

PAPER – 4 : TAXATION

Question No.1 is compulsory.

Attempt any five questions from the remaining six questions.

Wherever appropriate, suitable assumptions may be made by the candidates.

Working notes should form part of the answer.

All questions pertaining to Income-tax relate to assessment year 2012-13, unless stated otherwise in the question

Question 1

- (a) *Ms. Purvi is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2012 reads as follows:*

Expenditure	(`)	Income	(`)	(`)
Salary to staff	5,50,000	Fees earned:		
Stipend to articled assistants	37,000	Audit	7,88,000	
Incentive to articled assistants	3,000	Taxation services	5,40,300	
Office rent	24,000	Consultancy	<u>2,70,000</u>	15,98,300
Printing and stationery	22,000	Dividend on shares of Indian companies (Gross)		10,524
Meeting, seminar and Conference	31,600	Income from Unit Trust of India		7,600
Purchase of car	80,000	Honorarium received from various institutions for valuation of answer papers		15,800
Repair, maintenance and petrol of car	4,000	Rent received from residential flat let out		85,600
Travelling expenses	35,000			
Municipal tax paid in respect of house property	3,000			
Net Profit	9,28,224			
	<u>17,17,824</u>			<u>17,17,824</u>

The Suggested Answers for Paper 4: Taxation are based on the provisions of law as amended by the Finance Act, 2011 and applicable for A.Y. 2012-13 (in the case of Income-tax), which is the assessment year relevant for May, 2012 examination.

Other Information:

- (i) Allowable rate of depreciation on motor car is 15%.
- (ii) Value of benefits received from clients during the course of profession is ` 10,500.
- (iii) Incentives to articled assistants represent amount paid to two articled assistants for passing IPCC Examination at first attempt.
- (iv) Repairs and maintenance of car include ` 2,000 for the period from 1-10-2011 to 30-09-2012.
- (v) Salary include ` 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- (vi) The total travelling expenses incurred on foreign tour was ` 32,000 which was within the RBI norms.
- (vii) Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ` 5,000 and ` 10,000, respectively, paid in cash.
- (viii) She invested an amount of ` 10,000 in National Saving Certificate.

Compute the total income and tax payable of Ms. Purvi for the assessment year 2012-2013. (10 Marks)

- (b) Infotech Software Systems is an information technology software company. The receipts during financial year 2011-12 are as under: (5 Marks)

	Particulars	`
(i)	Receipts for the analysis of information technology software.	1,80,000
(ii)	Receipts for providing advice, consultancy and assistance on matter related to specifications to secure a database.	4,10,000
(iii)	Receipts for providing the right to use the canned software on which the amount of excise duty has been paid and the benefit under Notification No. 31/2010 Cus dated 27-02-2010 has not been availed.	5,10,000
(iv)	Receipts for the upgradation of the information technology software	2,65,000
(v)	Infotech software systems in the financial year 2010-11 has provided the taxable services valuing of ` 15,00,000	

Determine the value of taxable service and the amount of service tax, education cess and secondary and higher education cess payable by Infotech Software Systems for the financial year 2011-2012. The amount of service tax has been charged separately.

(c) *R. Ltd. of Mumbai made a total purchases of input and capital goods of ` 60,00,000 during the month of February, 2012. The following further information is available.*

- (i) *Goods worth ` 15,00,000 were purchases from Assam on which C.S.T. 2% was paid.*
- (ii) *The purchases made in February, 2012 include goods purchased from unregistered dealers amounting to ` 18,50,000.*
- (iii) *It purchased capital goods (not eligible for input credit) worth ` 6,50,000 and those eligible for input credit for ` 9,00,000.*
- (iv) *Sales made in Mumbai during the month of February, 2012 is ` 10,00,000 on which VAT at 12.5% is payable.*

Assuming that all purchases given are exclusive of tax and VAT 4% is paid on them calculate:

- (a) *the amount of purchases eligible for input credit.*
- (b) *the amount of input credit available for the month of February, 2012.*
- (c) *the VAT payable for the month of February, 2012.*

The input VAT credit on eligible capital goods is available in 36 equal monthly instalments.
(5 Marks)

Answer

(a) Computation of total income and tax liability of Ms. Purvi for the A.Y. 2012-13

Particulars	`	`
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		<u>15,800</u>
Gross Total Income		9,93,820
Less: Deductions under Chapter VI-A (See Working Note 4)		<u>10,000</u>
Total Income		<u>9,83,820</u>
Tax on total income		
Upto ` 1,90,000	Nil	
` 1,90,001 – ` 5,00,000 @10%	31,000	
` 5,00,001 - ` 8,00,000 @20%	60,000	
` 8,00,001 - ` 9,83,820 @30%	<u>55,146</u>	1,46,146

Add: Education cess @ 2%	2,923
Secondary and higher education cess @ 1%	<u>1,461</u>
Total tax liability	<u>1,50,530</u>

Working Notes :

(1) Income from House Property

Particulars	`	`
Gross annual value under section 23(1)	85,600	
Less: Municipal taxes paid	<u>3,000</u>	
Net Annual Value (NAV)	82,600	
Less: Deduction under section 24 @ 30% of NAV	<u>24,780</u>	57,820

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head "Profits & Gains of Business or Profession"

Particulars	`	`
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds ` 20,000	30,000	
(ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure	80,000	
(ii) Municipal Taxes paid in respect of residential flat let out	<u>3,000</u>	<u>1,13,000</u>
		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		<u>10,500</u>
		10,51,724
Less: Income credited but not taxable under this head:		
(i) Dividend on shares of Indian companies	10,524	
(ii) Income from UTI	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	<u>85,600</u>	<u>1,19,524</u>

	9,32,200
Less: Depreciation on motor car @15% (See Note 1 below)	<u>12,000</u>
	<u>9,20,200</u>

Notes :

- (i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

Note : Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).

