

Test Series: February, 2012

MOCK TEST PAPER – 1

PCC: GROUP – II

PAPER – 5 : TAXATION

Question 1 is compulsory.

Answer any five questions from the remaining six questions.

Time Allowed – 3 Hours

Maximum Marks – 100

- 1 (a) Compute the taxable income of Dr. Sandeep from the following information for the year ended 31.03.2012:

Income and Expenditure Account for the year ended 31st March 2012

Particulars	₹	Particulars	₹
To Staff salary	1,95,000	By Rent	27,000
To Medicines consumed	1,97,000	By Fee Receipts	8,47,500
To Hospital consumables	67,500	By Dividend from Indian companies	9,000
To Administrative expenses	1,18,000		
To Rent paid	60,000		
To Net income	<u>2,46,000</u>		
	<u>8,83,500</u>		<u>8,83,500</u>

- (i) Hospital equipments (eligible for depreciation @ 15%)
01.04.2011 Opening WDV ₹ 5,00,000
07.12.2011 Acquired (Cost) ₹ 2,00,000
- (ii) Rent paid is in respect of a building situated in Delhi, half portion of which is used by Dr. Sandeep for residential purpose.
- (iii) Medicines consumed include medicines (cost) ₹ 10,000 used for Dr. Sandeep's family.
- (iv) Rent received relates to a property situated at Madurai (Gross Annual Value). The municipal tax of ₹ 2,000 paid in March, 2012 has been included in the "administrative expenses".
- (v) He received ₹ 5,000 per month as salary from Life Care Hospital which is not included in the above income and expenditure account.

- (vi) He has sold a land in December, 2011 for ₹ 5,00,000. It was inherited by him from his father in August, 1997. The site was acquired by his father in February, 1993 for ₹ 1,50,000.

(Cost inflation index 1992-93 = 223; 1997-98 = 331 and 2011-12 = 785)

(10 Marks)

- (b) Examine the taxability of the following:

- (i) Ajay, a film director, is awarded a cash prize of ₹ 1 lakh under the scheme of National Award for films instituted by the Central Government. Ajay claims this to be exempt from tax as a casual receipt.
- (ii) Sumit, Mohit and Amit are three medical doctors who have formed a partnership to establish and run a nursing home for earning profits. The profits of the nursing home for the year amounted to ₹ 25,00,000, which is claimed as exempt in the hands of the firm under the Income-tax Act, 1961.
- (iii) Atul is the coparcener of a Hindu Undivided Family consisting of himself, his father and two elder brothers. The assets of the family have not yet been partitioned. Out of the rental income of the family, Atul's father sends Atul ₹ 20,000 to enable him to maintain his family. Besides, the above receipt, Atul has received a salary of ₹ 2,60,000 from his employer. (5 Marks)

- (c) Adlaps Pvt. Ltd. has agreed to render services to Mr. Mukesh. The following are the chronological events:

Particulars	₹
Contract for services entered into on 25.9.2011 for ₹ 2,50,000	
Advance received in October, 2011 towards all services	60,000
Bill for the entire contract price raised in January, 2012	
Above includes non-taxable services of	50,000
Balance amount is received in March, 2012	

When does the liability to pay service tax arise and for what amount? Contract contains clear details of services; consideration and service tax are charged separately, as mutually agreed upon. (5 Marks)

2. (a) Mrs. Akanksha aged about 69 years is employed in Arihant Pvt. Ltd. as an Executive Officer. From the following details given by her for the year ended 31.03.2012, find out the tax liability for the assessment year 2012-13 :
 - (i) Basic Salary (₹ 50,000 x 12) = ₹ 6,00,000
 - (ii) Dearness Allowance (₹ 20,000 x 12) = ₹ 2,40,000 (forms part of pay for retirement benefits)
 - (iii) Bonus – 2 months basic pay.

- (iv) Commission – 0.2% of the turnover of the company. The turnover for the F.Y. 2011-12 was ₹ 7.50 crores.
- (v) Entertainment Allowance – ₹ 30,000.
- (vi) Hostel allowance for three children – ₹ 5,000 each.
- (vii) Contribution of the employer and employee to the recognized provident fund account ₹ 3,00,000 each.
- (viii) Interest credited to recognized provident fund account at 9.5% - ₹ 60,000.
- (ix) Rent free unfurnished accommodation provided by the company for which the company pays a rent of ₹ 70,000 per annum.

She makes the following payments and investments:

- (i) Premium paid to insure the life of her major son – ₹ 15,000.
- (ii) LIC Pension Fund – ₹ 12,000.
- (iii) Medical Insurance premium for self – ₹ 6,000 ; Spouse – ₹ 6,000.
- (iv) Donation to a public charitable institution registered under 80G ₹ 2,00,000.

(8 Marks)

- (b) State with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- (iii) Mr. Yogesh, Karta of HUF, claims that the HUF is non-resident as the business of HUF is transacted from Japan and all the policy decisions are taken there.

- (i) Only individuals and HUFs can be resident, but not ordinarily resident in India; firms can be either a resident or non-resident.

(4 Marks)

- (c) M/S Sharda & Co., a CA Firm raised a bill of ₹ 4,69,450 (including service tax) on his client for auditing services rendered by him in November, 2011. A partial payment of ₹ 2,26,640 was received by M/S Sharda & Co. in March, 2012. Compute the service tax amount payable by M/S Sharda & Co. and the due date by which service tax can be deposited.

(4 Marks)

- 3. (a) Mrs. Neha, a citizen of the UK, is a resident and ordinarily resident in India during the financial year 2011-12. She owns a house property at London, UK, which is used as her residence. The annual value of the house is £10,000. The value of one pound (£) may be taken as ₹ 90.

She took ownership and possession of a flat in Jaipur on 1.7.2011, which is used for self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.3.2012. The municipal valuation is ₹ 32,000 p.m. and the fair rent is ₹ 4,20,000 p.a. She paid the following to Corporation of Jaipur :

Property Tax	₹ 16,200
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Sewerage Tax ₹ 1,800

She had taken a loan from HDFC Bank for purchasing this flat. Interest on loan was as under:

	₹
Period prior to 1.4.2011	49,200
1.4.2011 to 30.6.2011	50,800
1.7.2011 to 31.3.2012	1,31,300

She had a house property in Mumbai, which was sold in March, 2009. In respect of this house, she received arrears of rent of ₹ 60,000 in March, 2012. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Neha for the assessment year 2012-13, exercising the most beneficial option available. (8 Marks)

- (b) Mr. Mohit employed in SK Ltd was given the option to purchase 1000 equity shares at ₹ 20 per share. The company gave the option on 05.10.2011 and on that date the average of opening and closing price of such shares in the stock exchange it was listed, was ₹ 350 per share. He exercised the option for 700 shares on 17.12.2011 and the shares were allotted on 15.01.2012. The average of the opening and closing price of such share in the stock exchange on the date of exercising the option was ₹ 300 per share and on the date of allotment it was ₹ 375 per share. Compute the value of perquisite chargeable to tax in the hands of Mr. Mohit.

(4 Marks)

- (c) Answer the following:

- (a) Ms. Priyanshi Jain, a registered service provider did not render any services during the financial year 2011-12. Whether she is required to file service tax return?
- (b) "Once filed, service tax return cannot be revised further." Critically examine the statement. (4 Marks)

4. (a) State with reasons, for the following sub-divisions, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961:
- (i) Where a person follows mercantile system of accounting, an expenditure of ₹ 25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes the payment of ₹ 25,000 through a crossed cheque, the taxability provision under section 40A(3A) are attracted in respect of such amount.
- (ii) For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.

- (iii) It is mandatory for an assessee to claim depreciation under section 32 of the Income-tax Act, 1961.
 - (iv) An existing assessee engaged in trading activities, can claim additional depreciation under Section 32(1)(ia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%.
 - (iv) The mediclaim premium paid to GIC by Mr. Ritesh for his employees, by a draft, on 29.10.2011 is a deductible expenditure under section 36.
 - (v) Under section 35DDA, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done.
- (8 Marks)

(b) Mahesh furnishes the following particulars of his income for the P.Y. 2011-12:

	Particulars	₹
(i)	Business income (before providing for depreciation)	1,00,000
(ii)	Depreciation	90,000
(iii)	Income under the head Salary (computed)	80,000
(iv)	Income from other sources (interest income)	6,000
	The following information is also available -	
	Brought forward loss relating to P.Y.2010-11	
	Unabsorbed Depreciation	20,000
	Business loss	50,000
	Loss from house property	45,000

Compute the total income of Mahesh for the assessment year 2012-13 and the losses to be carried forward.

(4 Marks)

(c) Mr. Shanky, a trader sells raw materials to a manufacturer of finished products. He imports his stock in trade as well as purchases the same from the local markets. Following transaction took place during financial year 2011-12:-

Calculate the VAT and invoice value charged by him to a manufacturer. Assume the rate of VAT @ 12.50%:

		₹
(1)	Cost of local materials including VAT	1,50,000
(2)	Cost of imported materials (from other State) excluding tax	50,000
(3)	Other expenditure including storage, transport, interest and loading and unloading and profit earned by him	96,500

(4 Marks)

5. (a) Mr. Yogesh purchased a residential house on January, 1994 for ₹ 5,00,000. He sold the said house to Mr. Tiwari on 7th September, 2011 for a consideration of

₹ 31,00,000. The stamp valuation authority fixed the value of the said house for stamp duty purpose at ₹ 35,00,000. He deposited ₹ 5,00,000 in eligible bonds issued by National Highways Authority of India (NHAI) on 14th February, 2012. He acquired a residential house at Delhi for ₹ 12,00,000 on 7th August, 2012. He gives other particulars as follows:

During the year, he has received interest of ₹ ₹ 32,000 on Bank deposits. He has invested ₹ 75,000 in public provident fund during the year ended 31.03.2012.

