MAY 2012TAXATION

1.a) COMPUTATION OF TAXABLE INCOME OF MS PURVI

PARTICULARS	AMOUNT	AMOUNT
Net Profits as per I & E A/c		9,28,224
ADD: Item inadmissible		
→ Payment to Computer specialist in excess of 20,000 (Sec.40A3)	30,000	
→ Municipal taxes paid in respect of house property	3,000	
→ Purchase of car	80,000	1,13,000
LESS: Dividend on shares of Indian company	10,524	
→ Income from UTI	7,600	
→ Honorarium received for valuation of answer papers	15,800	
→ Rent received	85,600	
→ Depreciation on motor car	12,000	1,31,524
ADD : Value of benefits received		10,500
Income From Profession (A)		9,20,200

Income from house property.		
Rent receive (Gross Annual Value)	85,600	
Less: Municipal Tax	(3,000)	
Net Annual Value	82,600	
Less: Deduction @ 30% as per sec – 24	24,780	
Net Income from House Property (B)		57,820

Income from other sources		
→ Dividend on shares of Indian Companies (Exempt)	NIL	
→ Income from Unit Trust Of India (Exempt)	NIL	
→ Honorarium received from various institutions for valuation of answer papers	15,800	
Net Income from Other Sources (C)		15,800

Total Income (A+B+C)		9,93,820
Less: Deductions u/s 80C to 80U.		
(-) Investment in National Saving Certificate (u/s 80C)		10,000
(-) Medical Insurance Premium on the health of dependent major Son (no deduction as paid in cash)		NIL
TAXABLE INCOME		9,83,820
Tax on income		1,46,146
Add: Education cess @ 2%		2,923
Secondary & Higher Education Cess @ 1%		1,461
Tax Payable		1,50,530

1.b)COMPUTATION OF TAXABLE SERVICES & AMOUNT OF SERVICE TAX PAYABLE

PARTICULARS	AMOUNT
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 the upgradation of the information technology software.	2,65,000
Value of taxable service	8,55,000
Service tax payable	85,500
Add: Education cess @ 2%	1,710
Secondary & Higher education cess @ 1%	855
Net Tax Payable	88,065

Note : Receipts for providing the right to use the canned software on which the amount of excise duty has been paid isnot taxable as the duty is paid.

1.c) COMPUTATION OF PURCHASES ELIGIBLE FOR CREDIT & INPUT

CREDIT AVAILABLE FOR THE MONTH OF FEBRUARY, 2012

PARTICULARS	AMOUNT OF PURCHASES ELGIBLE FOR CREDIT	AMOUNT OF INPUT CREDIT AVAILABLE
i) Purchase of capital goods eligible for input credit	9,00,000	1,000(WN 2)
ii) Purchase of input from registered dealer within State (WN – 1)	11,00,000	44,000
	20,00,000	45,000

COMPUTATION OF VAT PAYABLE	Amount
VAT ON SALES (WN – 3)	1,25,000
Less: Input Vat Credit	45,000
Tax Payable	80,000

WN-1 COMPUTATION OF PURCHASE OF INPUT FROM REGISTERED DEALER WITHIN STATE	Amount
Total purchases	60,00,000
Less: Purchase from assam	(15,00,000)
Purchase from unregistered dealer	(18,50,000)
Purchase of capital goods	(15,50.000)
Purchase from registered dealer	11,00,000

WN-2 CALCULATION OF INPUT CREDIT ON CAPITAL GOODS.
Input credit = 9,00,000 × 4% = 36,000 No. of equal monthly installments = 36 Monthly Input Credit 36,000/36 = 1,000

WN – 3 CALCULATION OF VAT ON SALES
Sales = Rs 10,00,000 Vat = Rs 12.5% Vat on Sales = 10,00,000 × 12.5%= 1,25,000

2.a) i)

The total income of Paras is –	
Interest on fixed deposit with RBI	30,000
Interest	3,000
Total Income	33,000

Note: Interest of Non-resident (External) Account is exempt from tax.

2.a) ii) COMPUTATION OF INCOME TO BE CLUBBED IN HANDS OF MR. SHARMA

Particulars	Amount	Amount
i) Annual Income of first daughter	9,000	
Less: Exemption	1,500	7,500
ii) Annual Income of first son	6,200	
Less: Exemption	1,500	4,700
iii) Annual Income of second son	4,300	
Less: Exemption	1,500	2,800
Income to be clubbed		15,000

Note: Income of the daughter suffering from a disability specified u/s 80U will not be clubbed as per Sec. 64(1A)

2.a) iii) As per Explanation to Section 23(1), the Actual rent received / receivable should not include any amount of money which is not capable of being realised.

