

PAPER – 4 : TAXATION

PART – I : STATUTORY UPDATES

A : INCOME TAX

Significant Notifications & Circulars Issued between 1.05.2012 and 30.4.2013

NOTIFICATIONS

1. Notification No. 38/2012 dated 17.09.2012

Notification of Cost Inflation Index for F.Y.2012-13

Clause (v) of *Explanation* to section 48 defines “Cost Inflation Index”, in relation to a previous year, to mean such Index as the Central Government may, by notification in the Official Gazette, specify in this behalf, having regard to 75% of average rise in the Consumer Price Index for urban non-manual employees.

Accordingly, the Central Government has, in exercise of the powers conferred by clause (v) of *Explanation* to section 48, specified the Cost Inflation Index for the financial year 2012-13 as 852.

S. No.	Financial Year	Cost Inflation Index
1.	1981-82	100
2.	1982-83	109
3.	1983-84	116
4.	1984-85	125
5.	1985-86	133
6.	1986-87	140
7.	1987-88	150
8.	1988-89	161
9.	1989-90	172
10.	1990-91	182
11.	1991-92	199
12.	1992-93	223
13.	1993-94	244
14.	1994-95	259
15.	1995-96	281
16.	1996-97	305
17.	1997-98	331
18.	1998-99	351
19.	1999-2000	389

20.	2000-01	406
21.	2001-02	426
22.	2002-03	447
23.	2003-04	463
24.	2004-05	480
25.	2005-06	497
26.	2006-07	519
27.	2007-08	551
28.	2008-09	582
29.	2009-10	632
30.	2010-11	711
31.	2011-12	785
32.	2012-13	852

2. Notification No. 40/2012 dated 20.09.2012

Investment in debt instruments issued by any infrastructure Finance Company registered with the Reserve Bank of India is an approved investment under section 11(5)

Section 11(5) provides the permitted modes of investment by a charitable trust or institution for claiming exemption under section 11. Clause (xii) of section 11(5) specifies that investment can be made by any other mode as may be prescribed. Rule 17C of the Income-tax Rules, 1962 specifies such other modes of investment.

In exercise of the powers conferred by section 295 and section 11(5)(xii), the Central Government has, through this notification, inserted a new clause (viii) in Rule 17C of the Income-tax Rules, 1962 to provide that investment in debt instruments issued by any infrastructure finance company registered with the Reserve Bank of India is also a permitted mode of investment under section 11(5).

3. Notification No. 46/2012, dated 06.11.2012

(as amended by Notification No. 50/2012, dated 15.11.2012, 10/2013 dated 5-2-2013 & 23/2013 dated 22.3.2013)

Specification of bonds for interest exemption under section 10(15)(iv)(h)

Section 10(15)(iv)(h) exempts interest payable by any public sector company on such bonds or debentures specified by the Central Government by notification in the Official Gazette. The notification would also specify the conditions subject to which the exemption would be available.

Accordingly, in exercise of the powers conferred by section 10(15)(iv)(h), the Central Government has specified the tax-free, secured, redeemable, non-convertible bonds of National Highways Authority of India (NHAI), Indian Railway Finance Corporation Limited (IRFCL), India Infrastructure Finance Company Limited, Housing and Urban Development Corporation Limited, National Housing Bank (NHB), Power Finance Corporation, Rural Electrification Corporation Limited, Jawaharlal Nehru Port Trust, Dredging Corporation of India Limited, Ennore Port Limited and The Indian Renewable Energy Development Agency Limited, to be issued during the financial year 2012-13, the interest on which would be exempt under the said section.

The notification also specifies certain conditions relating to tenure of bonds, PAN, rate of interest, issue expense and brokerage, public issue, repayment of bonds and selection of merchant bankers, as detailed therein, subject to fulfillment of which the exemption would be available.

4. Notification No. 51/2012 dated 23.11.2012

Rajiv Gandhi Equity Savings Scheme, 2012

Section 80CCG was inserted by the Finance Act, 2012 to provide for deduction to a resident individual who acquires listed equity shares in a previous year in accordance with a scheme notified by the Central Government, in order to encourage flow of savings in financial instruments and improve the depth of domestic capital market.

Accordingly, in exercise of the powers conferred by section 80CCG(1), the Central Government has, through this notification, notified Rajiv Gandhi Equity Savings Scheme, 2012.

The said scheme shall apply for claiming deduction on account of investment in eligible securities under section 80CCG(1) of the Income-tax Act, 1961. The objective of the scheme is to encourage the savings of the small investors in the domestic capital market. The deduction shall be available to a new retail investor who complies with the conditions of the Scheme and whose gross total income for the financial year in which the investment is made under the Scheme is less than or equal to Rs.10 lakh. The said scheme also lays down the procedures for opening the demat account, investment there under and also specifies the period of holding requirements.

