks)**

Farm Heroes is engaged in providing services for the last five years. The value of Taxable Services provided by Farm Heroes during the preceding Financial Year was ₹ 45 Lakhs. It has received the following sums (exclusive of Service Tax) in the month of January 2014. Calculate the Value of Taxable Services and Tax Payable thereon for the month of January 2014.

- | | |
|---|------------|
| 1. Supply of Farm Labour | ₹ 55,000 |
| 2. Testing of Soil of Farm Land | ₹ 1,65,000 |
| 3. Value of Services provided free | ₹ 50,500 |
| 4. Processing of Raw Material to make it fit for production and this process is not liable to Excise Duty | ₹ 6,35,000 |
| 5. Advance Received for such Services (as mentioned in (4) above) to be provided in May 2014. | ₹ 2,13,000 |

Solution:**Similar to Illustration in Page 21.4****Computation of Service Tax Payable by Farm Heroes for January, 2014**

No.	Particulars	Amount	Reason
(a)	Supply of Farm Labour	–	Specifically covered under Negative List.
(b)	Testing of Soil of Farm Land	–	Agricultural operations directly related to production of any agricultural produce including testing are covered under the Negative List.
(c)	Value of Services provided for Free	–	Service Tax is applicable only for services which are provided for Consideration.
(d)	Processing of Raw Material to make it fit for production	₹ 6,35,000	Processing of Raw Material is not directly related to Agricultural activities. Since such processing is not chargeable to Excise Duty, the same is subject to Service Tax.
(e)	Advance received for Services to be rendered in May 2014	₹ 2,13,000	Advance received in January 2014 for services to be rendered in May 2014, is taxable at the time of receipt. i.e during January 2014. [See Note below.]
	Total Value of Taxable Services	₹ 8,48,000	
	Service Tax @ 12.36%	₹ 1,04,813	

Note: It can be assumed that the Advance received is inclusive of Service Tax. In such case, Taxable Value = $[\text{₹}2,13,000 \times 100/112.36] = \text{₹}1,89,569$.

Question 1 (C): Computation of VAT Payable**(5 Marks)**

Mr. Vijay a Registered Dealer from Gujarat, submits the following information pertaining to the month of January 2014.

- Purchase of Raw Material A for ₹ 3,50,000 which was exempt from levy of VAT and utilized for production of X.
- Purchase of Raw Material B for ₹ 7,60,000 on which VAT is paid at 1% and utilized for the production of product Y.
- Purchase of Raw Material C for ₹ 10,00,000 on which VAT is paid at 12.5% and utilized 50% each for production of Product Z and product E.

Particulars of Sales are:

- Sold X for ₹ 5,00,000 in Gujarat on which VAT is leviable at 4%.
- Sold Y for ₹ 6,00,000 in Gujarat on which VAT is leviable at 0%.
- Sold Z for ₹ 4,00,000 in Delhi at CST 2%
- Sold E for ₹ 12,00,000 which is exempt from levy of VAT.

Assuming there is no Opening and Closing inventory, calculate the amount of VAT payable for the relevant month.

Solution:**Similar to Illustration in Page 26.21****1. Computation of VAT Liability**

Particulars	₹	₹
1. Sale of Product X ($\text{₹}5,00,000 \times 4\%$)		20,000
2. Sale of Product Y ($\text{₹}6,00,000 \times 0\%$)		Nil
3. Sale of Product Z (Considered Separately)		Nil
4. Sale of Product E (Exempt)		Nil
Sub-Total		20,000
Less: Input Tax Credit Available on –		
Raw Material B – Refer Note 1	Nil	
Raw Material C – Refer Note 2	(62,500)	(62,500)
Net VAT Payable / Excess Credit carried forward		(42,500)

Notes:

- Raw Material B is used for Product Y which is Exempt [0%] for which credit is not available. However, if Product Y is considered as Zero-rated Goods, then Credit would be available.
- If Finished Goods are sold in the course of Inter-State Trade or Commerce, Credit is allowed. No credit is available for the VAT paid on goods used in the manufacture of exempted goods. Since 50% of Raw Material C is used for Exempt Goods, Credit is allowed only to the extent of 50%. Hence Credit allowable = $\text{₹}10,00,000 \times 50\% \times 12.5\% = \text{₹}62,500$.

2. Computation of CST Liability

Particulars	₹
1. CST on Product Z [$₹ 4,00,000 \times 2\%$]	8,000
2. Less: Credit Brought Forward	(42,500)
3. Net CST Payable / (Excess Credit Carried Forward)	(34,500)

Question 2 (A): Computation of Depreciation, Additional Depreciation, and Deduction u/s 32AC (8 Marks)

JK Ltd, a Manufacturing Company purchased the following Plant and Machinery.

Date of Acquisition and Installation	Actual Cost (in ₹ Crores)
25.05.2013	90.00
31.08.2013	20.00
15.04.2014	120.00

From the above information, compute the amount of Depreciation available u/s 32(1), Additional Depreciation, if any and deduction u/s 32 AC for the Assessment Years 2014–15 and 2015–16.