However the conditions prescribed in Rule 4 should be satisfied: -

a) The tenancy is bonafide.
b) The defaulting tenant has vacated, or steps have been taken to compel him to vacate the property.
c) The defaulting tenant is not in occupation of any property of the asessee.
d) The assessee has taken all reasonable steps to institute legal proceedings for the recovery of unpaid rent or satisfies the accessing officer that legal proceedings would be useless.

As per Section 25 A, any amount realised towards unrealised rent already allowed as deduction shallbe treated as income of the year of receipt.It is to be treated as income taxable under the head 'Income from house property' even if assesse has ceased to be the owner of the property.Also, No concession or deduction u/s 23 or 24 can be claimed in respect of such income.

2.b) COMPUTATION OF VALUE OF TAXABLE SERVICE & SERVICE TAX PAYABLE.

PARTICULARS	AMOUNT
Total Bills raised	8,75,000
Add: Advance received for service to be provided in Oct,2011.	50,000
Less: Bill raised on an approved international organization (Exempt)	75,000
Value of taxable service	8,50,000
Service Tax	85,000
Add: Education cess @ 2%	1,700
Secondary & Higher Education cess @ 1%	850
Amount of tax payable	87,550

Notes: 1.) Payment of bills for Rs 1,00,000 though not received but would be taxable as service is deemed to be Provided before 30/9/11.
2.) Advance received of Rs 50,000 would be taxable even if service is deemed to be provided in October.

2.c) Under Consumption Variant, there is a multipoint tax system VAT is levied on all sales. Under this variant, 100% VAT Credit / set off / deduction is allowed of VAT paid on all raw materials and components as well as capital Goods.

Merits – Consumption variant shall be preferred because –

i) It reduces litigation, as there is no need for any differentiation between capital goods & non-capital goods.
ii) It helps in modernization & upgradation of plant & machinery.
iii)Since the VAT paid on capital goods is setoff against VAT liability on sales, this system is tax neutral in respect of techniques of production (viz. labour intensive or capital intensive).
iv) It reduces the working capital requirement, due to the least payment of VAT on sales.

3.a) COMPUTATION OF CAPITAL GAINS OF ANSHU FOR THE ASSESSMENT YEAR 2012-13

PARTICULARS	AMOUNT
Full value of Consideration (deemed) (Note 1 & 2)	16,00,000
Less: Indexed Cost of Acquisition	
Indexed Cost of land (1,10,000 × 785/100)	8,63,500
Indexed Cost of building (3,20,000 × 785/447)	5,61,969
Long Term Capital Gain	1,74,531
Less: Brought forward short term capital loss set off (Note - 3)	1,50,000
Amount to be invested in NHA1 bonds to get full exemption	24,531

Notes:-

1.) When the consideration received or accruing as a result of transfer of a capital asset, being land or building or both is less than value adopted by stamp valuation authority for the payment of stamp duty and the same is not contested by the assessee, such value adopted or assessed shall be deemed to be the full value of consideration as per Sec.50C(1).

2.) It is further provided in Sec 50C(3) that where the valuation is referred by assessing officer to valuation officer & the value ascertained by such valuation officer exceeds the value adopted by the stamp valuation authority shall be taken as full consideration.
3.) Brought forward unabsorbed short term capital loss can be set off against any capital gain, short term or long term for 8 assessment year.

3.b)

a) No.
b) No.
c) No.
d) No.
e) No.
f) Yes.
g) No.
h) No.

3.c)

a) No.
b) No.
c) No.
d) Yes.
e) No.
f) Yes.
g) No.
h) Yes.