- (ii) Incentive to articled assistants for passing IPCC examination in their first attempt is deductible under section 37(1).
- (iii) Repairs and maintenance paid in advance for the period 1.4.2012 to 30.9.2012 i.e. for 6 months amounting to ` 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- (iv) ` 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

Particulars	`	`
Dividend on shares of Indian companies	10,524	
Less: Exempt under section 10(34)	<u>10,524</u>	Nil
Income from UTI	7,600	
Less: Exempt under section 10(35)	<u>7,600</u>	Nil
Honorarium for valuation of answer papers		<u>15,800</u>
		<u>15,800</u>

(4) Deduction under Chapter VI-A :

Particulars	`
Deduction under section 80C (Investment in NSC)	10,000
Deduction under section 80D (See Notes (i) & (ii) below)	<u>Nil</u>
Total deduction under Chapter VI-A	<u>10,000</u>

Notes:

- (i) Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of "family" under section 80D.
- (ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

(b) Computation of value of taxable service and service tax payable

	Particulars	
(i)	Receipts for analysis of IT software (Analysis of IT software is taxable as per the definition of IT software services)	1,80,000
(ii)	Receipts for providing advice, consultancy and assistance on matter related to specifications to secure a database (Advice, consultancy and assistance to secure a database is taxable as per the definition of IT software services)	4,10,000
(iii)	Receipts for providing the right to use canned software on which excise duty has been paid [Refer Note 1 below]	Exempt
(iv)	Receipts for upgradation of software (liable to service tax as per the definition of IT software services)	<u>2,65,000</u>
	Value of taxable services	<u>8,55,000</u>
	Service tax @ 10% [Refer Note 2 below]	85,500
	Education cess @ 2%	1,710
	Secondary and Higher Education Cess @ 1%	<u>855</u>
	Total service tax payable	<u>88,065</u>

Notes:

- (1) Service of providing the right to use domestically produced canned software is exempt from service tax if appropriate excise duty determined on the basis of MRP provisions (Section 4A of the Central Excise Act, 1944) has been paid on the same. It is presumed that excise duty paid in the above case has been determined on the basis of MRP provisions.
- (2) Since the turnover of taxable services of Infotech Software systems in the FY 2010-11 exceeded `10,00,000, it would not be entitled for exemption available to small service providers and be liable to pay service tax.

- (c) Computation of purchases eligible for input tax credit, input tax credit available for February, 2012 and net VAT payable for the month:-

S. No.	Particulars	₹
(i)	Goods purchased from Assam on which CST @ 2% was paid (Purchases made from outside the State on which CST is payable are not eligible for input tax credit)	-
(ii)	Purchases from unregistered dealers (Purchases from unregistered dealers are not eligible for input tax credit)	-
(iii)	Capital goods eligible for input credit	9,00,000
(iv)	Balance purchases liable to VAT which are eligible for input tax credit (`60,00,000 – (`15,00,000 + `18,50,000 + `6,50,000 + `9,00,000)	<u>11,00,000</u>
	Purchases eligible for input tax credit	<u>20,00,000</u>

	VAT paid on purchases of inputs eligible for input tax credit (`11,00,000 x 4%)	44,000
	VAT paid on capital goods eligible for input tax credit (input tax credit available in 36 equal monthly installments) $\text{₹} \left[\frac{9,00,000 \times 4\%}{36} \right]$	<u>1,000</u>
	Input tax credit available for February, 2012	<u>45,000</u>

	Output VAT payable (`10,00,000 x 12.5%)	1,25,000
	Less: Input tax credit available	<u>45,000</u>
	Net VAT payable	<u>80,000</u>

Question 2

- (a) Answer any two sub-parts out of three sub-parts of the question.
- (i) Paras is resident of India. During the F.Y. 2011-12, interest of ₹ 1,88,000 was credited to his Non-resident (External) Account with SBI. ₹ 30,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned ₹ 3,000 as interest on this saving account. Is Paras required to file return of income?

What will be your answer, if he owns one shop in Kerala having area of 150 sq. ft.?

- (ii) Mr. Sharma has four children consisting 2 daughters and 2 sons. The annual income of 2 daughters were ` 9,000 and ` 4,500 and of sons were ` 6,200 and ` 4,300, respectively. The daughter who has income of ` 4,500 was suffering from a disability specified under section 80U.
- Compute the amount of income earned by minor children to be clubbed in hands of Mr. Sharma.
- (iii) Explain the treatment of unrealized rent and its recovery in subsequent years under the provisions of Income-tax Act, 1961. (2 x 4 = 8 Marks)
- (b) A partnership firm, gives the following particulars relating to the services provided to various clients by them for the half-year ended on 30-09-2011.
- (i) Total Bills raised for ` 8,75,000 out of which bill for ` 75,000 was raised on an approved International organization and payments of bills for ` 1,00,000 were not received till 30-09-2011.
- (ii) Amount of ` 50,000 was received as an advance from XYZ Ltd. on 25-09-2011 to whom the services were to be provided in October, 2011. You are required to find out the:
- (a) Taxable value of services
- (b) Amount of service tax and education cess and secondary and higher education cess payable. (4 Marks)
- (c) Explain the consumption variant of VAT. Mention the reasons for the preference of this variant of VAT. (4 Marks)

Answer

- (a) (i) 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., ` 1,80,000 (for A.Y. 2012-13).

Computation of total income of Mr. Paras for A.Y. 2012-13

Particulars	`
Income from other sources	
Interest earned from Non-resident (External) Account ` 1,88,000 [Exempt under section 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	NIL
Interest on fixed deposit with SBI	30,000
Interest on savings bank account	3,000
Total Income	33,000

Since the total income of Mr. Paras for A.Y.2012-13, before giving effect to the deductions under Chapter VI-A, is less than the basic exemption limit of ` 1,80,000, he is not required to file return of income for A.Y.2012-13.