What will be the consequences if Asset acquired on 31.08.2013 is sold on 01.05.2016?

Solution:

Refer Q.26 Page 6.22 in Padhuka's Revision Guide for Taxation – CA Inter.

1. Computation of Depreciation for the AY 2014–2015 & AY 2015–2016, for JK Limited

Particulars	₹ in Crores
For Assessment Year 2014–15	
Opening Block	Nil
Additions:	
1. Cost of Plant & Machinery (purchased on 25.05.2013)	90.00
2. Cost of Plant & Machinery (purchased on 31.08.2013)	20.00
Gross Block Value	110.00
Less: Depreciation of Plant & Machinery (W.N.1) [$₹ 110.00 \text{ Crores} \times 15\%$]	(16.50)
Additional Depreciation (W.N.2) [$₹ 110.00 \text{ Crores} \times 20\%$]	(22.00)
Closing Written Down Value	71.50
For Assessment Year 2015–16	
Opening Written Down Value	71.50
Add: Additions on 15.04.2014	120.00
Gross Block Value	191.50
Less: Depreciation of Plant & Machinery [$₹ 191.50 \text{ Crores} \times 15\%$]	(28.73)
Additional Depreciation [$₹ 120.00 \text{ Crores} \times 20\%$]	(24.00)
Closing Written Down Value	138.77

Working Notes:

- Depreciation for AY 2014–15 (Date of Purchase 25.05.2013, Additions made on 31.08.2013) both Original Purchase of Plant & Machinery and additional purchase is put to use for 180 days or more. Full Depreciation is allowed @ 15%.
- Additional Depreciation @ 20% is available for both Original Purchase and additions made, i.e. New Plant and Machinery Acquired. It is assumed that the assessee is engaged in Manufacturing and asset is used for Production.

2. Computation of Deduction u/s 32AC

Particulars	₹ Crores	₹ Crores
For Assessment Year 2014–15		
Total Investment in PY 2013–14	<u>110.00</u>	
Deductions for PY 2013–14 [$₹ 110.00 \text{ Crores} \times 15\%$]		16.50
For Assessment Year 2015–16		
Total Investment from 01.04.2013 to 31.03.2015 [$₹ 110.00 \text{ Crores} + ₹ 120.00 \text{ Crores}$]	<u>230.00</u>	
Deduction allowed @ 15% of 230.00	34.50	
Less: Deduction claimed in PY 2013–14	(16.50)	18.00

3. Impact of Sale: Refer Point 5 in Page 6.28

In case of transfer of New Asset within 5 years from the date of its installation, the amount claimed as deduction shall be chargeable to tax in the previous year of transfer. Accordingly, if the asset acquired on 31.08.2013 was sold, ₹ 3.00 Crores [₹ 20.00 Crores × 15%] will be charged as Income for the PY 2016–17.

Question 2 (B): Computation of Value of Taxable Services

(4 Marks)

Raj Associates is a Consultancy Firm. During the financial year 2013–14, it received ₹18 lakh as Professional Fee on which Tax has been deducted u/s 194 J. You are required to compute the value of Taxable Service and Service Tax Liability of Raj Associates for the year 2013–14, assuming that the receipt is inclusive of Service Tax.

Solution:

Refer Computation Principles in Chapter 22.

The Gross Amount Charged shall include any amount received for Taxable Service. TDS deducted shall also be includible on the Gross Amount Charged u/s 67 of the Finance Act, 1994.

Particulars	Computation	₹
1. TDS Deducted	$\frac{18,00,000 \times 10}{(100 - 10)}$	2,00,000
2. Value of Taxable Service	$\frac{(\text{Net Received } 18,00,000 + \text{TDS } 2,00,000) \times 100}{112.36}$	17,79,993
3. Total Service Tax Payable	$17,79,993 \times 12.36\%$	2,20,007

Question 2 (C): VAT Liability under Invoice Method

(4 Marks)

Mr. Javed, A Manufacturer sells goods to Mr. Kabir for ₹ 5,000 who sells it to Mr. Hakim a Wholesaler for ₹ 5,500. The Wholesaler sells goods to a Retailer Mr. Mohan for ₹ 6,000 who in turn sells it to end user for ₹ 7,000.

Compute the VAT Liability, Input Credit availed and Tax payable by the Manufacturer, Wholeseller and Retailer under Invoice Method assuming:

- (1) VAT Rate is 12.5%
- (2) Above prices are excluding VAT component.