Compute the total income and tax liability of Mr. Yogesh for the A.Y. 2012-13.

Cost inflation index for F.Y.1993-94 and 2011-12 are 244 and 785, respectively.

(8 Marks)

- (b) In September 2011, Mr. Sumit employed as Finance Manager in a Construction company, received a Maruti car as gift from a supplier of the company. The value of the gifted car is estimated at ₹ 3,45,000. Is the value of car taxable as income? If so, under what head it is taxable?
(4 Marks)

- (c) Honey Limited took a contract for rendering service for ₹ 15,00,000. It sub-contracted a part of the work to Moon Limited for a sum of ₹ 6,00,000. Honey Limited paid service tax on the amounts realized and advised the sub-contractor Moon Limited not to raise bill inclusive of service tax since it had paid service tax on the total amount of contract.

Examine the correctness of advice given by Honey Limited to Moon Limited as per service tax provisions.
(4 Marks)

6. (a) Compute the taxable income of Mr. Amit and his tax liability for the assessment year 2012-13 from the following information for the year ended 31.03.2012.

- | | |
|--|----------|
| (i) Income from plying of vehicles (computed as per books)
(He owned 5 heavy goods vehicle throughout the year) | 2,10,400 |
| (ii) Income from retail trade of garments
(Computed as per books) (Sales turnover ₹ 21,70,000) | 75,000 |
| (iii) He has brought forward depreciation relating to A.Y. 2011-12 | 1,00,000 |
| (iv) He deposited ₹ 70,000 into his PPF account on 9.2.2012 and
₹ 30,000 in 5 year bank fixed deposit | |

(8 Marks)

- (b) Mr. Shah is an employee of Shyam Ltd. and has substantial interest in the company. His salary is ₹ 20,000 p.m. Mrs. Shah is also working in Shyam Ltd. at a salary of ₹ 12,000 p.m. without any qualifications. Mr. Shah also receives ₹ 30,000 as interest on securities. Mrs. Shah owns a house property which she has let out.

Rent received from tenants is ₹ 6000 p.m. Compute the gross total income of Mr. Shah and Mrs. Shah for the A.Y.2012-13. (4 Marks)

- (c) A particular service has been brought into the service tax net with effect from 1.9.2011. Mr. Palkit has provided this service on 25.8.2011 and issued the invoice on 2.09.2011, the payment for the same was received on 10.9.2011. Is service tax payable on the same? (4 Marks)
7. (a) State whether the following assesseees have to file return of income and if so, the due date for the Assessment Year 2012-13:
- (i) A public charitable trust registered under the Act is running an educational institution with aggregate annual receipt of ₹ 65,00,000 and total income of ₹ 3,20,000. Is the accounts of the trust liable for audit under section 44AB of the Act?
 - (ii) A registered trade union having income from let out property of ₹ 1,00,000.
 - (iii) A public trust hospital having an aggregate annual receipt of ₹ 200 lacs and availing exemption under section 10(23C)(via) with total income of ₹ 1,10,000.
 - (iv) Mr. Vimal, an individual, aged 54 years, whose gross total income (i.e. salary income) before deduction under section 80C is ₹ 2,60,000 and total income after deduction under section 80C is ₹ 1,05,000. (8 Marks)
- (b) Mrs. Priyanka, a landlord, derived income from rent from letting a house property to M/s SSG Infrastructure Limited of ₹ 1,00,000 per month. She charged service tax @ 10.3% on lease rent charges. Calculate the deduction of tax at source (TDS) to be made by M/s SSG Infrastructure Limited on payment made to Mrs. Priyanka and narrate related formalities in relation to TDS. (4 Marks)
- (c) "VAT helps in checking tax evasion and in achieving neutrality". Elaborate the statement. (4 Marks)

MOCK TEST PAPER – 1
PCC: GROUP – II
PAPER – 5 : TAXATION
SUGGESTED ANSWERS / HINTS

1. (a) Computation of taxable income of Dr. Sandeep for the previous year ended 31.03.2012

Particulars	₹	₹
Income from Salaries		
Salary received @ ₹ 5,000 per month		60,000
Income from house property		
Gross annual value	27,000	
Less: Municipal tax	<u>2,000</u>	
Net annual value	25,000	
Less: Deduction under section 24 @ 30%	<u>7,500</u>	17,500
Income from business or profession		
Net income as per income & expenditure account	2,46,000	
Add: Rent paid for residence at Delhi	30,000	
Medicines consumed – personal use	10,000	
Municipal tax relating to let out property included in administrative expenses – disallowed	<u>2,000</u>	
	2,88,000	
Less: Depreciation (See working note 2)	90,000	
Rent credited to income & expenditure account	27,000	
Dividend from Indian companies [Exempt under section 10(34)]	<u>9,000</u>	1,62,000
Capital Gains (Long term capital gains)		
Sale consideration	5,00,000	
Less: Indexed cost acquisition (1,50,000 x 785/331)	<u>3,55,740</u>	<u>1,44,260</u>
Gross Total income		3,83,760
Less: Deduction under chapter VIA – section 80GG (See Note 1)		
Under section 80GG, rent paid would be allowable as a deduction to the extent of the least of the following :-		
(i) 25% of total income = 25% of ₹ 2,39,500	59,875	
(ii) Excess of rent paid over 10% of total income (₹ 30,000 - ₹ 23,950)	6,050	
(iii) ₹ 2,000 per month	24,000	
Least of the above		<u>6,050</u>
Total Income		<u>3,77,710</u>

Note :

1. Deduction under section 80GG is to be made from Gross total income. Gross total income as defined under section 80B(5) means the total income computed in accordance with the provisions of this Act, before making any deduction under Chapter VI-A. Under section 112(2), Long term capital gains have to be reduced from Gross total income and Chapter VI-A deductions should be allowed as if the Gross total income so reduced were the Gross total income of the assessee. Therefore, in this case, for the purpose of allowing deduction u/s 80GG, Total Income = ₹ 3,83,760 – ₹ 1,44,260 = ₹ 2,39,500.

2. Depreciation on plant & machinery

	₹
On opening WDV of ₹ 5,00,000 @ 15%	75,000
On equipment acquired ₹ 2,00,000 @ 15%	
(50% thereon, since acquired in December i.e. held for less than 180 days)	<u>15,000</u>
	<u>90,000</u>

3. Since the property was acquired by Dr. Sandeep through inheritance, the cost of acquisition to him will be the cost to the previous owner. However, indexation will be from the year in which the assessee (i.e., Dr. Sandeep in this case) first held the asset i.e. F.Y. 1997-98.
- (b) (i) According to section 10(17A), any award either in cash or in kind instituted in the public interest by the Central or State Government or by any approved body is exempt from tax. In this case, ₹ 1,00,000 cash prize is awarded under the scheme of National award for films instituted by the Central Government. Therefore, the amount received is exempt.
- (ii) Section 10(23C) of the Income-tax Act, 1961 provides exemption for any income earned by a hospital or medical institution which is established not for the purposes of profit and :
- (1) which is wholly or substantially financed by the Govt.; or
 - (2) whose aggregate annual receipts do not exceed the prescribed amount i.e. ₹ 1 crore or
 - (3) which may be approved by the prescribed authority.

In the given case, Sumit, Mohit and Amit have formed a partnership firm (Nursing home) for the purpose of earning profits and sharing them. Exemption under section 10(23C) is not available to hospitals established with profit motive. Therefore, the entire profit of ₹ 25,00,000 earned by the firm during the year is taxable under the head 'Profits and Gains of Business or Profession'.

- (iii) The amount of ₹ 20,000 has been received by Atul from out of the rental income of the family in which he is a coparcener. Since the Hindu Undivided Family consisting of himself, his father and two elder brothers has not yet been partitioned, the income of the family is assessable in the status of the Hindu Undivided Family. The share received by Atul as a member is exempt on account of the specific provision under section 10(2). In respect of the salary of ₹ 2,60,000 earned by Atul from his employer, he is chargeable to tax in his individual status.
- (c) As per Rule 3 of Point of Taxation Rules, 2011,
The point of taxation shall be -
- (a) the time when the invoice for the service provided/to be provided is issued.
However, in case the invoice is not issued within 14 days of the completion of the provision of the service, the point of taxation shall be date of such completion.
- (b) in a case, where the person providing the service, receives a payment before the time specified in clause (a), the time, when he receives such payment, to the extent of such payment.

For the purpose of this rule, wherever any advance by whatever name known, is received by the service provider towards the provision of taxable service, the point of taxation shall be the date of receipt of each such advance.