Owning a shop having area of 150 sq.ft in Kerala would not make any difference to the answer.

Note:

In the above solution, interest of ` 1,88,000 earned from Non-resident (External) account has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account. However, in case he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving effect to the deductions under Chapter VIA, would be ` 2,21,000 ( $\text{` } 33,000 + \text{` } 1,88,000$ ), which is higher than the basic exemption limit of ` 1,80,000. Consequently, he would be required to file return of income for A.Y.2012-13. Here again, ownership of shop in Kerala is immaterial.

- (ii) As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, the income of daughter suffering from disability specified under section 80U should not be clubbed with the income of Mr. Sharma.

Under section 10(32), income of each minor child includible in the hands of the parent under section 64(1A) would be exempt to the extent of the actual income or ` 1,500, whichever is lower. The remaining income would be included in the hands of the parent.

Computation of income earned by minor children to be clubbed with the income of Mr. Sharma

	Particulars	`
(i)	Income of one daughter	9,000
	Less: Income exempt under section 10(32)	<u>1,500</u>
	Total (A)	<u>7,500</u>
(ii)	Income of two sons ($\text{` } 6,200 + \text{` } 4,300$)	10,500
	Less: Income exempt under section 10(32)	
	($\text{` } 1,500 + \text{` } 1,500$)	<u>3,000</u>
	Total (B)	<u>7,500</u>

	Total Income to be clubbed as per section 64(1A) (A+B)	15,000
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Note -

It has been assumed that:

- (1) All the four children are minor children;
 - (2) The income does not accrue or arise to the minor children on account of any manual work done by them or activity involving application of their skill, talent or specialized knowledge and experience;
 - (3) The income of Mr. Sharma, before including the minor children's income, is greater than the income of Mrs. Sharma, due to which the income of the minor children would be included in his hands; and
 - (4) This is the first year in which clubbing provisions are attracted.
- (iii) Unrealised rent refers to the rent payable but not paid by the tenant and which the owner is also not able to realize from the tenant. As per Explanation below section 23(1), the amount of rent which the owner cannot realize shall not be included in the actual rent while determining the annual value of the property, subject to fulfillment of following conditions prescribed under Rule 4 of the Income-tax Rules, 1962 :
- (a) the tenancy must be bonafide;
 - (b) the defaulting tenant has vacated or steps have been taken to compel him to vacate the property;
 - (c) the defaulting tenant does not occupy any other property of the assessee; and
 - (d) the assessee has taken all reasonable steps to institute legal proceedings for the recovery of unpaid rent or satisfies the Assessing Officer that the legal proceedings would be useless.

If the conditions mentioned above are satisfied, then, the actual rent should be reduced by the unrealised rent and thereafter, compared with the Annual Letting Value (being the higher of fair rent and municipal value, but restricted to standard rent) for computing the gross annual value.

As per section 25AA, the unrealised rent, when realised in any subsequent year, shall be deemed to be the income chargeable under the head 'Income from house property' in the previous year in which such rent is realised, whether or not the assessee is the owner of the property in that previous year.

- (b) Computation of value of taxable services and service tax payable for the half-year ended on 30.09.2011

Particulars	
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Total Bills raised	8,75,000
Less: Bill raised on an approved International Organization [Services provided to approved International Organization are exempt from service tax]	<u>75,000</u>
	8,00,000
Add: Advance received on 25.09.2011	<u>50,000</u>
	8,50,000
Value of taxable services [Note 1]	
$\text{₹ } \left[8,50,000 \times \frac{100}{110.30} \right]$	7,70,626
Service tax @ 10%	77,063
Education cess @ 2%	1541
Secondary and Higher Education Cess @ 1%	<u>771</u>
Total service tax payable	<u>79,375</u>

Notes:

- (1) Since the question does not provide that service tax has been charged separately, advance and the bills raised have been presumed to be inclusive of service tax.
 - (2) Bills of ₹ 1,00,000, payment for which has not received till 30.09.2011 will be charged to service tax in the half year ended 30.09.2011 as the point of taxation is the issuance of invoice or receipt of payment whichever is earlier.
 - (3) It has been assumed that the partnership firm is not entitled to exemption for small service providers in FY 2011-12 and is liable to service tax.
- (c) Under consumption variant of VAT, tax is levied on all sales and deduction for taxes paid on all business purchases including capital goods is allowed. There is neither any differentiation between capital and revenue expenditures nor the life of assets or depreciation allowances for different assets is specified. This variant is indifferent to the methods of production employed by the manufacturer. Decision to save or consume does not make any difference under this variant.

The consumption variant is widely used for the following reasons:-

1. This method does not have effect on the investment decisions of the manufacturer because input tax credit of the tax paid on the capital goods is also allowed. Therefore, manufacturer may employ any of the techniques of production-labour intensive or capital intensive.
2. Since there is no need to distinguish between intermediate and capital goods as well as consumption goods, administering the tax becomes simpler under this variant.

3. Most of the countries include services in their tax base and hence, prefer consumption variant over other variants as the business gets set off for the tax on services thereby removing the cascading effect.

Question 3

- (a) Anshu transfers land and building on 02-01-2012 and furnishes the following information:

Particulars	(₹)
(i) Net consideration received	14,00,000
(ii) Value adopted by Stamp Valuation Authority	16,00,000
(iii) Value ascertained by Valuation Officer on reference by the Assessing Officer	17,00,000
(iv) This land was acquired by Anshu on 1-04-1981. Fair Market value of the land as on 01-04-1981 was	1,10,000
(v) A Residential building was constructed on land by Anshu at a cost of ₹ 3,20,000 (construction completed on 01-12-2002 during financial year 2003-04*) Brought forward short term capital loss incurred on sale of shares during financial year 2007-08 ₹ 1,50,000,	

Anshu seeks your advice regarding the amount to be invested in NHAI bonds so as to be exempt from capital gain tax under the Income-tax Act, 1961.