Solution:

Similar to Illustration in Page 26.9

Computation of Net VAT Liability under Invoice Method

Particulars (1)	Input Value (2)	Input Tax (3)	Output Value (4)	Output Tax @ 12.5% (5)	Net VAT Payable (6) = (5) – (3)
1. Sale by Javed to Kabir	–	–	5,000.00	625.00	625.00
2. Sale by Kabir to Hakim	5,000.00	625.00	5,500.00	687.50	62.50
3. Sale by Hakim to Mohan	5,500.00	687.50	6,000.00	750.00	62.50
4. Sale by Mohan to Customer	6,000.00	750.00	7000.00	875.00	125.00

Question 3 (A): Taxability of Medical Benefits

(8 Marks)

Ms. Rakhi is an Employee in a Private Company. She receives the following Medical Benefits from the Company during the Previous Year 2013–14

Particulars	₹
1. Reimbursement of following Medical Expenses incurred by Ms. Rakhi. (A) On treatment of her Self Employed Daughter in a Private Clinic. (B) On treatment of herself by Family doctor (C) On treatment of her Mother-in-Law dependent on her, in a Nursing Home	4,000 8,000 5,000
2. Payment of premium on Mediclaim Policy taken on her health.	7,500
3. Medical Allowance	2,000 Per month
4. Medical Expenses Reimbursed on her Son's treatment in a Government Hospital	5,000
5. Expenses incurred by Company on the treatment of her minor son abroad.	1,05,000

Particulars	₹
6. Expenses in relation to Foreign Travel and Stay of Rakhi and her son abroad for Medical Treatment. (Limit prescribed by RBI for this is ₹ 2,00,000)	1,20,000

Discuss about the taxability of above benefits and allowances in the hands of Rakhi.

Solution:

Refer Q.35 Page 4.25 in Padhuka's Revision Guide for Taxation

Assessee: Ms. Rakhi

Previous Year: 2013–2014

Assessment Year: 2014 – 2015

Taxability of Value of Perquisites received by Ms. Rakhi

Particulars	Taxability	₹	₹
1A. Reimbursement on Daughter's Treatment in Private Clinic	Yes	4,000	
1B. Reimbursement on Treatment of Assessee by Family Doctor Less: Exempted u/s 16(2) (upto to ₹15,000 for treatment of Assessee and Family Members)	Yes	8,000 (12,000)	Nil
1C. Reimbursement on Treatment of Mother in Law – Not Member of Family	Yes		5,000
2. Payment of Premium on Mediclaim Policy (not a taxable perquisite)	No		Nil
3. Medical Allowance [₹ 2000 pm ×12] (being fixed monetary allowance)	Yes		24,000
4. Medical Reimbursement on Treatment in a Government Hospital	No		Nil
5. Expenses incurred by Company on Treatment at abroad	Refer Note below.		Nil
6. Expenses in relation to Foreign Travel & stay for Medical Treatment	Refer Note below.		Nil
Taxable Value of Perquisites			29,000

Notes:

- Option 1:** Foreign Travel & Stay Expenses are assumed to be incurred for **Foreign Travel Expense**. RBI Limit is applicable for Treatment & Stay Expenses, which is (₹1,05,000 + ₹ 0). Since Expenditure is less than ₹ 2,00,000 (RBI Limit), abroad treatment is fully allowed.
- Option 2:** Point 6, Foreign Travel and Stay Expenses of ₹ 1,20,000 is equally divided for both the expenses i.e. Foreign Travel and Stay Expenses (₹1,05,000 + ₹ 60,000) is less than RBI limit and fully allowed. **Refer applicable Provisions discussed in Page 4.32.**
- Note:** Entire Expense is not assumed as Stay Expense, specifically because there is no scope of stay without travel abroad. However, if this assumption were taken, then the amount would be taxable as per provisions in **Page 4.32.**

Question 3 (B): Service Tax – Excess Amount of ST

(4 Marks)

Explain the provisions regarding Adjustment of Excess Amount of Service Tax paid in case of Renting of Immovable Property Service, owing to Property Tax Payment.

Solution:

Refer Rule 6(4C) – Para 24.3.3 in Page 24.28

Situation	1. Property Tax is paid after the payment of Service Tax on the Rental Receipts, and 2. Property Tax so paid could not be deducted from Rental at the time of payment of Service Tax (as the Property tax was not actually paid at the time of payment of ST), and consequently, excess Service Tax has been paid.
Time Limit	Adjustment within 1 year from the payment of Property Tax
Intimation to Department	Details and reasons for such adjustment shall be intimated to the Jurisdictional Superintendent of Central Excise within 15 days from the date of adjustment.

Question 3 (C): Cancellation of VAT Registration

(4 Marks)

State the circumstances under which VAT Registration can be cancelled.

Solution:

Refer Para 26.9.3 in Page 26.27

The Registration can be cancelled in any of the following situations – (1) Discontinuance of business, (2) Disposal of business, (3) Transfer of business to a new location, (4) Annual Turnover of Manufacturer/ Trader dealing in designated goods/ services falling below specified amount.