Advance portion

Particulars	₹
Advance received towards all services in October, 2011	= 60,000
Amount billed for taxable services	= 2,50,000 – 50,000 = 2,00,000
Advance received towards taxable services	$= \frac{60,000}{2,50,000} \times \frac{2,00,000}{2,50,000}$ = 48,000
Service tax @ 10% (since, service tax is charged separately)	= 48,000 x 10%
	= 4,800
Education cess @ 2%	= 96
Secondary and higher education cess @ 1%	= 48
Total service tax liability	= 4,944

In this case, the due date for payment of service tax will be 5th November, 2011.

Balance portion

Particulars	₹
Amount billed for taxable services	=₹ 2,00,000
Advance received towards taxable services	=48,000
Amount billed but not received towards taxable services	=₹ (2,00,000-48,000)
	= 1,52,000
Service tax @ 10%	= 1,52,000 x 10%
	= 15,200
Education cess @ 2%	= 304
Secondary and higher education cess @ 1%	= 152
Total service tax liability	= 15,656

In this case, the due date for payment of service tax will be 5th February, 2012.

2. (a) Computation of Total Income of Mrs. Akanksha for A.Y. 2012-13

Particulars	₹	₹
Income from salary		
Basic salary		6,00,000
Dearness allowance		2,40,000
Bonus		1,00,000
Commission (calculated as percentage of turnover)		1,50,000
Entertainment allowance		30,000
Children's hostel allowance	15,000	
Less : Exemption (300 x 12 x 2)	<u>7,200</u>	7,800
Excess contribution to recognized provident fund by employer (Refer working Note 1)		1,81,200
Interest credited to recognized provident fund account (exempt)		-
Rent free unfurnished accommodation (Refer working Note 2)		70,000
Gross salary		13,79,000
Less : Deduction u/s.80C		
Life insurance premium paid for insurance of life of her major son.	15,000	
Employee's contribution to recognized provident	3,00,000	

fund		
Deduction u/s.80CCC in respect of LIC pension fund	<u>12,000</u>	
	3,27,000	
Deduction limited to ₹ 1,00,000 as per section 80CCE		1,00,000
Deduction u/s 80D		<u>12,000</u>
Total income before deduction u/s.80G		12,67,000
Deduction u/s.80G :		
Actual Donation to public charitable institution = ₹ 2,00,000		
Restricted to the maximum of 50% of 10% of total income before allowing deduction under section 80G i.e. 50% of ₹ 1,26,700 (10% total income)		<u>63,350</u>
Total income		<u>12,03,650</u>
Tax on total income		2,06,095
Add : Education cess @ 2%		4,122
Add : Secondary and higher education cess @ 1%		<u>2,061</u>
Total tax liability		<u>2,12,278</u>
Rounded off		2,12,280

Working Notes:

(1) Employer's contribution to R.P.F. in excess of 12% of salary

Employer's contribution	3,00,000
Less : 12% of basic salary, dearness allowance & commission i.e. 12% of ₹ 9,90,000	<u>1,18,800</u>
	<u>1,81,200</u>

(2) Value of rent free unfurnished accommodation

Basic salary	6,00,000
Dearness allowance	2,40,000
Bonus	1,00,000
Commission @ 0.2% of turnover	1,50,000
Entertainment allowance	30,000
Children's hostel allowance	<u>7,800</u>
Gross Salary	<u>11,27,800</u>

15% of salary	1,69,170
Actual rent paid by the company	70,000
The least of the above is chargeable perquisite i.e. ₹ 70,000	

- (b) (i) True: A HUF is considered to be a non-resident where the control and management of its affairs are situated wholly outside India. In the given case, since all the policy decisions of HUF are taken from Japan, the HUF is a non-resident.
- (ii) True: A person is said to be "not-ordinarily resident" in India if he satisfies either of the conditions given in sub-section (6) of section 6. This sub-section relates to only individuals and Hindu Undivided Family. Therefore, only individuals and Hindu Undivided Family can be resident, but not ordinarily resident in India. All other classes of assesseees can be either a resident or non-resident for the purpose of Income-tax Act, 1961. Firms and companies can, therefore, either be a resident or non-resident.
- (c) Rule 7 of Point of Taxation Rules 2011, inter alia provides that in case of Individuals or proprietary firms or partnership firms providing the any of the following taxable services:-
- Architect's Services
 - Interior Decorator's Services
 - Practicing Chartered Accountant's Services
 - Practicing Cost Accountant's Services
 - Practicing Company Secretary's Services
 - Scientific or Technical Consultancy Services
 - Legal Consultancy Services
 - Consulting Engineer's Services (inserted vide *Notification No. 41/2011 ST dated 27.06.2011*)

the date of receipt or payment of consideration would be the point of taxation

In the given case, amount of service tax liable to be paid by Mr. Y

$$= \frac{\text{Gross Amount} \times \text{Rate of tax}}{(100 + \text{Rate of tax})} = \frac{2,26,640 \times 10.30}{110.30} = 21,164$$

M/S Sharda & Co. is required to deposit service tax of ₹ 21,164 on or before 31.03.2012.

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

She possesses a self-occupied house at London as well as at Jaipur. At her option, one house shall be treated as self-occupied, whose annual value will be nil. The other self-occupied house property will be treated as "deemed let out property".

The annual value of the London house is ₹ 9,00,000 and the Jaipur flat is ₹ 3,15,000. Since the annual value of London house is more, it will be beneficial for her to opt for choosing the same as self-occupied. The Jaipur house will, therefore, be treated as "deemed let out property".

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

Accordingly, the income from house property of Mrs. Neha will be calculated as under:

	Particulars	₹	₹
1.	Self-occupied house at London.		
	Annual value	Nil	
	Less: Deduction under section 24	Nil	
	Income from house property	Nil	
2.	Deemed let out house property at Jaipur		
	Annual value (Higher of municipal value and fair rent) [4,20,000 x 9/12]		3,15,000
	Less: Municipal Taxes (Property tax+Sewerage tax)		<u>18,000</u>
	Net Annual Value (NAV)		2,97,000
	Less: Deductions under section 24		
	30% of NAV	89,100	
	Interest on borrowed capital (See Note below)	<u>1,91,940</u>	<u>2,81,040</u>
			15,960
3.	Arrears in respect of Mumbai property		
	Arrears of rent received	60,000	
	Less: Deduction @ 30%	<u>18,000</u>	<u>42,000</u>
	Income chargeable under the head "Income from house property"		<u>57,960</u>

Note : Interest on borrowed capital		₹
Interest for the current year (₹ 50,800 + ₹ 1,31,300)		1,82,100

Add: 1/5th of pre-construction interest ($\text{₹ } 49,200 \times 1/5$)	<u>9,840</u>
Interest deduction allowable under section 24	<u>1,91,940</u>

- (b) As per Rule 3(8), where the shares are listed in recognized stock exchange, the average of the opening and closing price of such share on the date of exercising the option would be adopted.

	₹
Average of the opening and closing price of shares on the date of exercising the option 700 shares @ ₹ 300 each	2,10,000
Less: Amount paid by the assessee = 700 @ ₹ 20 per shares	<u>14,000</u>
Value of perquisite for 700 shares	<u>1,96,000</u>

- (c) (a) Every assessee shall file a half yearly return in Form ST-3. Even if there is no service provided during a half year, a Nil return has to be filed. Therefore, Ms. Priyanshi Jain is required to file a service tax return.
- (b) The said statement is not tenable in law. 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. Hence "Once filed, service tax return can be revised further."
4. (a) (i) True: As per section 40A(3A), in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment exceeding ₹ 20,000 has been made in the subsequent year otherwise than by account payee cheque or account payee bank draft, then the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.
- (ii) True: Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.
- (iii) True: According to the Explanation 5 to section 32(1), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business / profession whether or not the assessee has claimed the same while computing his total income.
- (iv) False: Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing. In this case, the assessee is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, the assessee will not be entitled to claim additional depreciation under section 32(1)(ia).

- (v) True: Section 36(1)(ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 36(1)(ib).
- (vi) False: Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which payment there of is made to the employee.

(b) **Computation of Total Income of Mr. Mahesh for the A.Y.2012-13 :**

	Particulars	₹	₹
(i)	Business income	1,00,000	
	Less : Current year depreciation	<u>90,000</u>	
		10,000	
	Less : Brought forward business loss	<u>10,000</u>	NIL
(ii)	Income from Salary		80,000
(iii)	Income from other sources (interest income)	6,000	
	Less : Unabsorbed depreciation	<u>6,000</u>	<u>NIL</u>
	Total Income		<u>80,000</u>

Notes:

- Under section 72(2), business loss brought forward should be adjusted first and thereafter unabsorbed depreciation should be adjusted against business income.
- Balance brought forward business loss of assessment year 2011-12 of ₹ 40,000 (₹ 50,000-₹ 10,000) has to be carried forward to the next year.
- Unabsorbed depreciation can be set off against income from any head (except salary income). Therefore, unabsorbed depreciation of ₹ 20,000 can be set off to the extent of income from other source i.e. ₹ 6,000. Unabsorbed depreciation of ₹ 14,000 (₹ 20,000-₹ 6,000) not set off during the year shall be carried forward to the next year.

Note: There is an alternate view, that the provisions of section 71(2A) that the business loss cannot be set-off against salary income does not apply to unabsorbed depreciation. In case this view is taken then, the unabsorbed depreciation of ₹ 14,000 will be set-off from the salary income and the total income in that case would be ₹ 66,000.