Cost inflation index for FY 1981-1982 : 100

Cost inflation index for FY 2002-2003 : 447

Cost inflation index for FY 2011-2012 : 785 (8 Marks)

- (b) Test the veracity of the following assertions with reference to the statutory provisions relating to service tax. Do not assign any reason for them. (8 × ½ = 4 Marks)
- Services provided by consulting engineers in computer hardware engineering and computer software engineering are not includible in their taxable services.
 - Services provided to any person by a mandap keeper for the use of the precincts of a religious place as a mandap are not exempt from service tax.
 - The following are the person(s) who provides scientific or technical consultancy service
 - a scientist
 - a technocrat
 - any engineering organisation

* To be read as financial year 2002-03.

- (d) *Pre-school coaching institutions services are taxable.*
- (e) *X took certificate of practice with effect from 25-1-2012. He has to make an application for registration before 24-3-2012.*
- (f) *Small scale service provider who is claiming exemption of ` 10 lakh shall have to apply for registration where the aggregate value of taxable services exceeds ` 9 lakhs.*
- (g) *Gross amount charged for taxable services includes only that amount received towards the taxable service which is received after the provision of such services.*
- (h) *Service tax for the month of March or quarter ending March should be deposited by 5th April.*
- (c) *Test the veracity of the following assertions with reference to the statutory provisions relating to Value Added Tax. Do not assign any reason for them. (8 × ½ =4 Marks)*
- (a) *Input credit under VAT is available in respect of Central Sales Tax paid on purchases.*
- (b) *VAT is leviable at the first stage of sale.*
- (c) *Input credit is available in respect of customs duty paid on goods imported from a country outside India.*
- (d) *Input credit is available only if the purchaser has obtained proper tax invoice.*
- (e) *No registration is required under any VAT regime.*
- (f) *A trader can take credit of the inputs purchased by him only if he has obtained proper tax invoice from the valuer.*
- (g) *VAT is inflationary in nature.*
- (h) *White paper on State level VAT provides a framework for drafting various State VAT legislations.*

Answer

- (a) Computation of Capital Gains of Ms. Anshu for the A.Y. 2012-13

Particulars	`	`
Full value of consideration [See Notes (i) & (ii) below]		16,00,000
Less: Indexed Cost of acquisition [See Note (iii) below]		
Indexed cost of land ($` 1,10,000 \times 785/100$)	8,63,500	
Indexed cost of building ($` 3,20,000 \times 785/447$)	<u>5,61,969</u>	<u>14,25,469</u>
Long-term capital gain		1,74,531
Less: Brought forward short-term capital loss set off [See		

Note (iv) below]		<u>1,50,000</u>
Taxable capital gains (Amount to be invested in NHAI bonds to get full exemption from tax on capital gains) [See Note (v) below]		<u>24,531</u>

Notes :

- (i) As per section 50C(1), where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the value adopted by the Stamp Valuation Authority for the purpose of payment of stamp duty, such value adopted by the Stamp Valuation Authority shall be deemed to be the full value of the consideration received or accruing as a result of such transfer. Accordingly, full value of consideration would be ` 16 lakhs in this case.
 - (ii) As per section 50C(3), where the valuation is referred by the Assessing Officer to Valuation Officer and the value ascertained by such Valuation Officer exceeds the value adopted by the Stamp Valuation Authority for the purpose of payment of stamp duty, the value adopted by the Stamp Valuation Authority shall be taken as the full value of the consideration received or accruing as a result of the transfer. Since the value ascertained by the Valuation Officer (i.e. ` 17 lakhs) is higher than the value adopted by the Stamp Valuation Authority (i.e. ` 16 lakhs), the full value of consideration in this case would be ` 16 lakhs.
 - (iii) Since the cost of land acquired by Anshu on 1.4.1981 is not given in the question, the fair market value as on 1.4.1981 is taken as the cost of acquisition. Indexation benefit is available since land and building are both long-term capital assets, as they are held by Anshu for more than 36 months.
 - (iv) As per section 74, brought forward unabsorbed short term capital loss can be set off against any capital gains, short term or long term, for 8 assessment years immediately succeeding the assessment year for which the loss was first computed. Therefore, short-term capital loss on sale of shares during the F.Y.2007-08 can be set-off against the current year long-term capital gains on sale of land and building.
 - (v) As per section 54EC, an assessee can avail exemption in respect of long-term capital gains, if such capital gains are invested in the bonds issued by the NHAI redeemable after 3 years. Such investment is required to be made within a period of 6 months from the date of transfer of the asset. The exemption shall be the amount of capital gains or the amount of such investment made, whichever is less. Therefore, in this case if Anshu invests the entire capital gains of ` 24,531 (rounded off to ` 25,000) in bonds of NHAI, she can get full exemption from tax on capital gains.
- (b) (a) False
- (b) False

- (c) True
- (d) False
- (e) False

(It has been assumed that turnover of X has not exceeded ` 9,00,000 30 days before 24.03.2012).

- (f) True
 - (g) False
 - (h) False
- (c) (a) False
- (b) False
 - (c) False
 - (d) True
 - (e) False
 - (f) False
 - (g) False
 - (h) True

Question 4

- (a) Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2012 revealed the following information :
- (1) The net profit was ` 11,20,000.
 - (2) The following incomes were credited in the profit and loss account :
 - (a) Dividend from UTI ` 22,000.
 - (b) Interest on debentures ` 17,500.
 - (c) Winnings from races ` 15,000.
 - (3) It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:

Opening stock ` 8,000.