Question 4 (A): Computation of Income from House Property (8 Marks)

Nisha has two houses, both of which are Self-Occupied. The particulars of these are given below: (Amounts in ₹)

Particulars	House – I	House – II
Municipal Valuation per annum	1,20,000	1,15,000
Fair Rent per annum	1,50,000	1,75,000
Standard Rent per annum	1,00,000	1,65,000
Date of Completion	31.03.1999	31.03.2001
Municipal Taxes payable during the year (paid for House – II only)	12%	8%
Interest on Money Borrowed for repair of Property during current year	–	55,000

Compute Nisha's Income from the House Property for the Assessment Year 2014–15 and suggest which House should be opted by Nisha to be assessed as Self-Occupied, so that her Tax Liability is minimum.

Solution:**Similar to Illustration in Page 5.10****Assessee: Nisha****Previous Year: 2013–2014****Assessment Year: 2014–2015****Computation of Income from House Property (Amounts in ₹)**

Particulars	Option I		Option II	
	House 1 SOP	House 2 DLOP	House 1 DLOP	House 2 SOP
SOP – assumed Self Occupied				
DLOP – assumed Deemed Let out				
Determination of Annual Value u/s 23(1)(a)/(b)/23(2) [Note 1]				
Step 1: Municipal Rent or Fair Rent whichever is Higher	Nil	1,75,000	1,50,000	Nil
Step 2: Step 1 or Standard Rent whichever is Lower	Nil	1,65,000	1,00,000	Nil
Gross Annual Value = Step 2	Nil	1,65,000	1,00,000	Nil
Less: Municipal Taxes and Taxes on Services paid [1,50,000 × 80%] [Note 2]	Nil	(9,200)	Nil	Nil
Net Annual Value	Nil	1,55,800	1,00,000	Nil
Less: Deductions u/s 24				
(a) 30% of Net Annual Value	Nil	(46,740)	(30,000)	Nil
(b) Interest [Note 2]	Nil	(55,000)	Nil	(30,000)
Income / (Loss) from House Property	Nil	54,060	70,000	(30,000)
Income / (Loss) from House Property	54,060		40,000	

Conclusion: Since Income from House Property under Option II is less than Option I, treating Flat 1 as Deemed Let out and House 2 as Self occupied is advisable.

Note:

- Gross Annual Value for Self Occupied property is Nil. Municipal Taxes paid for Self Occupied Property shall not be allowed as deduction.
- Municipal Taxes is allowed only on actual Payment. Hence Payment not made for House 1 is not allowed.
- For Self Occupied HP, Loan taken for repairs and not for Construction or acquisition. So Interest is limited to ₹ 30,000.

Question 4 (B): Bundled Service (4 Marks)

What do you mean by Bundled Service? Explain by giving an example of the same.

Solution:**Refer Para 22.1.2 in Page 22.2****1. Bundled Service:**

- Meaning:** "Bundled Service" means a bundle of provision of various services wherein an element of provision of one service is combined with an element or elements of provision of any other service or services.
- Classification:** The taxability of a bundled service shall be determined in the following manner, namely:
 - If a specific description is available, then the same will be applicable.

- If various elements of such service are **naturally bundled in the ordinary course of business**, it shall be treated as provision of the single service which gives such bundle its essential character,
- If various elements of such service are **not naturally bundled in the ordinary course of business**, it shall be treated as provision of the single service which results in highest liability of service tax.

2. **Example:** A person providing Pandhal and Shamiana services along with catering is better described as a Pandal and Shamiana Operator who also provides a Catering Services (for which abatements are prescribed), rather than a person providing Pandhal and Shamiana Services (for which there are no abatements)

Question 4 (C): VAT Deficiencies**(4 Marks)**

How VAT can be said to be non-beneficial as compared to Single Last Point System? Also explain any other three Deficiencies of VAT system in India.

Solution:**Refer Para 26.14.2 in Page 26.35**1. **VAT vs Single Last Point System = Increase in Working Capital Requirements:**

Since VAT is imposed or paid at various stages and not at last stage, it increases the working Capital Requirements and the interest burden on the same. In this way, it may be considered to be non-beneficial as compared to the Single Stage – Last Point Taxation System though to a certain extent, this rigour can be brought down through Input Credits on Purchases.

2. **Other Deficiencies of VAT System in India:**

- Differential Rates of Tax:** The merits of VAT accrue in full measure, only when there is a single VAT Rate and such VAT applies to all commodities without any exemptions whatsoever. However, concessions like differential rates of VAT, Composition Schemes, Exemptions Schemes, Exempted Category of Goods, etc. distorts the VAT System. Thus, fundamental principle that VAT will totally eliminate cascading effects of taxes will also be subject to qualifications.
- Disintegration:** So long as Central VAT is not integrated with the State VAT, it will be difficult to put the purchases from other States at par with the State purchases. Therefore, the advantage of neutrality will be confined only for purchases within the State.
- Accounting Costs:** Compliance with VAT Provisions requires better accounting and records maintenance which will cost more. Such incremental cost may not reflect any incremental benefits to small traders.