5. Notification No. 56/2012 dated 31.12.2012

Tax not to be deducted on specified payments to notified entities under section 197A(1F)

The Finance Act, 2012 has inserted sub-section (1F) in section 197A to provide that no deduction of tax shall be made from such specified payments to such institution, association or body or class of institutions, associations or bodies as may be notified by the Central Government.

Accordingly, the Central Government has notified that no deduction of tax shall be made from the payments of the nature specified below, in case such payment is made by a person to a bank listed in the Second Schedule to the Reserve Bank of India Act, 1934, excluding a foreign bank –

- (i) bank guarantee commission,
- (ii) cash management service charges,
- (iii) depository charges on maintenance of DEMAT accounts ,
- (iv) charges for warehousing services for commodities,
- (v) underwriting service charges,
- (vi) clearing charges (MICR charges) and
- (vii) credit card or debit card commission for transaction between the merchant establishment and acquirer bank,

The said notification shall come into force from the 1st January, 2013.

6. Notification No. 4/2013 dated 24.1.2013

TDS under section 194A not attracted in respect of interest other than interest on securities credited to National Skill Development Fund

Section 194A(3)(iii)(f) provides that the provisions of tax deduction at source under section 194A in respect of interest other than interest on securities, shall not be attracted where such income is credited to such other institution, association or body or class of institutions, associations or bodies which the Central Government may, for reasons to be recorded in writing, notify in this behalf in the Official Gazette.

In exercise of the powers conferred by section 194A(3)(iii)(f), the Central Government has notified '**National Skill Development Fund**'. Accordingly, the TDS provisions under section 194A would not be attracted in respect of interest other than interest on securities credited to National Skill Development Fund.

CIRCULARS

1. Circular No. 5/2012 dated 1-8-2012

Inadmissibility of expenses incurred in providing freebees to medical practitioner by pharmaceutical and allied health sector industry

Section 37(1) provides for deduction of any revenue expenditure (other than those falling under sections 30 to 36) from the business income if such expense is laid out or expended wholly or exclusively for the purpose of business or profession. However, the *Explanation* below section 37(1) denies claim of any such expenses, if the same has been incurred for a purpose which is either an offence or prohibited by law.

The Central Board of Direct Taxes, has clarified that considering the fact that the claim of any expense incurred in providing freebees to medical practitioner is in violation of the

provisions of Indian Medical Council (Professional Conduct, Etiquette and Ethics) Regulations, 2002, the expenditure so incurred shall be inadmissible under section 37(1) of the Income-tax Act, 1961, being an expense prohibited by the law. The disallowance shall be made in the hands of such pharmaceutical or allied health sector industry or other assessee which has provided aforesaid freebees and claimed it as a deductible expense in its accounts against income.

This circular has also clarified that a sum equivalent to value of freebees enjoyed by the aforesaid medical practitioner or professional associations is also taxable as business income or income from other sources, as the case may be, depending on the facts of each case.

2. Circular No. 9/2012 dated 17.10.2012

Deduction of tax at source on payment of gas transportation charges by the purchaser of natural gas to the seller of gas

In response to the representations received by CBDT, on the difficulties being faced in the matter of tax deduction at source on Gas Transportation Charges paid by the purchasers of Natural gas to the owners/sellers of gas, CBDT has, through this Circular, clarified that in case the Owner/Seller of the gas sells as well as transports the gas to the purchaser till the point of delivery, where the ownership of gas to the purchaser is simultaneously transferred, the manner of raising the sale bill (whether the transportation charges are embedded in the cost of gas or shown separately) does not alter the basic nature of such contract which remains essentially a 'contract for sale' and not a 'works contract' as envisaged in Section 194C. Therefore, in such circumstances, the provisions of Chapter XVIIIB are not applicable on the component of Gas Transportation Charges paid by the purchaser to the Owner/Seller of the gas. Further, the use of different modes of transportation of gas by Owner/Seller will not alter the position.

However, transportation charges paid to a third party transporter of gas, either by the Owner/Seller of the gas or purchaser of the gas or any other person, shall continue to be governed by the appropriate provisions of the Act and tax shall be deductible at source on such payment to the third party at the applicable rates.

3. Circular No. 1/2013, dated 17.01.2013

Clarification on issues relating to export of computer software

Section 10AA provides deduction to assessee who derive any profits and gains from export of articles or things or services (including computer software) from the year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, subject to fulfillment of the prescribed conditions. *Explanation 2* to the said section clarifies that the profits and gains derived from on site development of computer software (including services for development of software) outside India shall be deemed to be the profits and gains derived from the export of computer software outside India.