- Brought forward loss from house property can only be set off from income from house property. Therefore brought forward loss from house property of ₹ 45,000 has to be carried forward to next year.

(c) Computation of VAT and invoice value:-

Particulars	₹
Imported material cost	50,000
[Since, this is not a VAT levied inside the State, it will form part of cost of input]	6,250
Add: Cost of local materials	1,50,000
Less: VAT @12.5%	<u>18,750</u>
[Since, credit of ₹ 18,750 would be available, it will not be included in cost of input]	1,31,250
Add: Other expenses and profit	<u>96,500</u>
Sales Price of goods	2,84,000
Add: VAT on the above @12.5%	<u>35,500</u>
Invoice value charged by Mr. Shanky to the manufacturer	3,19,500

VAT charged by Mr. Shanky is ₹ 35,500.

5. (a) Computation of total income and tax liability of Mr. Yogesh for the A.Y.2012-13

Particulars	₹	₹
Capital Gains:		
Sale price of the residential house	31,00,000	
Valuation as per Stamp Valuation authority	35,00,000	
(Value to be taken is the higher of actual sale price or valuation adopted for stamp duty purpose as per section 50C)		
Therefore, Consideration for the purpose of Capital Gains	35,00,000	
Less: Indexed Cost of Acquisition = 5,00,000 x 785/244	<u>16,08,607</u>	
	18,91,393	
Less: Exemption under section 54 ₹ 12,00,000		
Exemption under section 54EC ₹ 5,00,000	<u>17,00,000</u>	
Long-term Capital Gain		1,91,393
Income from other sources:		
Interest on bank deposits		<u>32,000</u>
Gross Total Income		2,23,393

Less: Deduction under Chapter VI-A		
Section 80C – Investment in PPF (restricted to ₹ 32,000) (See Note 1)		<u>32,000</u>
Total Income		<u>1,91,393</u>
Total Income (Rounded off)		1,91,390
 Tax liability		
Tax@20% on ₹ 11,390, being (₹ 1,91,390– ₹ 1,80,000) (See Note 2)		2,278
Add: Education Cess @ 2%		46
Secondary and Higher Education Cess @ 1%		<u>23</u>
Total tax liability		<u>2,347</u>

Note:

- (1) Deduction under section 80C should be restricted to gross total income excluding long term capital gain.
 - (2) The basic exemption limit can be adjusted against long term capital gains, since the entire income comprises of only long term capital gains. The balance long term capital gains of ₹ 11,390 is taxable @ 20% plus education cess @ 2% and secondary and higher education cess @ 1%.
- (b) Mr. Sumit, an employee of a Construction company, has received a car as a gift from a supplier of the company. Since there is no employer-employee relationship in this case between the supplier and Mr. Sumit, the value of gift is not a perquisite chargeable to tax under the head “Salaries”.

Section 56(2)(vii), brings within its scope the value of any property received by an individual or hindu undivided family without consideration. For this purpose, “property” means immovable property being land or building or both, shares and securities, jewellery, archaeological collections, drawings, paintings, sculptures or any work of art.

Therefore, for the purpose of attracting the provisions of section 56(2)(vii) for chargeability under the head “Income from Other Sources”, an individual should be in receipt of property as defined therein. Since, car is not included in the definition of “property”, the provisions of section 56(2)(vii) would not be attracted in the hands of Mr. Sumit.

Therefore, the Maruti car received by Mr. Sumit as a gift is not taxable.

- (c) The advice given by Honey Limited to sub-contractor Moon Ltd. is not tenable in law.

A sub-contractor is also a taxable service provider. The services provided by sub-contractor which are used by main contractor does not in any way alter the fact of provision of taxable service by the sub-contractor.

Service tax paid by the contractor to sub-contractor will be eligible for input credit to the main contractor.

A given taxable service which is intended for use as an input service by another service provider would not alter the taxability of the service provided.

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

Particulars	₹
Income from retail trade – as per books (See Note 1 below)	75,000
Income from plying of vehicles – as per books (See Note 2 below)	<u>2,10,400</u>
	2,85,400
Less: Set off of brought forward depreciation relating to A.Y. 2011-12	<u>1,00,000</u>
Gross total income	1,85,400
Less: Deduction u/s.80C – Contribution to PPF and bank fixed deposit	<u>1,00,000</u>
Taxable income	<u>85,400</u>
Tax liability	Nil

Note :

- (1) Income from retail trade: Presumptive business income under section 44AD is ₹ 1,73,600 i.e. 8% of turnover of ₹ 21,70,000. However, the income computed as per books is ₹ 75,000 which is to be further reduced by the amount of unabsorbed depreciation. Since the income computed as per books is lower than the income deemed under section 44AD, the assessee can adopt the income as per books.

The requirement to maintain books of accounts under section 44AA and to get them audited under section 44AB in case the assessee claims the profit and gains of business to be lower than the presumptive income determined under section 44AD, would arise only if the total income exceeds the basic exemption limit. In this case, since the total income does not exceeds the basic exemption limit, this mandatory requirement does not arise.

The total unabsorbed depreciation is ₹ 1,00,000. Out of this, ₹ 75,000 can be set-off against income from retail trade. The balance of ₹ 25,000 remains to be set-off from income from plying of vehicles.

- (2) **Income from plying of vehicles** : Income calculated under section 44AE(1) would be ₹ 5,000 x 12 x 5 which is equal to ₹ 3,00,000. However, the income from plying of vehicles is ₹ 2,10,400 less ₹ 25,000, being the balance unabsorbed depreciation remaining to be set-off under section 32(2). Therefore, the taxable income from plying of vehicles is ₹ 1,85,400, which is lower than the presumptive income of ₹ 3,00,000 calculated as per section 44AE(1). Hence, the assessee can consider the taxable income i.e. ₹ 1,85,400, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.

It is to be further noted that in both the above cases, had presumptive income provisions been opted, all deductions under sections 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable.

If the assessee opted for income to be assessed on presumptive basis, his total income would be as under:

Particulars	₹
Income from retail trade u/s 44AD [₹ 21,70,000 @ 8%]	1,73,600
Income from plying of vehicles u/s 44AE [₹ 5,000 x 12 x 5]	<u>3,00,000</u>
	4,73,600
Less: Set off of brought forward depreciation – not possible and it is deemed that it has been allowed and set off.	<u>Nil</u>
Gross total income	4,73,600
Less: Deduction u/s.80C - Contribution to PPF and bank fixed deposit	<u>1,00,000</u>
Taxable income	<u>3,73,600</u>
Tax thereon	19,360
Add: Education cess @ 2% and Secondary and higher education cess @ 1%	<u>581</u>
Total tax liability	<u>19,941</u>

Note: If the assessee has not maintained books of account as required under section 44AA for the business of plying of vehicles, then, he has to offer income only on presumptive basis given above.

- (b) Since Mrs. Shah is not professionally qualified for the job, the clubbing provisions shall be applicable.

Computation of Gross total income of Mr. Shah

	₹
Income from Salary	
Salary received by Mr. Shah [₹ 20,000 × 12]	2,40,000

Salary received by Mrs.Shah	[₹ 12,000 × 12]	<u>1,44,000</u>
		3,84,000
Income from other sources		
Interest on securities		<u>30,000</u>
		<u>4,14,000</u>

Computation of Gross total income of Mrs.Shah

	₹	₹
Income from Salary [clubbed in the hands of Mr. Shah]		Nil
Income from house property		
Gross Annual Value [₹ 6,000 × 12]	72,000	
(rent received has been assumed to be Gross Annual Value in the absence of other information)		
Less: Municipal taxes paid	<u>Nil</u>	
Net Annual Value (NAV)	72,000	
Less: Deductions u/s 24		
- 30% of NAV i.e. 30% of ₹ 72,000	21,600	
- Interest on loan	<u>Nil</u>	<u>50,400</u>
Gross total income		<u>50,400</u>

- (c) Payment of tax in cases of new services [Rule 5 of Point of Taxation Rules 2011] - Where a service, not being a service covered by rule 6, is taxed for the first time, then, –

- (a) no tax shall be payable to the extent the invoice has been issued and the payment received against such invoice before such service became taxable;
- (b) no tax shall be payable if the payment has been received before the service becomes taxable and invoice has been issued within the period referred to in rule 4A of the Service Tax Rules, 1994.

The facts given in the question does not fall under any of the above two clauses. Hence service tax is payable on the same.

7. (a) (i) Since the total income of ₹ 3,20,000 exceeds the basic exemption limit of ₹ 1,80,000, the mandatory requirement of filing return under section 139(4C) will apply.

The accounts of the charitable trust running an educational institution with an aggregate annual receipt of less than ₹ 100 lacs is eligible for exemption under

section 10(23C)(iiiad) and therefore, the accounts of such trust need not be audited under section 44AB.

Therefore, the due date of filing of return of income of the public charitable trust running an educational institution eligible for exemption under section 10(23C)(iiiad) is 31st July 2012.

- (ii) A registered trade union is having income from property, which is exempt under section 10(24).

Section 139(4C) mandates filing of return only when the total income exceeds the maximum amount which is not chargeable to tax without giving effect to the provisions of section 10. Even without giving effect to section 10(24), the total income is below basic exemption limit and therefore, there is no mandatory requirement to file the return of income.