Question 5 (A): Capital Gains**(8 Marks)**

Mr. Roy, aged 55 years owned a Residential House in Ghaziabad. It was acquired by Mr. Roy on 10.10.1986 for ₹ 6,00,000. He sold it for ₹ 53,00,000 on 04.11.2013. The Stamp Valuation Authority of the State fixed value of the property at ₹ 65,00,000. The Assessee paid 2% of the Sale Consideration as Brokerage on the sale of the said property.

Mr. Roy acquired a Residential House Property at Kolkata on 10.12.2013 for ₹ 10,00,000 and deposited ₹ 7,00,000 on 10.04.2014 and ₹ 5,00,000 on 15.06.2014 in the Capital Gains Bonds of Rural Electrification Corporation Ltd. He deposited ₹ 4,00,000 on 06.07.2014 and ₹ 3,00,000 on 01.11.2014 in the Capital Gain Deposit Scheme in a Nationalised Bank for construction of an Additional Floor on the Residential House Property in Kolkata.

Compute the Capital Gain chargeable to Tax for the Assessment Year 2014–15 and Income Tax chargeable thereon assuming Mr. Roy has no other income. Take Cost Inflation Index for Financial Year 1986–87 = 140 and for Financial Year 2013–14 = 939.

Solution**Refer Illustration in Page 7.43****Assessee: Mr. Roy****Previous Year: 2013–2014****Assessment Year: 2014–2015****Computation of Tax Payable**

Particulars	₹	₹
Sale Consideration (Note 1)	65,00,000	
Less: Expenses on Transfer (2% of ₹ 53,00,000)	(1,06,000)	

Particulars	₹	₹
Net Consideration		63,94,000
Less: Indexed Cost of Acqn = COA × $\frac{\text{CII for Year of Transfer}}{\text{CII for Year of Acquisition}} = ₹ 6,00,000 \times \frac{939}{140}$		(40,24,286)
Long Term Capital Gain		23,69,714
Less: Exemption u/s 54 – Purchase of New House (Note 2) Deposit in Capital Gain Account Scheme (Note 4)	(10,00,000) (4,00,000)	(14,00,000)
Less: Exemption u/s 54EC – Investment in REC Bond (Note 3)		(7,00,000)
Taxable Long Term Capital Gain		2,69,714
Rounded off		2,69,710
Tax on Total Income [(₹ 2,69,714 – ₹ 2,00,000) × 20%]	13,942	
Less: Rebate u/s 87A (Note 5)	(2,000)	11,942
Add: Education Cess at 2%		239
Add: Secondary and Higher Education Cess at 1%		119
Total Tax Payable		12,300
Total Tax Payable (Rounded off)		12,300

Note:

- According to Sec.50C, when Land or Building or both is transferred at less than the Stamp Duty Value, the value shall be determined by Stamp Duty Authority shall be deemed to be Fair Market Value.
- Acquiring a New House and providing Deposit for Construction of Additional Floor on the same House is eligible for exemption u/s 54.
- Investment u/s 54EC should be made within 6 months from the date of transfer of Asset. Deposit made on 15.06.2014 is not eligible for Exemption.
- Deposit in Capital & Gain Account Scheme should be made before the time limit specified u/s 139 (i). Deposit made on 01.11.2014 is not eligible for deduction.
- When Total Income of Resident Individual does not exceed ₹5 Lakhs, **Rebate u/s 87A** = 100% of Tax payable or ₹ 2,000 whichever is **less**.

Question 5 (B): Service Tax, Filing of Returns**(4 Marks)**

State with reasons, whether the following Statements are True or False.

- Mr. Vikas, an Individual, has not provided any Service in the half year period of April to September. He need not file any Return for this period.
- Mr. Sumeet has filed his Service Tax return belatedly. He wants to revise the same. He can file a Revised Return.

Solution:**Refer Para 25.2.1 in Page 25.5**

- False.** 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.
- True.** Mr. Sumeet can file his Revised Return **within 90 days** from the date of filing the Original Return, to rectify mistakes or omissions if any, in the Original Return.

Question 5 (C): VAT – Input Tax Credit**(4 Marks)**

State with reasons whether the following statements are True or False with regards to Input Tax Credit of VAT:

- It is always mandatory to Issue a Tax Invoice under VAT provisions.
- VAT usually increases the Price, as the tax is payable on the First Sales Price.
- VAT Rate on sale of Lottery Tickets is 4%.
- It is permitted to issue 'Tax Invoice' inclusive of VAT.

Solution:

1. **False.** [Refer Para 26.10.3 of Page 26.28]
2. **False.** [Refer Point 3, Para 26.14.1 of Page 26.34]
3. **False.** [Refer Point 3, Para 26.1.3 of Page 26.4]
4. **False.** [Refer Point 26.10.2 of Page 26.28]

Question 6 (A): Set Off and Carry Forward of Losses**(4 Marks)**

Mr. Garg, a Resident Individual, furnishes the following particulars of his Income and other details for previous year 2012–13.