4.a) COMPUTATION OF TOTAL INCOME OF MR. V FOR THE ASSESSEEMENT YEAR 2012-13

PARTICULARS	AMOUNT	AMOUNT
Net Profit as per books		11,20,000
Add: Item inadmissible		
→Contribution to approved University under Sec 35 (1)(ii)	1,00,000	
→Closing Stock omitted.	12,000	
→Unreasonable salary paid to brother [Sec 40A (2)]	2,500	
→Car expenses for personal purposes	19,500	
→Depreciation as per books (taken separately)	55,000	
→Drawing	10,000	
→ Investment in NSC	15,000	2,14,000
Less: Items allowed		
→Depreciation as per Income tax rules 50,000		
Less : Disallowance u/s 38(2) <u>12,500</u>	37,500	
→Opening Stock omitted	8,000	45,500
Less: Items not taxable under profits & gains from business & profession		
→Dividend from UTI	22,000	
→Interest on debentures	17,500	
→Winning from races	15,000	54,500
Less: Deduction u/s 35 (1)(ii) for contribution to approved university		2,00,000
INCOME FROM BUSINESS (A)		10,34,000
Dividend from UTI [10(35)]	Exempt	
Interest on debentures	17,500	
Winning from races	15,000	

INCOME FROM OTHER SOURCES (B)		32,500
Gross Total Income Less: Deduction u/s 80c Investment in NSC		10,66,500 15,000
TOTAL INCOME		10,51,500

Notes:-
1.) Advertisement expenses is fully deductible under section 37(1).
2.) Payment to transport company for plying, hiring or leasing good carriages upto Rs 35,000 is allowed u/s 40A(3).
3.) Winning from races is taxable at a flat rate of 30%.

4.b) COMPUTATION OF AMOUNT OF SERVICE TAX PAYABLE BY PUNJABI BONQUETS FOR THE MONTH OF JANUARY, 2012:-

PARTICULARS	AMOUNT	AMOUNT
1.) Mandap let out for marriage function (Note -1) Less: Abatement @ 40% of gross amount	6,00,000 2,40,000	 3,60,000
2.) Amount received for rooms for stay of baratis (Note – 2)		40,000
3.) Amount collected for letting out the hall for all India Dance Competition. No food was supplied along with (Note – 3)		5,00,000
4.) Mandap for shooting of a daily soap owner (Note – 4)		NIL
Value of taxable service		9,00,000
Service Tax @ 10% Education Cess @ 2% Secondary & Higher Education cess @ 1%		90,000 1,800 900
Service Tax Payable		92,700

Note:
1.) Mandap let out for social function is liable to service tax. As per definition of mandap keeper, social function include marriage. As per notification No. 1/2006 ST dated 01/03/2006, an abatement of 40% of gross amount is allowed provided where the mandap keeper also provides catering services and the invoice indicates that it is inclusive of the charges of catering service.
2.) Mandap let out for stay of “Baraatis” for a consideration would attract service tax, as stay of barratries is a part of Marriage function.
3.) Temporary occupation of a hall for the purpose of holding dance, drama or music programme or competition is liable to service tax.
4.) The activity of shooting films, TV serials cannot be considered as official / social / business function and hence, not taxable under the mandap keeper service.

4.c) COMPUTATION OF VAT LIABILITY OF X FOR THE MONTH DECEMBER,11

PARTICULARS	AMOUNT	AMOUNT
➔Purchase price of goods acquired from local market (including VAT) Less: Input credit (52,00,000 × 4/104)	52,00,000 2,00,000	 50,00,000
➔Transportation, insurance, warehousing and handling charges incurred by x		20,000
Cost of good sold Add: Profit margin @ 14%		50,20,000 7,02,800
Sale Price		57,22,800
VAT on sale @ 12.5% Less: Input credit		7,15,350 2,00,000
Vat liability		5,15,350

5.a)

a) As per Section 60 of the income tax act, all income arising to any person by virtue of a transfer whether revocable or not shall, where there is no transfer of the assets from which the income arises, be chargeable to income tax as the income of the transferor and shall be included in his total income.

Therefore, interest on deposit of Rs 45,000 would be taxable in the hands of Mr. A.

b) As per Section 64 (1)(ii) of the income tax act, In computing the total income of any individual, there shall be include all such income as arises directly or indirectly to the spouse of such individual by way of salary, commission, fees or any other form of remuneration whether in cash or in kind from a concern in which such individual has a substantial interest; provided that the spouse earning income does not possess technical or professional qualification and experience.

Therefore, the commission given to Mrs. A of Rs 25,000 would be clubbed in the hands of Mr. A.

c) As per Section 27, Mr. A will be deemed to be owner of the flat and any income arising out of such flat would be taxed in the hands of Mr. A. [u/s 27 & not u/s 64(1)(iv)]

d) As per Sec. 64 (1A), in computing the total income of any individual, there shall be included all such income as arises or accrues to his minor child not being a minor child suffering from any disability of the nature specified u/s 80 U, neither arising on account of any –

(i) manual work done by him

(ii) activity involving application of his skill talent or specified knowledge.