- (iii) Since the total income of the public trust hospital, without giving effect to the exemption under section 10(23C)(via), is less than the basic exemption limit of ₹ 1,80,000, the trust need not file its return of income.

- (iv) The fourth proviso to section 139(1) requires every person, whose total income without giving effect to the provisions of, *inter alia*, Chapter VIA exceeds the maximum amount not chargeable to tax, to compulsorily furnish the return of income for the relevant assessment year on or before the due date. The gross total income of Mr. Vimal before deduction under section 80C exceeds the basic exemption limit of ₹ 1,80,000 and therefore, Mr. Vimal has to furnish his return of income for the assessment year 2012-13. The due date for filling return of income is 31st July, 2012.

- (b) (1) As per *Circular No. 4/2008 dated 28th April, 2008* issued by the CBDT, the service tax paid by the tenant does not partake the nature of income of the landlord. The landlord only acts as a collecting agency for collection of service tax. Therefore, tax deducted at source under section 194-I would be required to be made on the amount of rent paid or payable excluding the amount of service tax, i.e. tax has to be deducted under section 194-I on ₹ 12 lakh.

- (2) Tax is deductible @ 10% under section 194-I.

- (3) Hence, in the given case, TDS under section 194-I would amount to ₹ 10,000, to be deducted every month.

- (4) Tax deducted should be deposited within prescribed time i.e. on or before seven days from the end of the month in which the deduction is made and upto 30th April for the month of March.

- (c) It is said that VAT is a logical beauty. Under VAT, credit of duty paid is allowed against the liability on the final product manufactured or sold. Therefore, unless proper records are kept in respect of various inputs, it is not possible to claim credit. Hence, suppression of purchases or production will be difficult because it will lead

to loss of revenue. A perfect system of VAT will be a perfect chain where tax evasion is difficult.

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

Test Series: March, 2012

MOCK TEST PAPER – 2

PCC: GROUP – II

PAPER – 5 : TAXATION

Question 1 is compulsory.

Answer any five questions from the remaining six questions.

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) Sita and Geeta are sisters, born and brought up at Delhi. Sita got married in 1981 and settled in Australia since 1981. Geeta got married and settled at Delhi. Both of them are below 60 years. The following are the details of their income for the previous year ended 31.3.2012:

S.No.	Particulars	Sita (₹)	Geeta (₹)
1.	Pension received from State Government	-	10,000
2.	Pension received from Australian Government	20,000	--
3.	Long-term capital gain on sale of land at Delhi	1,00,000	50,000
4.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,00,000
5.	LIC premium paid for own life	--	10,000
6.	Premium paid to Australian Life Insurance Corporation at Australia	10,000	--
7.	Mediclin insurance premium paid by cheque for her dependent mother	--	5,000
8.	Tax saving bond purchased in March, 2012	30,000	20,000
9.	Rent received in respect of house property at Delhi	60,000	30,000

You are required to compute the taxable income of Mrs. Sita and Mrs. Geeta for the Assessment Year 2012-13 and tax thereon. (10 Marks)

- (b) Rupesh, citizen of France, is appointed by a multi-national company to its branch in New Delhi in 2007. Rupesh has never been to India before this appointment. He arrives in Bombay on 15th April, 2008 and joins the New Delhi office on 20th April, 2008. His wife and children join him in India on 20th October, 2008. The company allotted him a leased residence for the purpose of his stay. This residence is occupied by him from the beginning of October, 2008. On 10th February, 2009, he is transferred by his employer, on deputation basis, to be the regional chief of his employer's operations in South East Asia having headquarters in Hong Kong. He

leaves New Delhi on 11th February 2009 and arrives in Hong Kong on 12th February, 2009. Rupesh leaves behind his wife and children in India till 14th August, 2010, when they leave along with him for Hong Kong. Rupesh had come to India earlier on 15th June, 2010 on two months' leave. The members of the family occupied the residence till date of departure to Hong Kong. At the end of the period of deputation, Rupesh is reposted to India and joins the New Delhi office of his employer as chief of Indian operations on 30th January, 2012. In what residential status Rupesh will be assessable, for the various years, to income tax in India?

(It may be kept in mind that the provisions of the Income-tax Act, 1961 relating to determination of residential status of an individual are the same for the A.Y. 2009-10, 2010-11, 2011-12 and 2012-13) (5 Marks)

- (c) The particulars regarding sale, purchase etc. of Shiv Corporations for the fourth quarter of the year 2011 -12 are as under:

Particulars	₹
Purchases of raw material within the State (tax rate 12.5%)	60,00,000
Purchases of raw material within the State (VAT paid @ 4%, however, invoice does not show the amount of tax separately)	10,00,000
High seas purchases (import duty paid @ 10%)	25,00,000
Taxable sale within the State (tax rate 4%)	1,00,00,000
Exempted sale within the State (raw material worth ₹20,00,000 is used for producing such goods, VAT paid on such inputs @ 12.5%)	10,00,000
Sale in the course of Inter-State trade or commerce (tax rate 2%)	10,00,000

Compute the amount of Value Added Tax (VAT) payable by M/s Shiv Corporations for the relevant quarter. There is no opening and closing stock of goods. How can he utilize the balance of input tax credit available, if any? (5 Marks)

2. (a) Mr. Vivek is the General Manager of ABC Ltd, New Delhi. From the following particulars for the year ended 31.03.2012, compute the relief available to him under section 89 of the Income-tax Act, 1961, in terms of tax payable for assessment year 2012-13:

Particulars	₹
i. Salary income for the year	5,60,000
ii. Amount deposited in Public Provident Fund during the year	35,000
iii. Salary for Financial Year 2005-06 received during the year	40,000
iv. Assessed Income for the Financial Year 2005-06	1,40,000

The rates of Income-tax for the assessment year 2006-07 are:

Particulars	Tax Rate (%)
On first ₹ 1,00,000	Nil
On ₹1,00,000 – ₹ 1,50,000	10
On ₹1,50,000 – ₹ 2,50,000	20
Above ₹ 2,50,000	30
Education cess	2

(8 Marks)

- (b) Mr. X, an Indian citizen, left India on 1.5.2011 for the first time to work as an officer of a company in Australia. He has not visited India thereafter. Mr. X borrows money from his friend Mr. Y, who left India one week before Mr. X's departure, to the extent of ₹ 25 lakhs and purchases shares in A Ltd., an Indian company. Mr. Y charged interest @8% from Mr. X. Whether the interest is taxable in the hands of Mr. Y, where the same has been received in Sydney? (4 Marks)
- (c) C.J. Professionals, a partnership firm, gives the following particulars relating to the services provided to various clients by them for the half-year ended as on 30.09.11:
- Total bills raised for ₹ 7,65,000 out of which bill for ₹ 65,000 was raised on an approved International Organisation and payments of bills for ₹ 1,00,000 were not received till 30.09.11.
 - Amount of ₹ 1,50,000 was received as an advance from XYZ Ltd. on 25.09.11 to whom the services were to be provided in October, 11.

You are required to work out the:

- taxable value of services
- amount of service tax payable.

Note: The aforesaid amounts are exclusive of service tax.

(4 Marks)

3. (a) Manoj owns a residential house in Jaipur whose municipal valuation is ₹ 2,40,000 p.a. The fair rent is ₹ 3,00,000 and the standard rent is ₹ 3,60,000 During the previous year 2011-12, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of ₹ 7,500 p.m. He paid municipal taxes@12.5% of municipal value during the year. He had paid interest of ₹ 1,20,000 for loan of ₹ 32,00,000 which was borrowed by him during the year 2006 for acquiring the property. Compute the income from house property chargeable in the hands of Manoj for the A.Y. 2012-13. (8 Marks)
- (b) State with reasons whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961:
- Zero Coupon Bond means a bond on which no payment and benefits are

received or receivable before maturity or redemption.

- (ii) Capital gain of ₹ 75 lakh arising from transfer of long term capital assets on 1.5.2011 will be exempt from tax if such capital gain is invested in the bonds redeemable after three years, issued by NHAI under section 54EC of the Act.

(4 Marks)

- (c) Explain briefly, how a VAT system brings certainty and ensures transparency.

(4 Marks)

4. (a) M/s Sanjivani & Co., a sole proprietary concern engaged in the manufacturing of pharmaceutical products, commenced its business on 1.4.2011. The following expenses were incurred in respect of activities connected with scientific research:

Year ended	Item	Amount (₹)
31.03.2009	Land	7,50,000
(Incurred after 1.4.2008)	Building	22,80,000
31.03.2010	Plant and machinery	5,00,000
31.03.2010	Raw materials	2,50,000
31.03.2011	Raw materials	1,90,000
31.03.2012	Raw materials and salaries	1,80,000

Since the result of the research was unsuccessful, the company sold its plant and machinery on 1.03.2012 for ₹ 8,00,000.

You are required to discuss the implications of the above for the assessment year 2012-13 along with brief computation of admissible deduction under section 35 assuming that necessary conditions have been fulfilled.

(8 Marks)

- (b) Mohit is a person carrying on profession as technical consultant. His gross receipts from profession are as under:

	₹
Financial year 2008-09	1,45,000
Financial year 2009-10	1,68,000
Financial year 2010-11	1,96,000

Whether he is required to maintain books of accounts for the Assessment Year 2012-13 under section 44AA of Income-tax Act, 1961?