(1) Income from Salary	₹ 15,000
(2) Income from Business (before providing Depreciation)	₹ 66,000
(3) Long term Capital Gain on Sale of Land	₹ 10,800
(4) Loss on Maintenance of Race Horses	₹ 15,000
(5) Loss from Gambling	₹ 9,100

The other details of Unabsorbed Depreciation and Brought Forward Losses pertaining to Assessment Year 2013–14 are as follows:

(1) Unabsorbed Depreciation	₹ 11,000
(2) Loss from Speculative Business	₹ 22,000
(3) Short term Capital Loss	₹ 9,800

Compute the Gross Total Income of Mr. Garg for the Assessment Year 2014–15 and the amount of Loss, if any, that can be carried forward, or not.

Solution

Refer Q.11 in Page 10.6 of Padhuka's Revision Guide for Taxation

Assessee: Mr. Garg**Previous Year: 2012–2013****Assessment Year: 2013–2014****Computation of Gross Total Income**

Particulars	₹	₹
Income from Salaries		15,000
Income from Business or Profession		
(i) Non Speculative Business	66,000	
Less: Unabsorbed Depreciation relating to preceding previous years	(11,000)	55,000
Capital Gains		
Long Term Capital Gain on Sale of Land	10,800	
Less: B/f Short Term Capital Loss of the preceding previous years u/s 74 Note 4	(9,800)	1,000
Gross Total Income		71,000
Carry Forward loss on Maintenance of Horses – Note 1		15,000
Loss from Speculative Business – Note 2		22,000

Notes:

1. Losses and Maintenance of Race Horses **shall be** carry forward for 4 subsequent Assessment Years u/s 74A **and it can be set-off only against the Income from such activity.**
2. Loss from Speculative business can be adjusted only against Speculative Income.
3. Losses from Gambling **shall** not be eligible **for carry forward under Chapter VI of the Income Tax Act, 1961.**
4. Then short term Capital Loss is set off against Long term Capital Loss.

Question 6 (B): Deduction u/s 80CCG**(4 Marks)**

Ria, Roma and Raj, three new Retail Investors, have made the following investment in Equity Shares/Units of Equity Oriented Fund of Rajiv Gandhi Equity Savings Scheme for the previous year 2013–14 as below:

Particulars	Ria	Roma	Raj
Investment in Listed Equity Shares	₹ 50,000	₹ 23,000	–
Investment in Equity Oriented Funds	₹ 10,000	₹ 12,000	₹ 55,000
Gross Total Income	₹ 10,80,000	₹ 11,50,000	₹ 12,60,000

Calculate the amount of deduction allowable under section 80 CCG in all the three cases for the Assessment Year 2014–15. What would be the Tax-treatment in the hands of Raj, if he sells his investments in the Financial Year 2014–15?

Solution

Similar to Illustration in Page 11.11

Computation of Eligible Deduction u/s 80 CCG (Amount in ₹)

Particulars for the previous year	Ria	Roma	Raj
Investment in Listed Equity Shares and Units of Equity Oriented Fund	50,000 + 10,000 = 60,000	23,000 + 12,000 = 35,000	Nil + 55,000 = 55,000
Deduction u/s 80CCG = 50% of above investment or ₹ 25,000, whichever is less	50% of ₹ 60,000 = 30,000 Restricted to 25,000	50% of ₹ 35,000 = 17,500	Nil [Note 1]
Amount chargeable to tax (due to violation of holding period condition) [Note 2]	NA	NA	Nil

Note:

1. Deduction u/s 80CCG was not allowed to Mr. Raj during the Previous Year 2013–2014 (since Gross Total Income exceeded ₹ 12 Lakhs).
2. Since no deduction is allowable u/s 80 CCG by Mr Raj during the Previous Year 2013–14, no tax impact on subsequent sale of such investments.

Question 6 (C): Inclusions in Value of Taxable Services

(4 Marks)

Mr. X provides some Taxable Services to Mr. Y. In the course of providing such services, Mr. X incurs some expenditure such as Travelling, Telephone, etc. and includes these amounts in the value of Taxable Services. Discuss whether Service Tax has to be charged on these items of expenditures. Will your answer be different if Mr. X indicates these items separately in the invoice?

Solution:

Refer Point 2 in Para 22.2.6 in Page 22.9

1. **Provision:** As per Rule 5(1), Expenditure or Costs incurred by the Service Provider in the course of providing taxable service shall be treated as consideration for the taxable services provided or to be provided, even if such costs or expenditure are recovered separately by the Service Provider.
2. **Analysis & Conclusion:** In this case, the travelling, telephone and other expenses incurred by Mr. X, Service Provider shall be added to the value of Taxable Service and Service Tax shall be charged on the same. The same would be the answer even if Mr. X indicates those items separately in the Invoice.

Question 6 (D): Significance of Invoices in VAT

(4 Marks)

“Invoices are Crucial Documents for Administering VAT”. Discuss.