Closing stock ` 12,000.
 - (4) ` 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 35(1)(ii).
 - (5) Salary includes ` 20,000 paid to his brother which is unreasonable to the extent of `

2,500.

- (6) Advertisement expenses include 15 gift packets of dry fruits costing ` 1,000 per packet presented to important customers.
- (7) Total expenses on car was ` 78,000. The car was used both for business and personal purposes. $\frac{3}{4}$ th is for business purposes.
- (8) Miscellaneous expenses included ` 30,000 paid to A & CO., a goods transport operator in cash on 31-1-2012 for distribution of the company's product to the warehouses.
- (9) Depreciation debited in the books was ` 55,000. Depreciation allowed as per Income-tax Rules, 1962 was ` 50,000.
- (10) Drawings ` 10,000.
- (11) Investment in NSC ` 15,000.

Compute the total income of Mr. Y for the assessment year 2012-13. (8 Marks)

- (b) *Punjabi Banquets is engaged in providing 'mandap keeper services'. For the month of January, 2012, it provided the following information:* (4 Marks)

S. No.	Particulars	`
(1)	Banquet hall let out for marriage function: The gross amount charged for banquet hall including catering charges (Catering charges have been separately indicated in the invoice)	6,00,000
(2)	Amount received for rooms let out for stay of guests attending the marriage.	40,000
(3)	Amount collected for letting out the hall for All India Dance Competition. No food was supplied alongwith it.	5,00,000
(4)	Mandap for shooting of marriage sequence of a Daily Soap Opera.	2,40,000

Compute the amount of service tax, education cess and secondary and higher education cess payable by Punjabi Banquets for the month of January, 2012.

Additional Information:

- (1) Point of taxation in all the aforesaid cases is January, 2012.
- (2) All the amounts stated above are exclusive of service tax.
- (3) Punjabi Banquets is not eligible for small service providers exemption under Notification No. 6/2005-ST dated 01-03-2005 for the financial year 2011-12.

- (c) Determine the liability of VAT of X for the month of December 2011 using invoice method of computation from the following data:

Purchase price of goods acquired from local market

(including VAT) ₹ 52 lakhs

VAT rate on input 4%

Transportation, insurance, warehousing and handling

Cost incurred by X ₹ 20,000

Goods sold at a profit margin 14%

VAT rate on sales 12.50% (4 Marks)

Answer

- (a) Computation of total income of Mr.Y for the A.Y. 2012-13.

Particulars	₹
Profits and gains of business or profession (See Working Note 1 below)	10,46,500
Income from other sources (See Working Note 2 below)	<u>32,500</u>
Gross Total Income	10,79,000
Less: Deduction under section 80C (Investment in NSC)	<u>15,000</u>
Total Income	<u>10,64,000</u>

Working Notes :

1. Computation of profits and gains of business or profession

Particulars	₹	₹
Net profit as per profit and loss account		11,20,000
Add : Expenses debited to profit and loss account but not allowable as deduction		
Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	2,500	
Motor car expenses attributable to personal use not allowable (₹ 78,000 × ¼)	19,500	
Depreciation debited in the books of account	55,000	
Drawings (not allowable since it is personal in nature) [See Note (iii)]	10,000	
Investment in NSC [See Note (iii)]	<u>15,000</u>	<u>1,02,000</u>
		12,22,000
Add : Under statement of closing stock		<u>12,000</u>
		12,34,000

Less: Under statement of opening stock		<u>8,000</u>
		12,26,000
Less: Contribution to a University approved and notified under section 35(1)(ii) is eligible for weighted deduction@175%. Since only the actual contribution (100%) has been debited to profit and loss account, the additional 75% has to be deducted.		<u>75,000</u>
		11,51,000
Less: Incomes credited to profit and loss account but not taxable as business income		
Income from UTI [Exempt under section 10(35)]	22,000	
Interest on debentures (taxable under the head "Income from other sources")	17,500	
Winnings from races (taxable under the head "Income from other sources")	<u>15,000</u>	<u>54,500</u>
		10,96,500
Less: Depreciation allowable under the Income-tax Rules, 1962		<u>50,000</u>
		<u>10,46,500</u>

Notes :

- (i) Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.
- (ii) Disallowance under section 40A(3) is not attracted in respect of cash payment of ` 30,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of ` 35,000 is applicable (i.e. payment of upto ` 35,000 can be made in cash without attracting disallowance under section 40A(3))
- (iii) Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.

2. Computation of "Income from other sources"

Particulars	`
Interest on debentures	17,500
Winnings from races	<u>15,000</u>
	<u>32,500</u>

Note:

The following assumptions have been made in the above solution:

1. The figures of interest on debentures and winnings from races represent the gross income (i.e., amount received plus tax deducted at source).
2. In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is ` 50,000. It has been assumed that, in the said figure of ` 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

(b) Computation of the service tax payable

Particulars	`	`
Banquet hall let out for marriage function [Refer Note 1]	6,00,000	
Less: Abatement @ 40% of gross amount ($6,00,000 \times 40\%$) [Refer Note 2]	<u>2,40,000</u>	3,60,000
Amount received for rooms let out for stay of guests [Refer Note 3]		40,000
Amount collected for letting out the hall for All India Dance Competition [Refer Note 4]		5,00,000
Mandap for shooting of a Daily Soap Opera [Refer Note 5]		<u>Nil</u>
Value of taxable service		<u>9,00,000</u>
Service tax @ 10% = $9,00,000 \times 10\%$		90,000
Education cess @ 2% = $90,000 \times 2\%$		1,800
Secondary and higher education cess @ 1% = $90,000 \times 1\%$		<u>900</u>
Service tax payable		<u>92,700</u>

Notes:

- (1) Mandap let out for marriage function is liable to service tax as per the definition of mandap keeper.
- (2) An abatement of 40% of gross amount is provided where the mandap keeper also provides catering services and the invoice indicates that it is inclusive of the charges for catering service subject to other conditions being satisfied.
- (3) Mandap let out for stay of guests attending the marriage for a consideration would attract service tax as guests are a part of marriage function.
- (4) Temporary occupation of a hall for the purpose of holding dance, drama or music programme or competitions is liable to service tax vide a Departmental Circular.
- (5) The activity of shooting films, TV serials cannot be considered as official/social/business function and hence, not taxable under the mandap keeper service.