(4 Marks)

- (c) State briefly whether the services provided by a person having a place of business in the State of Jammu and Kashmir providing services in any other place in India are taxable under the Finance Act, 1994 as amended?

(4 Marks)

5. (a) Compute the taxable capital gain of Mr. Pankaj from the following data furnished by him for the previous year ending 31.3.2012.

(a) Unlisted Equity Shares of XYZ Ltd., 20,000 in number were sold on 28.7.2011, at ₹ 175 for each share.

(b) The above shares of 20,000 were acquired by Pankaj in the following manner:

(i) Received as gift from his father on 5.4.1979 (10,000 shares) the market price on 1.4.81 ₹ 25 per share.

(ii) Bonus shares received from XYZ Ltd. on 17.3.1986 (5,000 shares).

(iii) Purchased on 31.12.1993 at the price of ₹ 75 per share (5,000 shares).

(c) Purchased one residential house at ₹ 25 lakhs, on 5.6.2012 from the sale proceeds of shares.

(d) Pankaj is already owning a residential house, even before the purchase of above house.

(Cost Inflation Index – F.Y. 1993-94: 244; F.Y. 2011-2012 : 785) (8 Marks)

- (b) P, an individual (aged 65 years), is a sitting member of the State Assembly of Uttar Pradesh. He received the following amounts from the Assembly Secretariat for the financial year 2011-12 :

(i)	Basic pay	₹ 20,000 p.m.
(ii)	Constituency allowance	₹ 9,500 p.m.
(iii)	Telephone allowance	₹ 5,000 p.m.
(iv)	Electricity allowance	₹ 5,000 p.m. [from October, 2011 onwards]

P has no other source of income chargeable to tax. You are required to compute his total income for A.Y. 2012-13. (4 Marks)

- (c) Consumption variant is convenient from the point of administrative expediency. Is the proposition true? If yes, briefly explain any other benefits that consumption variant might accrue. (4 Marks)

6. (a) Smt. Jaya started a proprietary business as on 1.4.2010 with her capital of ₹ 2,50,000. Her husband gifted ₹ 2,00,000 on 04.5.2010, which was invested by Smt. Jaya on the same date. Smt. Jaya earned following profits from her proprietary business :

	₹
Financial year 2010-2011	2,00,000
Financial year 2011-2012	3,90,000.

You are required to compute the income, to be clubbed in the hands of Jaya's husband for the A.Y. 2012-2013 with reasons. (8 Marks)

- (b) Compute the total income of Rashmi for the A.Y.2012-13, from the following particulars of her income for the year ended 31.3.2012:

	Particulars	₹
(a)	Profit from sugar business	75,000
(b)	Loss from textile business	25,000
(c)	Brought forward loss from business of readymade garments (discontinued in A.Y. 2009-10)	30,000
(d)	Profit from speculative business during the year	17,500
(e)	Loss from speculative business for A.Y. 2007-08 not set off till A.Y. 2011-12	11,800
(f)	Short-term loss on sale of securities and shares	10,500

(4 Marks)

- (c) Does a service provider have an option to pay service tax at a rate different from the general rate applicable on gross value of taxable services, in the case of purchase or sale of foreign currency? (4 Marks)
7. (a) Examine the applicability of tax deduction at source in the following cases for the assessment year 2012-13 :
- Interest amounting to ₹ 55,000 paid to Corporation Bank by XYZ Ltd.
 - Paint limited paid a sum of ₹ 18,000 to Flyking parcel service and ₹ 15,00,000 to Indian Railways towards freight charges.
 - A company operating a television channel makes payment of ₹ 2.5 lacs to a former cricketer for making running commentary of a one-day cricket match.
 - A State Government pays ₹ 20,000 as commission to one of its agent on sale of lottery tickets. (8 Marks)
- (b) State with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:
- The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.
 - Where the Karta of a HUF is absent from India, the return of income can be signed by any male member of the family. (4 Marks)
- (c) Durga Consultants Ltd. paid service tax of ₹ 9.6 lakh in cash in the financial year 2010-11. For the half year ended September 30, 2011, it did not file its return electronically. You are required to examine whether, in the instant case, Durga Consultants Ltd. is required to file its return electronically. (4 Marks)

MOCK TEST PAPER – 2

PCC: GROUP – II

PAPER – 5 : TAXATION

SUGGESTED ANSWERS / HINTS

1. (a) Computation of taxable income of Mrs. Sita and Mrs. Geeta for the A.Y.2012-13

S. No.	Particulars	Mrs. Sita	Mrs. Geeta
		₹	₹
(I)	Salaries Pension received from State Government Pension received from Australian Government is not taxable in the case of a non-resident since it is earned and received outside India	Nil	10,000
		<u>Nil</u>	<u>10,000</u>
(II)	Income from house property Rent received from house property at Delhi (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent) Less: Deduction under section 24(a)@30%	60,000 <u>18,000</u> <u>42,000</u>	30,000 <u>9,000</u> <u>21,000</u>
(III)	Capital gains Long-term capital gain on sale of land at Delhi Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	1,00,000 <u>20,000</u> <u>1,20,000</u>	50,000 <u>2,00,000</u> <u>2,50,000</u>
(A)	Gross Total Income [(I)+(II)+(III)] Less: Deductions under Chapter VIA	1,62,000	2,81,000
1.	Deduction under section 80C		
	1. LIC Premium paid	-	10,000
	2. Premium paid to Australian Life Insurance Corporation	10,000	
	3. Tax Saving Bond (assuming that they are notified infrastructure bonds)		

	eligible for deduction under section 80C)	<u>30,000</u>	<u>20,000</u>
		40,000	30,000
2.	Deduction under section 80D – Medici claim premium paid (assuming that the same is paid by cheque)	<u>Nil</u>	<u>5,000</u>
		40,000	35,000
(B)	Total deduction under Chapter VIA is restricted to income other than capital gains taxable under sections 111A & 112	<u>40,000</u>	<u>31,000</u>
(C)	Total income (A-B)	<u>1,22,000</u>	<u>2,50,000</u>
	Tax liability of Mrs. Sita for A.Y. 2012-13		
	Tax on long-term capital gains @ 20%	20,000	
	Tax on short-term capital gains @ 15%	<u>3,000</u>	
		23,000	
	Tax liability of Mrs. Geeta for A.Y.2012-13		
	Tax on short-term capital gains @ 15% of ₹60,000 [i.e. ₹ 2,00,000 less ₹ 1,40,000, being the unexhausted basic exemption limit as per proviso to section 111A]		9,000
	Education cess @ 2% & SHEC@ 1%	<u>690</u>	<u>270</u>
	Total tax payable	<u>23,690</u>	<u>9,270</u>

Note :

- (1) Long-term capital gains is chargeable to tax @ 20% as per section 112.
- (2) Short-term capital gains on transfer of equity shares in respect of which securities transaction tax is paid is subject to tax @ 15% as per section 111A.
- (3) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then the long-term capital gains/short-term capital gains will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/10% respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Geeta can set-off unexhausted basic exemption limit against long-term capital gains and short-term capital gains taxable under section 111A, Mrs. Sita cannot do so.
- (4) Since long-term capital gains is taxable at the rate of 20% and short-term capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Geeta to first exhaust her basic exemption limit of ₹ 1,90,000 against long-term

capital gains of ₹ 50,000 and the balance limit of ₹ 1,40,000 (i.e., ₹ 1,90,000 – ₹ 50,000) against short-term capital gains.

- (b) On analyzing the information given about the period of stay of Rupesh in India, the following position emerges:

Previous year	Assessment year	Period of stay (Number of days)
2008- 2009	2009- 2010	303
2009- 2010	2010- 2011	-
2010- 2011	2011- 2012	61
2011- 2012	2012- 2013	62

Considering the number of days of stay during each of the previous years, the residential status of Rupesh is determined as follows:

- For the assessment year 2009-2010, Rupesh has stayed for not less than 182 days during the relevant previous year 2008-2009. Hence, he is a resident. Also he satisfies the two additional conditions for not ordinarily resident. Therefore, status of Rupesh for the A.Y.2009-10 is Resident but Not Ordinarily Resident.
- For the assessment year 2010-11, he has never stayed in India. Therefore, he is a non-resident, as having not fulfilled any of the two basic conditions.
- For the assessment year 2011-12, the period of stay is 60 days. According to section 6, an individual who stays for 60 days or more should also fulfill the requirement of stay of 365 days or more during the preceding 4 years. This limb of the basic condition is not satisfied and therefore, he is a non-resident.
- For the assessment year 2012-13, the period of stay does not satisfy any of 2 basic conditions. Therefore, he is a non-resident.

Note :-

The information about stay of Rupesh's wife and children in India is not relevant to determine the residential status of Rupesh. Similarly, maintenance of a residence in India is not relevant for determination of residential status.