Solution:

Refer Para 26.10.5 in Page 26.29

1. **Significance:** Invoices are crucial documents for administering VAT. In the absence of Invoice, VAT paid on purchases by the Dealer cannot be claimed as set-off. So, the VAT Invoices should be preserved with full care. In case any Original Invoice is lost or misplaced, a duplicate authenticated copy must be obtained from the Issuing Dealer.
2. **Importance:** A VAT Invoice –

(a) helps in determining the Input Tax Credit.	(d) promotes assurance of Invoices.
(b) prevents cascading effect of taxes.	(e) assists in performing audit and investigation activities effectively.
(c) facilitates multi-point taxation on the value addition.	(f) checks evasion of tax.

Question 7 (A) – Answer any two of the following three sub-divisions (1), (2) and (3)

Question 7 (A)(1): TDS

(4 Marks)

What are the provisions relating to Tax Deduction at Source in respect of –

- A. ABC And Co Ltd. paid ₹ 19,000 to one of its Directors as Sitting Fees on 01.01.2014.
- B. Mr. X sold his House to Mr. Y on 01.02.2014 for ₹ 60 Lakhs?

Solution to 7(A)(1)(A):**Refer Para 18.2.14 in Page 18.17**

- Under Sec.194J, Tax is deductible at Source for any payment made which is in the nature of any Remuneration or Fees or Commission other than those on which tax is deductible u/s 192, to a Director of a Company.
- TDS @ 10% should be deducted on such payment.
- There is no exemption limit for deduction of tax on payments to a Director.
- Hence ABC & Co Ltd should deduct tax of ₹ 1,900 on Sitting Fee paid, being 10% of ₹ 19,000.

Note: In case Sitting Fee is paid to a Whole Time Director in employment with the Company, the same may be considered as taxable u/s 192, in which case provision of Sec.194-J may not be applicable.

Solution to 7(A)(1)(B):**Refer Point 18.2.13 in Page 18.16**

- TDS u/s 194-IA, shall be deductible by the Transferee on the transfer of any Immovable Property, being any land (other than Urban Agricultural Land) or any Building or part of a Building, if the consideration of such transfer exceeds ₹ 50,00,000. TDS @ 1% should be deducted.
- In the given case, since the value of transfer exceeds ₹ 50 Lakhs, TDS of ₹ 60,000 shall be deductible by the Mr X. [$₹ 60,00,000 \times 1\%$]

Question 7 (A)(2):**(4 Marks)**

- (A) Mr. Vineet submits his Return of Income on 12.09.2014 for AY 2014-15 consisting of Income under the head House Property and Other Sources. On 21.01.2015, he realized that he had not claimed deduction under Section 80 TTA in respect of his Interest Income on the Savings Bank Account. He wants to revise his Return of Income, since one year has not elapsed from the end of the Relevant Assessment Year. Discuss.
- (B) Where the Karta of a Hindu Undivided Family is absent from India, the Return of Income can be signed by any Male Member of the Family. Give reasoning for the statement to be True or False.

Solution to 7(A)(2)(A):**Refer Para 17.1.1 in Page 17.2, and Para 17.1.5 in Page 17.7**

- Provision:**
 - Due date of filing Returns for Assessee subject to Tax Audit is 30th September. Due date of filing of Returns by the Other Assessee is 31st July.
 - U/S 139(5), any Return filed within the due date u/s 139(1) can be revised before the expiry of one year from the end of the relevant Assessment year (or) completion of assessment whichever is **earlier**.
- Analysis & Conclusion:** Vineet is an Assessee not subject to Tax Audit. Hence, due date for filing Return u/s 139(1) is 31st July. However, he submits his Return on 12-09-2014, which is **after** the due date of 31st July. A Belated Return cannot be revised u/s 139(5), even though the time limit of one year from the end of the relevant Assessment year has not elapsed.

Solution to 7(A)(2)(B):**Refer Para 17.2.1 in Page 17.11.**

True. As per Sec.140, in an HUF when 'Karta' is absent from India or is mentally incapacitated, any other Adult Member of family can sign the return. In the given case, if the Male member of the HUF is adult then they can sign the return.

Question 7 (A)(3):**(4 Marks)**

Who is liable to pay Advance Tax? What is the procedure to compute the Advance Tax payable?

Solution:**Refer Point 1,2,3 in Page 19.1**

- Liability to pay Advance Tax:

Who is liable to pay Advance Tax (Sec. 208)	If Tax payable by any person for the Assessment Year immediately following the Financial Year, is ₹ 10,000 or more .
Advance Tax – Not applicable (Sec. 207)	The provisions of Advance Tax shall not apply to a Resident Senior Citizen who is of the age of 60 years or more, and does not have any income chargeable under the head Profits and Gains of Business or Profession.

2. Amount of Advance Tax Payable [Sec. 209]

Tax on Total Income
Less: Rebate and Relief
Add: Surcharge and Cess
Less: Tax Deducted at Source and Tax Collected at Source.