This circular provides certain clarifications in respect of following issues arising out of the said provisions:

	Issue	Clarification given by the CBDT
(1)	Would “On-site” development of computer software qualify as an export activity for tax benefit under section 10AA?	The software developed abroad at a client's place would be eligible for such benefit, because these would amount to 'deemed export'. However, it is necessary that there must exist a direct and intimate nexus or connection of development of software done abroad with the eligible units set up in India and such development of software should be pursuant to a contract between the client and the eligible unit.
(2)	Would receipts from deputation of technical manpower for such “On-site” software development abroad at the client's place be eligible for deduction under section 10AA?	Explanation 2 to section 10AA clarifies that profits and gains derived from 'services for development of software' outside India would also be deemed as profits derived from export. Therefore, profits earned as a result of deployment of technical manpower at the client's place abroad specifically for software development work pursuant to a contract between the client and the eligible unit should not be denied benefit under section 10AA provided such deputation of manpower is for the development of such software and all the prescribed conditions are fulfilled.
(3)	Is it necessary to have separate master service agreement (MSA) for each work contract?	As per the practice prevalent in the software development industry, generally two types of agreement are entered into between the Indian software developer and the foreign client. Master Services Agreement (MSA) is an initial general agreement between a foreign client and the Indian software developer setting out the broad and general terms and conditions of business under the umbrella of which specific and individual Statement of Works (SOW) are formed. These SOWs, in fact, enumerate the specific scope and nature of the particular task or project that has to be rendered by a particular unit under the overall ambit of the MSA. Clarification has been sought whether more than one SOW can be executed under the ambit of a particular MSA and whether SOW should be given precedence over MSA. It is clarified that the tax benefits under section 10AA would not be denied merely on the ground that a separate and specific MSA does not exist for each SOW. The SOW would normally prevail over the MSA in determining the eligibility for tax benefits unless the

		Assessing Officer is able to establish that there has been splitting up or reconstruction of an existing business or non-fulfillment of any other prescribed condition.
(4)	Would tax benefit under section 10AA continue to be available in case of a slump sale of a unit?	The answer to this issue would depend on the facts of each case, such as how a slump-sale is made and what is its nature. It will also be important to ensure that the slump sale would not result into any splitting or reconstruction of existing business. It is, however, clarified that on the sole ground of change in ownership of an undertaking, the claim of exemption cannot be denied to an otherwise eligible undertaking and the tax holiday can be availed of for the unexpired period at the rates as applicable for the remaining years, subject to fulfillment of prescribed conditions.
(5)	Can tax benefits under section 10AA be enjoyed by an eligible SEZ unit consequent to its transfer to another SEZ?	It is clarified that the tax holiday should not be denied merely on the ground of physical relocation of an eligible SEZ unit from one SEZ to another in accordance with Instruction No. 59 of Department of Commerce, if all the prescribed conditions are satisfied under the Income-tax Act, 1961. It is further clarified that the unit so relocated will be eligible to avail of the tax benefit for the unexpired period at the rates applicable to such years.
(6)	Whether new units set up in the same location where there is an existing eligible unit would amount to expansion of the existing unit?	This issue is a matter of fact requiring examination and verification. However, it has been clarified that setting up of such a fresh unit in itself would not make the unit ineligible for tax benefits, provided – (i) the unit is set-up after obtaining necessary approvals from the competent authorities; (ii) it has not been formed by splitting or reconstruction of an existing business; and (iii) it fulfils all other conditions prescribed under section 10AA.

B : SERVICE TAX

Significant amendments made through notifications/circulars issued between 01.07.2012 and 30.04.2013

1. No service tax on remittances from abroad

CBEC has clarified that service tax is not leviable on the amount of foreign currency remitted to India from overseas as definition of 'service' under section 65B(44) specifically excludes transactions in money.

Further, service tax would also not be leviable on the fee or conversion fee chargeable for sending such money. It has also been clarified that Indian counterpart or financial institutions or entity who charges the foreign bank or any other entity for the services provided at the receiving end will also not be liable to service tax.

[Circular No.163/14/2012 ST dated 10.07.2012]

2. Clarification on point of taxation and the applicable rate for continuous supply of services at the time of change in rates effective from 01.04.2012

Issue: What is the point of taxation and the applicable rate for continuous supply of services at the time of change in rates effective from 01.04.2012?

Clarification: Till 31.03.2012, rule 6 of the Point of Taxation Rules, 2011 (POTR) determined point of taxation (POT) in case of continuous supply of services. Since, the rule started with a non-obstante clause, “notwithstanding anything contained in rules 3, 4 ...”, the POT for continuous supply of services provided on or before 31.03.2012 would not be affected by rule 4 of POTR. In other words, if the invoice had been issued or payment received for such services on or before 31.03.2012, the POT would be determined under rule 6, not being affected by the amendments made effective only from 1.4.2012.

However, with effect from 01.04.2012, rule 6 has been omitted and the POT for continuous supply of services is also being determined ordinarily under the main rule i.e., rule 3 subject to provisions of rule 4. Rule 4 determines the POT when there is a “change in effective rate of tax”. Change in effective rate of tax includes a change in the portion of value on which tax is payable.