Therefore, as per this section, Rs 20,000 received from investment in business would be taxable in Mr. A's hand. Also a deduction of Rs 1,500 would be allowed as per Sec 10(32).

e) As per the Sec 64 (1A), the income arising to minor child on application of his own skill and talent would be taxable in his own hands. Therefore income of Rs 20,000 from business activity involving skill & talent will be taxable in the hands of minor child.

COMPUTATION OF TOTAL INCOME OF Mr A, Mrs A & MINOR CHILD

PARTIULARS			Mr. A	Mrs. A	MINOR CHILD
i) Pension			1,20,000	-	-
ii) Salary			-	2,40,000	-
iii) Interest income on deposit	(a)		45,000	-	-
iv) Commission given to Mrs. A	(b)		25,000	-	-
v) Flat income generated from flat	(c)		52,000	-	-
vi) Income of minor child	(d) –	20,000			
Less : Exemption		1,500	18,500(N-1)	-	-
vii) Income from business activity	(e)		-	-	20,000
TOTAL INCOME			2,60,500	2,40,000	20,000

Notes:-

N-1→ For the purpose of clubbing the income of minor child, the income should be included in the income of that parent whose total income [excluding the income includible under this sub-section] is greater.

5.b) The application for registration is required to be made in duplicate in form ST-1 prescribed under the rules. This form is common to the three categories of persons mentioned who are required to obtain registration. The following documents shall be enclosed along with registration form –

i) A copy of PAN.

ii) Proof of address.

iii) Constitution of applicant [i.e. Articles of Association and Memorandum of Association (for companies), Partnership deed (firms), Certificate of practice for professionals like Chartered Accountants, Company Secretaries, etc]

These copies may be self certified by the applicant. If application is signed by an authorized Person, power of attorney will be required.

5.c) i) There are three variants of VAT viz., gross product variant, income variant and consumption variant.

a) Gross Product Variant – Under this variant, deduction is allowed for tax paid on all inputs excluding capital inputs.

b) Income Variant – Under this variant, tax paid on non-capital inputs and depreciation on capital inputs is allowed.

c) Consumption Variant – Under this variant, deduction is allowed for tax paid on all business inputs including capital inputs.

ii) The Value Added Tax (VAT) is a multistage tax levied as a proportion of the value added (i.e. sales minus purchases) which is equivalent to wages plus interest, other costs and profits.

In an economy, apart from manufactures and consumers, there would be wholesalers & retailers also. The wholesaler might supply to retailer, and each one of them could supply to the manufacturer and the end consumer VAT will be collected at each stage, and wherever applicable, the manufacturer or retailer will claim input credit.

Thus, VAT is collected at each stage of production & distribution process, and in principle, its entire burden falls on the final consumer, who does not get any input credit.

6.a) COMPUTATION OF INCOME UNDER THE HEAD 'PROFITS AND GAINS OF BUSINESS & PROFESSION' FOR THE A/Y 2012-13

PARTICULARS	AMOUNT	AMOUNT
Profit from running the hotel in Chennai		80,00,000
Profit from hotel in Kanpur		1,30,00,000
Less: Deduction u/s 35AD being capital expenses incurred		
- Pre-commencement expenditure (N-1)	40,00,000	
- Capital Expenditure during the previous year 2011-12 (N-2)	1,50,00,000	
Eligible deduction u/s 35 AD subject to maximum of Rs 80,00,000 (N-4)	1,90,00,000	80,00,000
Income from running hotel		1,30,00,000

Notes:-

N-1)As per the Section, where the expenditure is incurred prior to the commencement of business which has been capitalized in the books of account of assessee on the date of commencement of business, shall be allowed as deduction in the previous year in which the assessee commences such business.

N-2)100% deduction is allowed u/s 35 AD in respect of capital expenditure (other than land, goodwill & financial Instrument) incurred during the previous year wholly & exclusively for the purpose of specified business.

N-3)The balance deduction u/s 35AD being Rs 1,10,00,000 shall be carried forward and eligible for set off from income from the specified business.

N-4)No benefits would be allowed in the profits from the four star hotel in Kanpur as it commenced its operations before 1st April, 2010.