Note: The amount of TDS / TCS shall not be reduced from Total Income if the Deductor has paid the amount without deduction of tax or the Collector has received the amount without the collection of tax. **(Sec. 209)**

3. Due Dates

Due Date of instalment in the relevant previous year [Sec.211]	Amount payable by Corporate Assessee	Amount payable by Non-Corporate Assessee
On or before June 15	15% of Advance Tax payable	Not Applicable
On or before September 15	45% of Advance Tax payable	30% of Advance Tax payable
On or before December 15	75% of Advance Tax payable	60% of Advance Tax payable
On or before March 15	100% of Advance Tax payable	100% of Advance Tax payable

Question 7 (B): Value of Taxable Service – Foreign Exchange**(4 Marks)**

Ajit who entered into a Roll Over Contract, approached ABC Bank Ltd for selling US \$ 46,000 at the rate of ₹ 60 per US Dollar. RBI Reference rate at that time was ₹ 60.50 per US Dollar. However, the Rate of Exchange declared by CBEC for the day is ₹61.50 per US dollar. Calculate the Value of Taxable Service with reference to rule 2B of the Service Tax (Determination of Value) Rules, 2006 and Service Tax Payable thereon.

Solution:**Refer Para 22.2.11 in Page 22.16**

1. **Provision:** As per Rule 2B of Service Tax (Determination of Value) Rules, 2006, If Foreign Currency is purchase / Sold by the Service Provider in Exchange of Indian Rupees, the **Value of Service = [Buying / Selling Rate – RBI Reference Rate] × Total Units of Foreign Currency**. Hence the taxable value and the tax payable are as follows:

(a) Value of Service = [₹ 60.50 – ₹ 60.00] × 46,000 = ₹ 23,000

(b) Service Tax Payable = ₹ 23,000 × 12.36% = ₹ 2,843

2. **Alternative Rate of Tax:** In case of services relating to purchase or sale of Forex / Money Changing / Authorised Dealer, the service provider **shall have an option to pay** service tax at the following rates:

Gross Amt of Currency Exchanged (GAC)	Rate applied on GAC
Upto ₹ 1 Lakh	0.012% of GAC (Minimum: ₹ 30)
₹ 1 Lakh – ₹ 10 Lakhs	₹ 120 + (0.06% of GAC – ₹ 1 Lakh)
> ₹ 10 Lakhs	₹ 660 + (0.012% of GAC – ₹ 10 Lakhs), Maximum – ₹ 6,000

3. Calculation under above option:

(a) Gross Amount of **Currency** = 46,000 × ₹ 60.00 = ₹ 27,60,000.

(b) Service Tax **Payable** = ₹ 660 + (0.012% (₹ 27,60,000 – ₹ 10,00,000)) = ₹ 2,772

4. **Conclusion:** Since the Service Tax Liability is lesser under the above option, ABC Bank Ltd, can choose the same. However the said option should be opted for the entire Financial Year & cannot be withdrawn during the Financial Year.

Question 7 (C): VAT Payable and Input Tax Credit**(4 Marks)**

Mr. X furnishes the following particulars for the month of December 2013. Compute the VAT payable and Input Tax carried forward to next period, if any.

Particulars	₹
Inputs purchased during the month (from within State) (Inclusive of VAT 12.5%)	2,25,000
Raw Material purchased Intra State (including CST 2%)	51,000
Transportation Charges	35,000
Balance of VAT Credit as on 01.12.2013	6,700

90% of the Stock was sold during the month at the Profit of 20% on Cost. Assume there was no Opening Stock of Goods. The VAT rate on Sale is 4%.

Solution:

Similar to Illustration 1 in Page 26.10

Dealer: Mr. X		1. Computation of VAT Liability	Month: December 2013
Particulars			₹
Raw Material Purchased within the State		2,25,000	
Less: VAT paid on Purchase ($\text{₹ } 2,25,000 \times 12.5/112.5$)		<u>(25,000)</u>	2,00,000
Raw Material Purchased Intra State			51,000
Purchase Price of Inputs			2,51,000
Add: Transportation Cost			35,000
Cost Price			2,86,000
Less: Closing Stock @ 10 % of Cost Price			(28,600)
Cost of Production			2,57,400
Add: Profit at 20% of Cost Price ($\text{₹ } 2,57,400 \times 20\%$)			51,480
Sale Value excluding VAT			3,08,880
VAT on Sales at 4% ($\text{₹ } 3,08,880 \times 4\%$)			12,355
Less: VAT on Purchases			(12,355)
Net VAT Liability			Nil

2. Computation of Input Tax Credit Carried Forward

Particulars	₹
1. Opening Balance of Input Credit	6,700
2. Add: Input Tax Credit availed on Purchases	25,000
3. Less: Input Tax Credit Set off during the Period	(12,355)
4. Closing Balance of Input Tax Credit	19,345