- (c) Computation of VAT payable for the quarter ending 31st March, 2012:-

Particulars	₹	₹
Output tax payable = ₹ 1,00,00,000 × 4%		4,00,000
Less: Input tax credit		
On raw material purchased @ 12.5%		
(₹ 60,00,000 × 12.5%)	7,50,000	
Less: Inputs used in the manufacture of exempted goods		

sold (₹ 20,00,000 × 12.5%) [Note – 1]	<u>2,50,000</u>	<u>5,00,000</u>
Net VAT payable		(1,00,000)
CST payable on inter state sale adjusted (₹ 10,00,000 × 2%)		20,000
Balance of input tax credit carried forward to next quarter (₹ 20,000-₹ 1,00,000)		80,000

Note:

1. If the goods manufactured from raw material are exempt from tax, no input tax credit is available on such raw material.
2. Import duty paid on high seas purchases is not eligible for input tax credit.
3. Purchases of raw material within the State on which VAT has been paid @ 4% are not eligible for input tax credit because invoice for the said purchases does not show the amount of tax separately.

2. (a) Computation of Relief under section 89 for the Assessment Year 2012-13

Particulars	₹	₹
Salary Income for the year excluding the arrears		5,60,000
Add: Arrears relating to Financial Year 2005-06		<u>40,000</u>
Gross Total Income		6,00,000
Less: Deduction under chapter VI-A		
Contribution to Public Provident Fund		<u>35,000</u>
Total Income		<u>5,65,000</u>
Assessment year 2012-13		
Tax on ₹ 5,65,000		
First ₹ 1,80,000 Nil	NIL	
Next ₹ 3,20,000 10%	32,000	
Balance ₹ <u>65,000</u> 20%	<u>13,000</u>	
<u>5,65,000</u>	45,000	
Add: Education cess @ 2%	900	
Secondary and higher education cess @1%	<u>450</u>	
Tax on total income (including arrears) (A)	<u>46,350</u>	
Total Income excluding arrears		5,25,000
Tax on ₹ 5,25,000		
First ₹ 1,80,000 Nil	NIL	
Next ₹ 3,20,000 10%	32,000	
Balance ₹ <u>25,000</u> 20%	<u>5,000</u>	

	<u>5,25,000</u>	37,000	
Add : Education cess @ 2%		740	
Secondary and higher education cess @ 1%		<u>370</u>	
Tax on total income (excluding arrears) (B)		<u>38,110</u>	
Difference between A & B I			8,240
Assessment Year 2006-07			
Total Income assessed			1,40,000
Add: Arrears relating to Financial year 2005-06			<u>40,000</u>
Total income (including arrears)			1,80,000
Tax on ₹ 1,80,000		11,000	
Add: Education Cess @ 2%		<u>220</u>	
Tax on total income (including arrears) (C)		<u>11,220</u>	
Total Income excluding arrears			1,40,000
Tax on ₹ 1,40,000		4,000	
Add: Education Cess @ 2%		<u>80</u>	
Tax on total income (excluding arrears) (D)		<u>4,080</u>	
Difference between C & D II			7,140
Relief under section 89 (I – II)			1,100
Tax payable for A.Y. 2012-13 (₹ 46,350 – ₹ 1,100)			45,250

- (b) An individual is said to be resident in India in any previous year, if he -
- has been in India during that year for a total period of 182 days or more, or
 - has been in India during the four years immediately preceding that year for a total period of 365 days or more and has been in India for at least 60 days in that year.

In this case, X has been in India only from 1.4.2011 to 30.04.2011 i.e. for 30 days. Therefore, he does not satisfy either of the conditions in (i) or (ii) and is, hence, a non-resident. Y, who left India one week before X's departure, is also a non-resident for the same reasons.

Section 9(1)(v) provides that income by way of interest payable by a non-resident in respect of any debt incurred, or moneys borrowed and used, for the purposes of a business or profession carried on by such person in India shall be deemed to accrue or arise in India.

Therefore, interest payable by a non-resident in respect of any debt incurred, or moneys borrowed and used, for the purpose of making or earning any income from

any source other than a business or profession carried on by him in India, shall not be deemed to accrue or arise in India. Therefore, interest payable by X on money borrowed from Y to invest in shares of an Indian company shall not be deemed to accrue or arise in India and hence, is not taxable in India in the hands of Y.

- (c) Computation of taxable value of services provided by the C.J. Professionals for the half year ending on 30.09.2011:

Particulars	₹
Total bills raised(Note 1)	7,65,000
Less: Bill raised on an approved International Organisation (Note 2)	<u>65,000</u>
	7,00,000
Add: Advance received for the services to be provided in October '11 (Note 3)	<u>1,50,000</u>
Taxable value of services	<u>8,50,000</u>
Computation of service tax payable	
Taxable value of services	8,50,000
Service tax @ 10%	85,000
Add: Education cess @ 2%	1,700
Add: Secondary and higher education cess @ 1%	<u>850</u>
Total service tax payable	87,550

Notes:

- Point of taxation is date of issue of invoice or receipt of payment whichever is earlier [Rule 3 of Point of Taxation Rules, 2011]
 - Services provided to an International Organisation are exempt from the service tax *vide Notification No. 16/2002 ST dated 02.08.2002*.
 - Any advance received for providing any taxable services forms part of the value of taxable service [Section 67 of the Finance Act, 1994]. Further in case of advance, point of taxation is the date of receipt of advance.[Rule 3 of Point of Taxation Rules, 2011].
3. (a) There are two units of the house. Unit I with 2/3rd area is used by Manoj for self-occupation throughout the year and no benefit is derived from that unit, hence it will be treated as self-occupied and its annual value will be nil. Unit 2 with 1/3rd area is let-out through out the previous year and its annual value has to be determined as per section 23(1).

Computation of Income from house property of Mr. Manoj for A.Y. 2012-13

Particulars	Amount in rupees
Unit I (2/3 rd area – self-occupied)	

Annual Value		Nil
Less: Deduction u/s 24(b) 2/3 rd of ₹ 1,20,000		80,000
Income from Unit I (self-occupied)		-80,000
Unit II (1/3 rd area – let out)		
Computation of Gross Annual Value		
Step I – Compute Annual Value		
Annual Value = Higher of municipal value and fair rent, restricted to standard rent. However, in this case, standard rent of ₹ 1,20,000 (1/3 rd of ₹ 3,60,000) is more than the higher of municipal value of ₹ 80,000 (1/3 rd of ₹ 2,40,000) and fair rent of ₹ 1,00,000 (1/3 rd of ₹ 3,00,000). Hence the higher of municipal value and fair rent is the Annual Value. In this case, it is the fair rent.	1,00,000	
Step 2 – Compute actual rent received/ receivable ₹ 7,500 × 12 = ₹ 90,000	90,000	
Step 3 –Gross Annual Value is the higher of Annual Value and actual rent received/receivable i.e. higher of ₹ 1,00,000 and ₹ 90,000	1,00,000	
Gross Annual Value (GAV)		1,00,000
Less: Municipal taxes paid by the owner during the previous year relating to let-out portion 1/3 rd of (12.5% of ₹ 2,40,000) = ₹ 30000/3 = ₹ 10,000		10,000
Net Annual Value (NAV) = (₹ 1,00,000-₹ 10,000)		90,000
Less: Deductions under section 24		
(a) 30% of NAV = 30% of ₹ 90,000	27,000	
(b) Interest paid on borrowed capital (relating to let out portion) 1/3 rd of ₹ 1,20,000	40,000	67,000
Income from Unit II (let-out)		23,000
Loss under the head “Income from house property” = -₹ 80,000 + ₹ 23,000		-57,000

- (b) (i) True : As per section 2(48), ‘Zero Coupon Bond’ means a bond issued by any infrastructure capital company or infrastructure capital fund or a public sector company on or after 1st June 2005, in respect of which no payment and benefit

is received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.

- (ii) False : The exemption under section 54EC has been restricted, by limiting the maximum investment in long term specified assets (i.e. bonds of NHAI or RECL, redeemable after 3 years) to ₹50 lakh during any financial year. Therefore, in this case, the exemption under section 54EC can be availed only to the extent of ₹50 lakh, provided the investment is made before 1.11.2011 (i.e., within six months from the date of transfer).
- (c) The VAT is a system based simply on transactions. Thus there is no need to go through complicated definitions like sales, sales price, turnover of purchases and turnover of sales. The tax is also broad-based and applicable to all sales in business leaving little room for different interpretations. Thus, this system brings certainty to a great extent.

Also, under a VAT system, the buyer knows, out of the total consideration paid for purchase of material, what is tax component. Thus, the system ensures transparency also. This transparency enables the State Governments to know as to what is the exact amount of tax coming at each stage. Thus, it is a great aid to the Government while taking decisions with regard to rate of tax etc.

4. (a) 1. As per section 35(2AB), where a company engaged in, inter alia, the business of biotechnology incurs any expenditure on scientific research during the current year, it is eligible for claiming weighted deduction of a sum equal to 200% of the eligible expenditure. However this weighted deduction is not available to any assessee other than company.

The eligible expenditure and quantum of deduction will be:

Any expenditure incurred during earlier 3 years immediately preceding the date of commencement of business on payment of salary or purchase of materials, or capital expenditure incurred other than expenditure on acquisition of land [actual expenditure qualifies for deduction under section 35(1)].

The deduction available under section 35 for scientific research will, therefore, be:

	Particulars	₹
(a)	Land	Nil
(b)	Building	22,80,000
(c)	Revenue expenses of last 3 years	4,40,000
(d)	Capital expenditure of last 3 years: Plant and machinery	5,00,000
(e)	Current year revenue expenditure	1,80,000

Total deduction under section 35	34,00,000
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2. Section 41(3) provides that where a capital asset used for scientific research is sold, without having been used for other purposes, the lower of sale proceeds or the total amount of deduction earlier allowed under section 35 will be considered as income from business of the previous year in which the sale took place.