[Circular No. 162/13/2012 ST dated 06.07.2012]

3. No service tax on vocational education course if offered by the Central/ State Government/Local Authority

CBEC has clarified that service tax is not leviable on vocational education/training/ skill development courses (VEC) offered by the institution of the Government (Central Government or State Government) or a local authority as in terms of section 66D(a), only specified services provided by the Government are liable to tax and VEC is excluded from the service tax.

However, if the VEC is offered by an institution, as an independent entity in the form of society or any other similar body, service tax treatment would be determined by either sub-clause (ii) or (iii) of clause (l) of section 66D of the Finance Act, 1994.

Sub-clause (ii) refers to “qualification recognized by any law” and sub-clause (iii) refers to “approved VEC”. In the context of VEC, qualification implies a Certificate, Diploma, Degree or any other similar Certificate. The words “recognized by any law” will include such courses as are approved or recognized by any entity established under a central or

State law including delegated legislation, for the purpose of granting recognition to any education course including a VEC.

[Circular No.164/15/2012 ST dated 28.08.2012]

4. **No service tax liability at the time of issue of reminder letters by life insurance companies to policy holders to pay renewal premiums**

Issue	Clarification
In terms of practice followed, life insurance companies issue reminder notices/letters to the policy holders to pay renewal premiums. Such reminder notices only solicit furtherance of service which if accepted by policy holder by payment of premium results in a service. Whether service tax needs to be paid on the basis of such reminders?	Under the Point of Taxation Rules 2011, the point of taxation generally is the date of issue of invoice or receipt of payment whichever is earlier. The invoice mentioned refers to the invoices as issued under Rule 4A of the Service Tax Rules, 1994. No tax point arises on account of such reminders. Thus, it is clarified that reminder letters / notices for insurance policies not being invoices would not invite levy of service tax. In case of issuance of any invoice, point of taxation shall accordingly be determined.

[Circular No.166/1 /2013 – ST dated 01.01.2013]

5. **Accounting codes for payment of service tax under negative list approach of taxation of services**

Earlier, under the positive list approach of taxation of services, Department had issued Accounting codes [eight digit numerical codes] in respect of each taxable service to be used by the assessee while paying service tax through GAR-7 challan. Thus, 119 service specific accounting codes were there.

With the introduction of negative list approach of taxation of services, with effect from 01.07.2012, at first service specific old accounting codes were done away with and one Accounting code was prescribed for the purpose of payment of service tax i.e. "All Taxable Services" – 00441089. However, subsequently, for the purpose of statistical analysis, service specific old accounting codes were again restored along with 120th description as "other taxable services".

[Circular No. 161/12/2012 dated 06.07.2012 & Circular No.165/16/2012 -ST dated 20.11.2012]

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Residential Status and Scope of total income

1. Mrs. Geetha and Mrs. Leena are sisters and they earned the following income during the F.Y. 2012-13. Mrs. Geetha is settled in Malaysia since 1984 and visits India for a month every year. Mrs. Leena is settled in Indore since her marriage in 1992. Compute the total income of Mrs. Geetha and Mrs. Leena for the assessment year 2013-14.

	Particulars	Mrs. Geetha (₹)	Mrs. Leena (₹)
1.	Income from profession in Malaysia (set up in India), received there	15,000	-
2.	Profit from business in Delhi, but managed directly from Malaysia	40,000	
3.	Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, and later on remitted to India through approved banking channels.	1,20,000	-
4.	Dividend from PQR Ltd, an Indian company	5,000	9,000
5.	Dividend from a Malaysian company received in Malaysia	15,000	8,000
6.	Cash gift received from a friend on Mrs. Leena's 50 th birthday	-	51,000
7.	Agricultural income from land in Maharashtra	7,500	4,000
8.	Past foreign untaxed income brought to India	5,000	-
9.	Fees for technical services rendered in India received in Malaysia	25,000	-
10.	Income from a business in Pune (Mrs. Geetha receives 50% of the income in India)	12,000	15,000
11.	Interest on debentures in an Indian company (Mrs. Geetha received the same in Malaysia)	18,500	14,000
12.	Short-term capital gain on sale of shares of an Indian company	15,000	25,500
13.	Interest on savings account with SBI	12,000	8,000
14.	Life insurance premium paid to LIC		30,000

Income which do not form part of total income

2. State, with reference to the provisions of the Income-tax Act, 1961, whether the following receipts during the P.Y.2012-13 are chargeable to tax :
- (i) XYZ Inc., a foreign company, received ₹ 1,35,000 in India on 7th October 2012 from sale of crude oil to an oil refining company in India.
 - (ii) A charitable institution whose main object is "advancement of any other object of general public utility" receives ₹ 23,00,000 in aggregate during the previous year 2012-13 from a trading activity.
 - (iii) Mr. Sunil, a member of a HUF, received ₹ 8,000 as his share from the income of the HUF.
 - (iv) Family pension amounting to ₹ 1,50,000 received by Mrs. B, widow of Mr. B, an army lieutenant, who died during the course of Kargil war.
 - (v) Mr. Ankit, a former Central Government employee and a 'Param Vir Chakra' awardee, receives pension of ₹ 2,50,000 during the P.Y. 2012-13.
 - (vi) Mr. Chander receives ₹ 5,400 as children education allowance in respect of his three sons during the P.Y. 2012-13.
 - (vii) ₹ 25,000 received by Mrs. X, a Sikkimese woman from interest on securities. She had married a non-Sikkimese individual, Mr. X, on 1st October, 2009.