6.b) CALCULATION OF VALUE OF TAXABLE SERVICE OF AVINASH, A QUALIFIED CHARTERED ACCOUNTANT FOR THEFINANCIAL YEAR 2011-12

PARTICULARS	AMOUNT
i) Services rendered in tax planning	50,000
ii) Representation of client before CESTAT	40,000
iii)Certification of documents under Export & Import policy of Government of India.	1,50,000
iv)Preparation of financial statement of XYZ Ltd	4,00,000
v) Receipt for legal advice given to clients in the month of December, 2011	50,000
Total receipts including Service Tax	6,90,000

Value of Taxable Service $\left\{\frac{\text{Gross amount charged (inclusive of service tax)} \times 100}{(100 + \text{Rate of service tax})}\right\}$ $\left\{\frac{6{,}90{,}000 \times 100}{110.3}\right\}$	6,25,567

6.c) COMPUTATION OF NET VAT LIABILITY OF Ms. PRAGYA

PARTICULARS		AMOUNT
Import of raw material		1,10,000
Raw Material purchased from Kerala		2,24,000
Input VAT credit (2,24,000 × 4%)	8,960	
Raw Material purchased form Karnataka		85,000
Transportation & Manufacturing expenses		47,000
COST OF PRODUCTION		4,66,000
Add: Profit @ 10%		46,600
Sale Price		5,12,600
VAT on sales		20,504
Less: Input VAT credit		8,960
Net VAT liability		11,544

7.a) COMPUTATION OF GROSS SALARY OF Mr. MOHIT FOR ASSESSMENT YEAR 2012-13

PARTICULARS		AMOUNT
Basic salary		1,22,000
Dearness Allowance @ 100%		1,22,000
House Rent allowance	75,000	
Less: Exempt	53,700(WN-2)	21,300
GROSS SALARY		2,65,300

WN – 1 CALCULATION OF SALARY

Particulars	Apr-May	June-Oct	Nov-Dec	Jan	Feb-March
Basic	20,000	50,000	20,000	10,000	22,000
Dearness Allowance (@100% × 50%)	10,000	25,000	10,000	5,000	11,000
	30,000	75,000	30,000	15,000	33,000

WN-2 CALCULATION OF EXEMPTED AMOUNT OF HOUSE RENT ALLOWANCE

Particulars	Apr-May	June-Oct	Nov-Dec	Jan	Feb-March
1) 50% of Salary (WN-1)	15,000	37,500	15,000	7,500	16,500
2) Actual amount Received	12,000	30,000	12,000	7,000	14,000
3) Rent Paid (-) 10% of salary	NIL	22,500	13,000	6,500	12,700
Exempt Amount (least of the above three conditions)	NIL	22,500	12,000	6,500	12,700

Total Exempt Amount = 53,700

7.b) The due date for filling return of income is –

Assessee	Duration of return	Form	No. of copies	Time of filling Return
i) All assesses	Half-Yearly	ST-3 or St-3A	Triplicate	By 25th of the month following the end of the said half – year.
ii) Input Service Distributor	Half-Yearly	ST-3	Single	By the last day of the month following the half-year period.

* when the due date for filling return of service tax is a public holiday, then the return may be filed on the succeeding working day.

Yes, as per Rule 7B, an assessee may submit a revised return, in form ST-3, in triplicate, to correct a mistake or omission, within 90 days from date of submission of original return. Where an assessee submits a revised return, the “relevant date” for the purpose of recovery of service tax u/s 73 of the Act shall be the date of submission of such revised return.

7.c) Since VAT emphasizes upon self assessment, therefore there arises a need of cross-checking the contents of the returns submitted by a dealer with his other records and the information submitted by him to other authorities under other laws. Accordingly :-

a) Dealers may be asked to submit a list of sales / purchases (containing the name of purchasing / selling dealers) made by them above a certain amount.
b) A computerized system of cross-checking is being worked which will involve comparing the VAT – returns (documents submitted to the VAT – authorities with the returns) documents submitted to other State-level authorities as well as the Central Excise, Customs, Service Tax & Income Tax authorities of the Central Government.

The aforesaid system of cross-checking will act as a deterrent for tax evaders and will also lead to significant growth of tax revenue. Since, there will be early identification of tax evasion, the habitual offenders will fear adopting tax evasion practices and therefore there will be equal competition amongst the traders/dealers.