(c) Computation of VAT liability

Particulars	`
-------------	---

Purchase price of goods acquired from local market excluding VAT (input tax credit does not form part of cost of production)	50,00,000
$\text{` } \left[52,00,000 \times \frac{100}{104} \right]$	
Transportation, insurance etc.	<u>20,000</u>
Cost of production	50,20,000
Profit @ 14% on cost of production [assumed to be a percentage of cost of production]	<u>7,02,800</u>
Total Sales	<u>57,22,800</u>
Output VAT payable @ 12.5%	7,15,350
Less: Input tax credit [VAT paid on goods acquired from local market is eligible for input tax credit]	<u>2,00,000</u>
Net VAT payable	<u>5,15,350</u>

Question 5

(a) During the previous year 2011-12, the following transactions occurred in respect of Mr. A.

- Mr. A had a fixed deposit of ` 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 1-4-2011 to 31-3-2012 to the savings bank account of Mr. B, son of his brother, to help him in his education.
- Mr. A holds 75% share in a partnership firm. Mrs. A received a commission of ` 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.
- Mr. A gifted a flat to Mrs. A on April 1, 2011. During the previous year, the flat generated a net income of ` 52,000 to Mrs. A.
- Mr. A gifted ` 2,00,000 to his minor son who invested the same in a business and he got a share income of ` 20,000 from the investment.
- Mr. A's minor son derived an income of ` 20,000 through a business activity involving application of his skill and talent.

During the year, Mr. A got a monthly pension of ` 10,000. H had no other income. Mrs. A received salary of ` 20,000 per month from a part time job.

Discuss the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child. (8 Marks)

- What are the documents to be attached by a service provider alongwith an application for registration under service tax? (4 Marks)
- (i) What are the different variants of VAT and how is deduction available for tax paid on

inputs including capital inputs?

(2 Marks)

- (ii) What are the different stages of VAT? Can it be said that the entire burden falls on the final consumer? (2 Marks)

Answer

(a) **Computation of Total Income of Mr. A, Mrs. A and their minor son for the A.Y. 2012-13**

Particulars	Mr. A (₹)		Mrs. A (₹)	Minor Son (₹)
Salary income (of Mrs. A)		-	2,40,000	-
Pension income (of Mr. A) (₹ 10,000×12)		1,20,000		
Income from House Property [See Note (3) below]		52,000	-	-
Income from other sources				
Interest on Mr. A's fixed deposit with Bank of India (₹ 5,00,000×9%) [See Note (1) below]	45,000			
Commission received by Mrs. A from a partnership firm, in which Mr. A has substantial interest [See Note (2) below]	25,000	70,000		
Income before including income of minor son under section 64(1A)		2,42,000	2,40,000	-
Income of the minor son from the investment made in the business out of the amount gifted by Mr.A [See Note (4) below]		18,500	-	-
Income of the minor son through a business activity involving application of his skill and talent [See Note (5) below]		-	-	20,000
Total Income		2,60,500	2,40,000	20,000

Notes:

- (1) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.
- (2) As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the

profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

In this case, the commission income of ₹ 25,000 received by Mrs. A from the partnership firm has to be included in the total income of Mr. A, as Mrs. A does not possess any technical or professional qualification for earning such commission and Mr. A has substantial interest in the partnership firm as he holds 75% share in the firm.

- (3) According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. A shall be deemed to be the owner of the flat gifted to Mrs. A and hence, the income arising from the same shall be computed in the hands of Mr. A.

Note:

- (i) It has been assumed that the net income from the flat i.e., ₹ 52,000 given in the question is the net income computed under the head "Income from house property".

Note: Alternatively, the net income from the flat i.e., ₹ 52,000 given in the question may be taken as the net income before providing for deduction @ 30% under section 24(a) and accordingly, the solution can be worked out on this basis.

- (ii) The provisions of section 56(2)(vii) would not be attracted in the hands of Mrs. A, since she has received immovable property without consideration from a relative i.e., her husband.
- (4) As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child.

Therefore, the income of ₹ 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of ₹ 1,500 under section 10(32), be included in the income of Mr. A, since Mr. A's income of ₹ 2,42,000 (before including the income of the minor child) is greater than Mrs. A's income of ₹ 2,40,000. Therefore, ₹ 18,500 (i.e., ₹ 20,000 – ₹ 1,500) shall be included in Mr. A's income. It is assumed that this is the first year in which clubbing provisions are attracted.

Note – (i) The provisions of section 56(2)(vii) would not be attracted in the hands of the minor son, since he has received a sum of money exceeding ` 50,000 without consideration from a relative i.e., his father.

(ii) Since the question mentions “share income” from investment, it is possible to take a view that the same represents share income from a firm which is exempt under section 10(2A), in which case the clubbing provisions under section 64(1A) cannot be applied.

- (5) In case the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.

Therefore, the income of ` 20,000 derived by Mr. A's minor son through a business activity involving application of his skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor son.

- (b) The following documents have been prescribed by the CBEC to be submitted along with the application for registration under service tax:

- (a) Copy of Permanent Account Number (PAN)
- (b) Proof of Residence
- (c) Constitution of the Applicant
- (d) Power of Attorney in respect of authorized person (s).