Therefore, the income chargeable to tax under section 41(3) should be lower of the following:

- (1) Sale proceeds i.e. ₹ 8,00,000
- (2) Total amount of deduction earlier allowed under section 35 i.e. ₹ 5,00,000 will be deemed to be the income chargeable to tax under section 41(3).
3. The difference between sale proceeds and business income under section 41(3) will be treated as short-term capital gain.

₹

Sale proceeds of plant and machinery	8,00,000
Less: Business Income as per section 41(3)	<u>5,00,000</u>
Short-term capital gain	<u>3,00,000</u>

- (b) Section 44AA(1) requires every person carrying on any profession, notified by the Board in the Official Gazette (in addition to the professions already specified therein), to maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of the Income-tax Act, 1961.

As per the provisions of Rule 6F of the Income-tax Rules, 1962, a person carrying on a notified profession shall be required to maintain specified books of accounts :

- (i) if his gross receipts in all the three years immediately preceding the relevant previous year has exceeded ₹ 1,50,000; or
- (ii) if it is a new profession which is setup in the relevant previous year, it is likely to exceed ₹ 1,50,000 in that previous year.

In the present case, Mohit is a person carrying on profession as technical consultant, which is a specified profession. Since his gross receipts have not exceeded ₹ 1,50,000 in financial year 2008-09, the requirement under section 44AA to compulsorily maintain the prescribed books of account is not applicable to him.

- (b) As per section 64(1) of the Finance Act, 1994 as amended, service tax provisions do not extend to the State of Jammu and Kashmir. Therefore, service tax will not be payable if service is provided in Jammu & Kashmir. However, since service tax is a destination based consumption tax, if a person from Jammu & Kashmir provides the

taxable service outside Jammu & Kashmir in any other part of India, the service will be liable to service tax, as the location where service is provided is relevant. Hence, the services provided by a person having a place of business in the State of Jammu and Kashmir providing services in any other place in India are taxable under the Finance Act, 1994 as amended.

5. (a) Computation of taxable capital gain of Mr. Pankaj for A.Y. 2012-13

Particulars	₹	₹
Sale consideration received on sale of 20,000 shares @ ₹ 175 each		35,00,000
Less: Indexed cost of acquisition		
(a) 10,000 shares received as gift from father on 5.4.1981		
Indexed cost $10000 \times ₹ 25 \times 785/100$	19,62,500	
(b) 5,000 bonus shares received from XYZ Ltd		
Bonus shares are acquired on 17.3.1986 (i.e after the year 1979-80 when the original shares were purchased). Hence, the cost is Nil.	Nil	
(c) 5000 shares purchased on 31.12.1993@₹ 75 per share. The indexed cost is $5000 \times ₹ 75 \times 785/244$	<u>12,06,455</u>	<u>31,68,955</u>
Long term capital gain		3,31,045
Less : Exemption under section 54F (See Note below)		
₹ 3,31,045 x ₹ 25,00,000 / ₹ 35,00,000		<u>2,36,461</u>
Taxable long term capital gain		<u>94,584</u>

Note:

Exemption under section 54F can be availed by the assessee subject to fulfillment of the following conditions :

- The assessee should not own more than one residential house on the date of transfer of the long-term capital asset;
- The assessee should purchase a residential house within a period of 1 year before or 2 years after the date of transfer or construct a residential house within a period of 3 years from the date of transfer of the long-term capital asset.

In this case, the assessee has fulfilled the two conditions mentioned above. Therefore, he is entitled to exemption under section 54F.

(b) Computation of total income of Mr. P for A.Y.2012-13

Particulars		₹	₹
Income from Other Sources			
Basic Pay		2,40,000	
Constituency allowance (₹ 9,500x12)	1,14,000		
Electricity allowance (₹ 5,000x6)	30,000		
Telephone allowance (₹ 5,000x12)	60,000		
	2,04,000		
Less: Exempt u/s 10(17)[₹ 9,500 p.m. being constituency allowance]	1,14,000	90,000	3,30,000
Income from Other Sources / Total Income			3,30,000

Note : The pay and allowances of a member of the State Assembly would be taxable under the head "Income from other sources", since there is no employer-employee relationship in this case.

- (c) Yes, the given proposition is true. The consumption variant is convenient from the point of administrative expediency as it simplifies tax administration by obviating the need to distinguish between purchases of intermediate and capital goods on the one hand and consumption goods on the other hand.

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

6. (a) Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Smt. Jaya received a gift of ₹ 2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Smt. Jaya's husband for A.Y.2012-13 is computed as under :

Particulars	Smt.Jaya's Capital Contribution	Capital Contribution Out of gift from husband	Total
	₹	₹	₹
Capital as at 1.4.2010	2,50,000	--	2,50,000
Investment on 04.05.2010 out of gift received from her husband		2,00,000	2,00,000
Profit for F.Y. 2010-11 to be	2,50,000	2,00,000	4,50,000

apportioned on the basis of capital employed on the first day of the previous year i.e. on 1.4.2010	2,00,000		2,00,000
Capital employed as at 1.4.2011	4,50,000	2,00,000	6,50,000
Profit for F.Y.2011-12 to be apportioned on the basis of capital employed as at 1.4.2011 (i.e. 45 : 20)	2,70,000	1,20,000	3,90,000

Therefore, the income to be clubbed in the hands of Smt.Jaya's husband for A.Y.2012-13 is ₹ 1,20,000.

(b) Computation of total income of Rashmi for the A.Y. 2012-13

Particulars	₹	₹
Profit from sugar business	75,000	
Less: Loss from textile business for the year adjusted under section 70(1)	<u>25,000</u>	
	50,000	
Less: Brought forward loss of catering business closed in A.Y. 2011-12 set off against business income for the current year as per section 72(1)	<u>30,000</u>	20,000
Profit of speculative transaction		<u>17,500</u>
Total Income		<u>37,500</u>

Notes :

1. Loss of speculative transaction of A.Y. 2007-08 is not allowed to be set off against the profit of speculative transaction of the A.Y.2012-13, since, as per the provisions of section 73(4), such loss can be carried forward for set-off for a maximum period of 4 years only i.e. up to A.Y.2011-12.
 2. Short term capital loss of ₹ 10,500 on sale of securities and shares has to be carried forward as per section 74 since there is no income under the head Capital Gains for the A.Y.2012-13. The loss is to be carried forward for set off in future years against income chargeable under the head Capital Gains. Such loss can be carried forward for a maximum period of 8 assessment years.
- (c) Yes, the person liable to pay service tax in relation to purchase or sale of foreign currency, including money changing, provided by a foreign exchange broker, including an authorised dealer in foreign exchange or an authorized money changer, referred to in section 65(105)(zm) and section 65(105)(zzk) as amended has the option to pay an amount at the following rates instead of paying service tax @ 10%:-

S.No.	For an amount	Service tax shall be calculated at the rate of
1.	Upto ₹ 100,000	0.1 % of the gross amount of currency exchanged or ₹ 25 whichever is higher
2.	Exceeding ₹ 1,00,000 and upto ₹ 10,00,000	₹ 100 + 0.05 % of the gross amount of currency exchanged
3.	Exceeding ₹ 10,00,000	₹ 550 + 0.01 % of the gross amount of currency exchanged or ₹ 5,000 whichever is lower

However, the person providing the service shall exercise such option for a financial year and such option shall not be withdrawn during the remaining part of that financial year

7. (a) (i) The liability to deduct tax at source under section 194A is not attracted in respect of interest paid to a banking company. Therefore, XYZ Ltd. is not liable to deduct tax at source on interest payment to the corporation bank.
- (ii) Freight Payment to Flyking not subject to TDS as the value of contract does not exceed ₹ 30,000. Again, payment to Railways is exempt from TDS;
- (iii) Provisions for deduction of tax at source under section 194J are attracted in respect of payment of fees for professional services, if the amount of such fees exceeds ₹ 30,000 in the relevant financial year. The service rendered by a commentator in relation to sports activities has been notified by the CBDT as professional service for the purpose of section 194J vide its *Notification No. 88 dated 21st August, 2008*. Therefore, tax is required to be deducted@10% from the fee of ₹ 2.5 lacs payable to the former cricketer.
- (iv) Under section 194G, the person responsible for paying to any person stocking, distributing, purchasing or selling lottery tickets shall at the time of credit of the commission or payment thereof, whichever is earlier, amounting to more than ₹ 1,000, deduct income-tax at 10%.
- Therefore, the State Government shall deduct tax at source@10% on payment of commission made to the agent on sale of lottery tickets.
- (b) (i) True : Section 139A(2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.

- (ii) False : Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be signed by any other adult member of the family; such member can be a male or female member.
- (c) Yes, in the instant case, Durga Consultants Ltd. is required to file its return electronically. Service Tax Rules, 1994 have been amended to provide that with effect from 01.10.2011, every assessee will have to submit half-yearly service tax return electronically, irrespective of the amount of service tax paid by him in the preceding financial year. Hence, now all assesses are required to file service tax returns electronically. Therefore, for the half year ended September 30, 2011, Durga Consultants Ltd. shall file its return electronically.