Income from Salaries

3. (a) Mr. Rishi, employed in CD Ltd at Chennai, furnishes you the following information for the year ended 31.03.2013:
- (i) Basic salary ₹ 50,000 per month.
 - (ii) Dearness allowance @ 40% of basic salary (eligible for retirement benefits).
 - (iii) Motor car (engine cubic capacity above 1.6 litres) owned by CD Ltd. was given to Mr. Rishi for both official and personal use, for the whole year. Running expenses for personal use was fully met by Mr. Rishi. Actual expenses ₹ 32,400. The car was self-driven by Mr. Rishi.
 - (iv) Cost of laptop ₹ 40,000 acquired by CD Ltd. in August, 2012 given to Mr. Rishi for ₹ 5,000 immediately.
 - (v) Accommodation taken on lease by CD Ltd. given to Mr. Rishi from 01.04.2012 at a concessional monthly rent of ₹ 5,000. The annual lease rent paid to the landlord by the company is ₹ 3,00,000.
 - (vi) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer ₹ 30,000 for adults and ₹ 45,000 for three

children. Rishi is eligible for availing exemption this year to the extent it is permissible in law.

(vii) Contribution of employer to PF was 15% of the basic salary. Equal amount was contributed by Mr. Rishi.

(viii) Professional tax paid is ₹ 3,000, of which ₹ 2,000 was paid by the employer.

Compute the total income of Mr. Rishi for the assessment year 2013-14.

Income from house property

4. Mr. Shivang owns one residential house in Pune. The house is having two identical units. First unit of the house is self occupied by Mr. Shivang and the other unit is rented for ₹ 8,000 p.m. The rented unit was vacant for 3 months during the year. The particulars of the house for the previous year 2012-13 are as under:

Standard rent	₹ 1,60,000 p.a.
Municipal valuation	₹ 1,80,000 p.a.
Fair rent	₹ 1,72,000 p. a
Municipal tax (Paid by Mr. Shivang)	5% of municipal valuation
Light and water charges	₹ 500 p.m.
Interest on borrowed capital	₹ 1,200 p.m.
Insurance charges	₹ 5,500 p.a.
Repairs	₹ 15,000 p.a.

Compute income from house property of Mr. Shivang for the A.Y. 2013-14.

Profits and gains of business or profession

5. Mr. Anirudh commenced operations of the business of setting up a warehousing facility for storage of pulses and edible oil on 1.4.2012. He incurred capital expenditure of ₹ 50 lacs and 70 lacs respectively, on purchase of land and building during February 2012 and March, 2012 exclusively for the above businesses, and capitalized the same in the books of accounts as on 1st April, 2012. The cost of land included in the above figures is ₹ 30 lacs and ₹ 20 lacs, respectively. Further, during the P.Y. 2012-13, it incurred capital expenditure of ₹ 20 lacs and ₹ 10 lacs, respectively, for extension of the building purchased and used exclusively for the above businesses. Compute the income under the head "Profits and gains of business or profession" for the A.Y. 2013-14 and the loss to be carried forward, assuming that Mr. Anirudh has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A. The profits from the business of setting up a warehousing facility for storage of pulses and edible oil (before claiming deduction under section 35AD and section 32) for the A.Y. 2013-14 is ₹ 14 lacs and ₹ 25 lacs, respectively.

6. State with reasons, whether the following expenses are allowable as deduction while computing income from business or profession for the Assessment Year 2013-14, and if so, the amount allowable as deduction:
- (i) Expenditure of ₹ 75,000 incurred by A Ltd. on skill development project in the manufacturing sector.
 - (ii) Expenditure of ₹ 50,000 incurred by Mr. X on agricultural extension project.
 - (iii) ₹ 15 lakh and ₹ 5 lakh, respectively, incurred on purchase of land and building by Z Ltd., being expenditure incurred on in-house research and development facility approved by the prescribed authority.
 - (iv) ₹ 20 lakh incurred by B Ltd. in March, 2012 for purchase of building for setting up and operating a warehousing facility for storage of sugar. B Ltd. commenced operations on 1.04.2012.
 - (v) Expenditure of ₹ 20 lakh incurred by Y Ltd. during the previous year 2012-13 on payment to its employees in accordance with a scheme of voluntary retirement.