The above documents must be submitted within a period of 15 days from the date of filing of the application, otherwise the application may be rejected. The time limit of seven days within which the registration is to be granted by the Superintendent of Central Excise/Service Tax would be reckoned from the date the application for registration is complete in all respects.

- (c) (i) The different variants of VAT are:-
1. Gross product variant: Under gross product variant, deduction for taxes on all inputs is allowed, but not for tax paid on capital goods.
 2. Income variant: Under income variant, deductions for tax paid on inputs and depreciation on capital goods is allowed.
 3. Consumption variant: Under consumption variant, deduction for taxes paid on all business inputs including capital goods is allowed.
- (ii) VAT is levied at each stage of production and distribution on the value added at the respective stage. Value added is the difference between the sales price and purchase price or the sum of wages, interest and other costs incurred and profits.

Broadly, VAT is paid at each of the following stages of a sale transaction:-

Manufacturer $\Rightarrow$ Wholesaler $\Rightarrow$ Retailer $\Rightarrow$ Consumer

Yes, entire burden of VAT falls on the final consumer and he does not get any credit of the same.

Question 6

- (a) MNP Ltd. commenced operations of the business of a new four-star hotel in Chennai on 1.4.2011. The company incurred capital expenditure of ` 40 lakh during the period January, 2011 to March, 2011 exclusively for the above business, and capitalized the same in its books of account as on 1<sup>st</sup> April, 2011. Further, during the previous year 2011-12, it incurred capital expenditure of ` 2.5 crore (out of which ` 1 crore was for acquisition of land) exclusively for the above business. Compute the income under the head "Profits and gains of business or profession" for the assessment year 2012-13, assuming that MNP Ltd. has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C. – Deductions in respect of certain incomes". The profits from the business of running this hotel (before claiming deducting under section 35AD) for the assessment year 2012-13 is ` 80 lakhs. Assume that the company also has another existing business of running a four-star hotel in Kanpur, which commenced operations 5 years back, the profits from which was ` 130 lakhs for assessment year 2012-13. (8 Marks)
- (b) *Avinash is a qualified Chartered Accountant. He acquired the certificate of practice from the ICAI in May, 2010. For the financial year 2011-12 his receipts (including service tax) as follows:*

Particulars	Amount `
Services rendered in tax planning	50,000
Representation of client before CESTAT	40,000
Preparation of financial statements of XYZ Ltd.	4,00,000
Certification of documents under Export and Import policy of Government of India.	1,50,000
Receipts for the legal advice given to clients in the month of December, 2011.	50,000

In the financial year 2010-11 he has provided the value of taxable service of value of ` 11,00,000

Using the above information, calculate the value of taxable services for the financial year 2011-2012. (4 Marks)

- (c) Ms. Pragma, a dealer submits the following information. Compute the net VAT liability from the following information: (4 Marks)

Particulars	₹
Import of raw material (including 10% import duty)	1,10,000
Raw material purchased from Kerala. (including excise duty @ 12%)	2,24,000
VAT @ 4% on the above purchase	
Raw material purchased from Karnataka	85,000
Transportation and manufacturing expenses	47,000

Pragma sold entire stock to Nishu at a profit of 10% on the cost of production. VAT rate on such sale is 4%.

Answer

- (a) Computation of income under the head "Profit and gains of business or profession" of MNP Ltd. for A.Y. 2012-13

Particulars	₹ (in lakh)	₹ (in lakh)
Profits from the specified business of new four-star hotel in Chennai (before providing deduction under section 35AD)		80
Less: Deduction under section 35AD		
Capital expenditure incurred during the P.Y. 2011-12 (excluding the expenditure incurred on acquisition of land) = ₹ 250 lakh – ₹ 100 lakh (See Notes 1 & 2 below)	150	
Capital expenditure incurred during January 2011 to March 2011 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2011 (See Note 3 below)	<u>40</u>	
Total deduction under section 35AD for A.Y.2012-13		<u>190</u>
Income from the specified business of new hotel in Chennai		(110)
Profit from the existing business of running a four-star hotel in Kanpur (See Note 4 below)		<u>130</u>
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A		<u>20</u>

Notes:

- (1) According to the provisions of section 35AD, an assessee shall be allowed a deduction in respect of 100% of the capital expenditure incurred wholly and

exclusively for the purpose of the specified business which, inter alia, includes the business in the nature of building and operating a new hotel of two-star or above category, anywhere in India. Therefore, the newly commenced four-star hotel business of MNP Ltd qualifies for deduction under section 35AD, since it has fulfilled all the conditions for claim of deduction under that section.

- (2) The expenditure on acquisition of land, however, does not qualify for deduction under section 35AD.
- (3) The capital expenditure incurred prior to commencement of specified business shall be allowed as deduction under section 35AD(1) in the year of commencement of specified business, if the same is capitalized in the books of accounts of the assessee on the date of commencement of its operations. Therefore, the expenditure of ₹ 40 lakh is allowable as deduction in A.Y. 2012-13, since it has been capitalized in the books of accounts of MNP Ltd. as on 1.4.2011.
- (4) As per section 73A, the loss computed under section 35AD in respect of a specified business can be set off against the profit of another specified business. Building and operating a hotel of two-star and above category, anywhere in India, is a specified business, therefore, the loss from the business of new four-star hotel in Chennai can be set-off against the income of the existing four-star hotel in Kanpur.

(b) Computation of value of taxable services for the financial year 2011-12

Particulars	₹
Services rendered in tax planning [Refer Note 1]	50,000
Representation of client before CESTAT [Refer Note 2]	40,000
Preparation of financial statements of XYZ Ltd. [Refer Note 1]	4,00,000
Certification of documents under Export and Import policy of Government of India [Refer Note 1]	1,50,000
Receipts for the legal advice given to clients in the month of December, 2011 [Refer Note 1]	<u>50,000</u>
Total value of taxable services (including service tax)	<u>6,90,000</u>
Value of taxable services [Refer Note 3]	
₹ $\left[6,90,000 \times \frac{100}{110.30} \right]$	6,25,566.64
Value of taxable services (rounded off)	6,25,567

Notes:-

- (1) Services provided by a practising Chartered Accountant in his professional capacity are liable to service tax.