Capital Gains

7. Mr. Harshit sold his residential property on 4th March, 2013 for ₹ 80 lakh and paid brokerage @1% of sale price. He had purchased the said property in June 2001 for ₹ 20,00,000. In May, 2013, he invested ₹ 80 lakh in equity of Raza (P) Ltd., a newly incorporated manufacturing company, which constituted 53% of share capital of the said company. The company qualifies to be a small enterprise under the Micro, Small and Medium Enterprises Development Act, 2006. Raza (P) Ltd. utilized the said sum for the following purposes –
- (a) Purchase of new plant and machinery during August 2013 – ₹ 70 lakh
 - (b) Included in (a) above are ₹ 6 lakh for purchase of computers and ₹ 8 lakh for purchase of cars.
 - (c) Air-conditioners purchased for ₹ 1 lakh, included in the (a) above, were installed at the residence of Mr. Harshit.
 - (d) Amount deposited in specified bank on 20.9.2013 – ₹ 10 lakh
- Compute the chargeable capital gain for the A.Y.2013-14. Assume that Mr. Harshit is liable to file his return of income on or before 30th September, 2013 and he files his return on 22.09.2013. (Cost Inflation Index – Financial year 2001-02: 426; Financial year 2012-13: 852)
8. Mr. Amit furnishes the following data for the previous year ending 31.3.2013:
- (a) Unlisted Equity Shares of Paras Ltd., 9,500 in number were sold on 31.5.2012, at ₹ 300 for each share.
 - (b) The above shares of 9,500 were acquired by Mr. Amit in the following manner:

- (i) Received as gift from his father on 27.9.1980 (3,500 shares), the fair market value of which on 1.4.1981 was ₹ 40 per share.
 - (ii) Bonus shares received from Paras Ltd. on 27.8.1985 (3,500 shares).
 - (iii) Purchased on 2.2.1994 at the price of ₹ 120 per share (2,500 shares).
 - (c) Purchased one residential house at ₹ 20 lakhs, on 14.4.2013 from the sale proceeds of shares.
 - (d) Mr. Amit owns a residential house, even before the purchase of above house.
- Compute the capital gain chargeable to tax in the hands of Mr. Amit for A.Y.2013-14. (Cost Inflation Index – Financial year 1993-94: 244; Financial year 2012-13 : 852)

Income from Other Sources

9. Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(vii) the Income-tax Act, 1961 -
- (i) Shivam HUF gifted a car to daughter of Karta for winning the first prize in all India music competition.
 - (ii) Mrs. Parth received 200 shares of ABC Ltd. from her friend as a gift on occasion of her 50th marriage anniversary. The fair market value on that date was ₹ 150 per share. She also received jewellery worth ₹ 35,000 (FMV) from her niece on the same day.
 - (iii) Manish HUF received ₹ 55,000 in cash from nephew of Manish (i.e., son of Manish's sister). Manish is the Karta of Manish HUF.
 - (iv) Shivang, a member of his father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹ 12,00,000.

Deductions from Gross Total Income

10. Mr. Gurpreet, aged 61 years, earned professional income (computed) of ₹ 7,75,000 during the year ended 31.03.2013. He has earned interest of ₹ 16,000 on the savings bank account with State Bank of India during the year.

Compute the total income of Mr. Gurpreet for the assessment year 2013-14 from the following particulars:

- (i) Life insurance premium paid to Insurance Company in cash amounting to ₹ 55,000 for life insurance of his dependent parents. The insurance policy was taken on 30.08.2012 and the sum assured on life of his dependent parents is ₹ 1,75,000.
- (ii) Life insurance premium of ₹ 40,000 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is ₹ 2,50,000 and the life insurance policy was taken on 28.01.2012.

- (iii) Life insurance premium paid by cheque of ₹ 35,000 for insurance of his life. The insurance policy was taken on 22.11.2012 and the sum assured is ₹ 3,00,000.
- (iv) Investment in PPF ₹ 50,000.
- (v) Premium of ₹ 17,500 paid by cheque for health insurance of self and his wife.
- (vi) ₹ 1,850 paid in cash for his health check-up and ₹ 6,500 paid in cheque for health check-up for his parents.
- (vii) Paid interest of ₹ 7,500 on loan taken from bank for MBA course pursued by his son.
- (viii) A sum of ₹ 20,000 donated in cash to an institution approved under section 80G for promoting family planning.

Computation of Total Income and Tax liability of an individual

11. Mr. Puneet, aged 60 years, who retired from the services of the Central Government on 30.6.2012, furnishes particulars of his income and other details as under:
- (i) Salary @ ₹ 7,000 p.m.
 - (ii) Pension @ ₹ 1,500 p.m. for July 2013 to Nov 2013.
 - (iii) On 1.12.2013, he got 1/3rd of his pension commuted for ₹ 1,60,000.
 - (iv) A house plot at Salem sold on 21.1.2013 for ₹ 4,50,000 had been purchased by him on 28.10.1978 for ₹ 12,000. The stamp valuation authority had assessed the value of said house plot at ₹ 6,50,000 which was neither disputed by the buyer nor by him. The fair market value of this house plot as on 1.4.1981 was ₹ 16,000 (The cost inflation index for the financial year 2012-13 is 852).
 - (v) Received interest of ₹ 70,000 on bank FDRs, dividend of ₹ 13,000 on mutual fund units and interest of ₹ 45,000 on maturity of NSC, out of which an amount of ₹ 35,000 was already disclosed by him on accrual basis in the returns upto assessment year 2012-13.
 - (vi) Investment in PPF for ₹ 1,00,000 and payment of mediclaim insurance for self and wife of ₹ 18,250 by cheque. He also spent ₹ 6,000 in cash for preventive health check up.

Compute the total income and tax liability of Mr. Puneet for A.Y. 2013-14.

Provisions concerning tax deducted at source

12. State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2012-13:
- (i) Payment of ₹ 27,000 made to Jacques Kallis, a South African cricketer, by an Indian newspaper agency on 02.07.2012 for contribution of articles in relation to the sport of cricket.
 - (ii) Rent of ₹ 1,70,000 paid by a partnership firm for use of plant and machinery.

- (iii) Winnings from horse race ₹ 1,50,000.
- (iv) Sitting fees of ₹ 16,000 paid to director of the company on 30.12.2012.
- (v) ₹ 2,00,000 paid to Mr. A, a resident individual on 22.02.2013 by the State Government of Uttar Pradesh on compulsory acquisition of his urban land.

Provisions for filing of Return of Income

13. (a) Specify the persons who are authorized to sign and verify under section 140, the return of income filed under section 139 of the Income-tax Act, 1961 in the case of:
- (i) ABC Ltd., an Indian Company, not having a Managing Director;
 - (ii) XYZ Ltd., an Indian Company which is being wound up;
 - (iii) Local authority;
 - (iv) Limited Liability Partnership (LLP) and
 - (v) Hindu Undivided Family, where the Karta is absent from India.
- (b) Mr. Ashok filed his return of income for the A.Y.2013-14, on 16th August, 2013. His total income comprised of only income from salaries and interest on savings bank account. Later, in January, 2014 he noticed that he had omitted to claim deduction under section 80D in respect of medical insurance premium paid by him. He is of the opinion that a revised return can be filed to claim such deduction, since the time limit for filing a revised return (i.e., 31.3.2015, being one year from the end of the relevant assessment year, A.Y.2013-14) has not expired. Can he do so? Discuss.

Basic concepts of service Tax

14. Briefly examine whether the following activities are liable to service tax as per the provisions of Finance Act, 1994.
- (a) Mr. Aditya, a singer performs in a bus where passengers drop some coins in his bowl kept, either after feeling rejoiced or out of compassion.
 - (b) Mr. Ramu during long drive with his wife Sanju violated traffic rules and was imposed fine of ₹ 1,000.

Also, examine would your answer be different in (a) if Mr. Aditya is called upon Mumbai to perform in an award show for ₹ 50,000.

Point of Taxation

15. Mr. Rajesh Singla is engaged in providing taxable services. Service Tax was chargeable at the rate of 10.30% up to 31.03.2012. However, with effect from 01.04.2012, the rate of service tax has been increased to 12.36%. Determine the point of taxation as well as consequent Applicable Rate of Service Tax in each of the following independent cases of provision of service:

Case	Time[Date] of Provision of Service	Time[Date] of Issue of Invoice	Time[Date] of Receipt of Payment
I	25.03.2012	03.04.2012	09.04.2012
II	06.04.2012	28.03.2012	07.04.2012
III	26.03.2012	28.03.2012	12.04.2012

Negative List of Services

16. 'Rock Farmer Association' is engaged in providing services relating to agriculture. It furnishes the following details with respect to the activities undertaken by them in the month of May, 2013:

Sl. No.	Particulars	Amount (₹)
(i)	Cultivation of ornamental flowers	42,000
(ii)	Packing of tomato ketchup	54,000
(iii)	Warehousing of potato chips	1,65,000
(iv)	Sale of tea on commission basis	68,000
(v)	Packaging of pulses in retail packs	42,000
(vi)	Training of farmers on use of scientific tools and agro machinery	10,000
(vii)	leasing of vacant land to a stud farm	1,63,000
(viii)	Grading of wheat according to its quality	42,000
(ix)	Testing of samples from plants for pest detection	1,21,500
(x)	Rearing of silk worms	83,500

Compute the service tax liability of 'Rock Farmer Association' for the month of May, 2013. Assume that the point of taxation in respect of all the activities mentioned above falls in the month of May, 2013 itself.

'Rock Farmer Association' has paid service tax of ₹ 7,14,000 during the Financial Year 2012-13.