- (2) Representational services provided by a practicing Chartered Accountant are liable to service tax as the exemption provided earlier has been withdrawn vide a notification.
- (3) As the particulars relate to receipts inclusive of service tax hence, value of taxable services has been computed by making back calculations.
- (4) The aggregate value of taxable services of Avinash in the preceding financial year i.e., FY 2010-11 is more than `10,00,000. Hence, he will not be entitled to exemption for small service providers in FY 2011-12 and would be liable to service tax.

(c) Computation of net VAT liability

Particulars	`
Import of raw material [Refer Note 1]	1,10,000
Raw material purchased from Kerala [Refer Note 2]	2,24,000
Raw material purchased from Karnataka [Refer Note 3]	85,000
Transportation and manufacturing expenses	<u>47,000</u>
Cost of production	4,66,000
Add : Profit margin @10%	<u>46,600</u>
Sales value	<u>5,12,600</u>
Output VAT payable @ 4%	20,504
Less: Input tax credit (`2,24,000 x 4%) – [Refer Note 1, 2 and 3]	<u>8,960</u>
Net VAT liability	<u>11,544</u>

Notes:

- (1) Import duty is not eligible for input tax credit. Hence, it will form part of cost of production.
- (2) VAT paid on intra-state purchases is eligible for input tax credit and hence, it does not form part of cost of production.
- (3) It has been assumed that value for raw material purchased from Karnataka is inclusive of CST. CST paid on inter-state purchases is not eligible for input tax credit and thus, it forms part of cost of production.

Question 7

- (a) Mr. Mohit is employed with XY Ltd. on a basic salary of `10,000 p.m. He is also entitled to dearness allowance @ 100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of `6,000 p.m. which was increased to `7,000 p.m. with effect from 1.01.2012. He also got an increment of `1,000 p.m. in his basic salary with effect from 1.02.2012. Rent paid by him during the previous year 2011-12 is as under:

- April and May, 2011 - Nil, as he stayed with his parents
- June to October, 2011 - ₹ 6,000 p.m. for an accommodation in Ghaziabad
- November, 2011 to March, 2012 - ₹ 8,000 p.m. for an accommodation in Delhi.

Compute his gross salary for assessment year 2012-13. (8 Marks)

- (b) *Mention the due dates for filing of service tax returns. Can an assessee submit a revised return?* (4 Marks)
- (c) *Briefly explain the system of cross checking under VAT Act.* (4 Marks)

Answer

- (a) Computation of gross salary of Mr. Mohit for A.Y. 2012-13

Particulars	₹
Basic salary [(₹ 10,000 × 10) + (₹ 11,000 × 2)]	1,22,000
Dearness Allowance (100% of basic salary)	1,22,000
House Rent Allowance (See Note below)	<u>21,300</u>
Gross Salary	<u>2,65,300</u>

Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May (')	June-Oct (')	Nov-Dec (')	Jan (')	Feb-March (')
Basic salary per month	10,000	10,000	10,000	10,000	11,000
Dearness allowance (included in salary as per terms of employment) (50% of basic salary)	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,500</u>
Salary per month for the purpose of computation of house rent allowance	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>16,500</u>
Relevant period (in months)	2	5	2	1	2
Salary for the relevant period (Salary per month × relevant period)	30,000	75,000	30,000	15,000	33,000
Rent paid for the relevant period	Nil	30,000 (`6,000×5)	16,000 (`8,000×2)	8,000 (`8,000×1)	16,000 (`8,000×2)
House rent allowance (HRA) received during the relevant period (A)	12,000 (`6,000×2)	30,000 (`6,000×5)	12,000 (`6,000×2)	7,000 (`7,000×1)	14,000 (`7,000×2)
Least of the following is exempt [u/s 10(13A)]					
1. Actual HRA received	12,000	30,000	12,000	7,000	14,000
2. Rent paid – 10% of salary	N.A.	22,500	13,000	6,500	12,700
3. 40% of salary (Residence at Ghaziabad–June to Oct, 2011) 50% of salary (Residence at Delhi–Nov'11- March'12)	N.A.	30,000 (40% × `75,000)	15,000 (50% × `30,000)	7,500 (50% × `15,000)	16,500 (50% × `33,000)
Exempt HRA (B)	Nil	22,500	12,000	6,500	12,700
Taxable HRA (Actual HRA – Exempt HRA) (A-B)	12,000	7,500	Nil	500	1,300

Taxable HRA (total) = ` 12,000 + ` 7,500 + ` 500 + ` 1,300 = ` 21,300

- (b) The due dates for filing of half yearly service tax return is 25th of the month following the particular half year.

For the half year ending	Return should be filed by
30 th Sept.	25 th October
31 st March	25 th April

If the 25th of the month is a public holiday, return is to be filed on immediately succeeding working day.

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 the original return.

- (c) A comprehensive cross-checking system is a pre-requisite for an efficient VAT system as VAT system requires the assessee to self-assess the VAT liability and only a few returns are scrutinized on a selective basis.

A threshold limit for purchases/sales may be specified exceeding which the dealers may be asked to submit the list of purchases/sales or the dealer-wise list from whom or to whom the goods have been purchased/sold.

A cross-checking computerized system is being worked which would facilitate the comparison between the tax returns and set-off documents of VAT system of the States and those of Central Excise and Income-tax.

Cross checking reduces tax evasion which leads to significant growth of tax revenue. It protects the honest dealers and penalizes the fictitious or dishonest ones and creates a level playing field.