Payment of service Tax

17. Miss Diya, an authorized dealer in foreign exchange, exchanged in the following gross amount of currency in the month of July, 2013:-

	₹
Case-I	26,000*
Case-II	22,000*
Case-III	1,50,000*
Case-IV	21,00,000*

Compute the amount of service tax liability in each of the aforesaid independent cases

assuming that Miss Diya has opted for option available for payment of service tax under Rule 6(7B) of the Service Tax Rules, 1994. Miss Diya is not eligible for small service providers' exemption under *Notification No. 33/2012 – ST dated 20.06.2012* for the financial year 2012-13.

*exclusive of service tax

Service Tax Liability

18. Mrs. Nirmal Aggarwal, has invested her saving worth ₹ 1,00,000 in LIC. Her policy is due for renewal. She has received reminder letter on 12.05.2013 from life insurance company to pay renewal premium. Determine whether service tax is liable to be paid at the time of issue of reminder letters by life insurance company to pay renewal premiums?

Input Tax Credit

19. Mr. Pankaj, a registered dealer is required to make payment of ₹ 1,75,000 under VAT for the month of July, 2013. His unutilized balance of VAT input credit for the month of June, 2013 is ₹ 2,80,000. He has also made interstate sale of goods upon which he is liable to pay CST of ₹ 30,000 for the month of July, 2013. Determine the input tax credit to be carried forward, if any, by Mr. Pankaj to the next month.

Merits of VAT and VAT procedures

20. State whether the following statements are true or false giving reasons to substantiate your answer:
- (i) Under VAT, the merits accrue in full measure only under a situation where there is only one rate of VAT without any exemptions thereof.
 - (ii) All VAT Returns are required to be filed on monthly basis.

Variants of VAT

21. Soumya Enterprises, a dealer in Chandigarh, purchased the raw material worth ₹ 50,00,000 (excluding VAT) and manufactured finished goods worth ₹ 90,00,000 from such raw material in the month of April, 2013. It acquired Plant & Machinery worth ₹ 30,00,000 on which 100% input tax credit is available in the year of acquisition itself. Soumya Enterprises incurred manufacturing expenses of revenue nature worth ₹ 12,00,000 for the manufacture of finished goods. It incurred manufacturing expenses of capital nature worth ₹ 22,00,000 for the manufacture of finished goods. Compute the VAT liability of Soumya Enterprises for the month of April, 2013 under gross product variant and consumption variant of VAT. Input and output VAT rate is 4%. State which variant is beneficial to Soumya Enterprises.

Liability under VAT

22. M/s Madhav & Co., a registered dealer provides the following details of purchases, sales, etc. for the month of May, 2013.

Particulars	Amount (₹)
Inter-State purchases of raw materials, inclusive of CST at 4%	4,08,000
Purchase of raw materials within State (400 units, inclusive of VAT levy at 12.5%)	11,25,000
Purchase of raw material from registered dealer opting for composition scheme, inclusive of VAT at 4%.	6,10,000
Import of packing material, inclusive of customs duty of ₹ 10,000	3,20,000
Purchase of goods for personal use, inclusive of VAT at 4%.	2,20,000
Capital goods purchased on 01-04-2012 inclusive of VAT levy at 10% (input credit to be spread over 2 financial years)	11,00,000
Sales of taxable goods within State, inclusive of VAT levy at 4%	65,00,000
Sales of goods within State, exempt from levy of VAT (Goods, were manufactured from the Inter-State purchase of raw materials)	7,60,000

Compute the VAT liability of the dealer for the month of May, 2013.

VAT Procedures

23. "Return filing procedures under VAT laws are designed with the objective of ensuring the efficient processing of the data included in the returns." Discuss the validity of the statement.

SUGGESTED ANSWERS

1. Computation of total income for the A.Y. 2013-14

	Particulars	Mrs. Geetha (Non-Resident) ₹	Mrs. Leena (Resident) ₹
1.	Income from profession in Malaysia (set up in India) received there (Note 2)	-	-
2.	Profit from business in Delhi, but managed directly from Malaysia (Note 2)	40,000	
3.	Rent from property in Malaysia deposited in a Bank at Malaysia, and later on remitted to India through approved banking channels (Note 2)	-	-
4.	Dividend from PQR Ltd, an Indian company [Exempt under section 10(34)]	-	-

5.	Dividend from a Malaysian company received in Malaysia (Note 2)	-	8,000
6.	Cash gift received from her friend on her birthday (Note 3)	-	51,000
7.	Agricultural income from land in Maharashtra (Note 4)	-	-
8.	Past foreign untaxed income brought to India during the previous year (Note 5)	-	-
9.	Fees for technical services rendered in India, but received in Malaysia (Note 2)	25,000	-
10.	Income from a business in Pune (Note 2)	12,000	15,000
11.	Interest on debentures in an Indian company (Note 2)	18,500	14,000
12.	Short term capital gain on sale of shares of an Indian company (Note 2)	15,000	25,500
13.	Interest on savings account with SBI	12,000	8,000
Gross Total Income		1,22,500	1,21,500
Less: Deductions under Chapter VI-A			
	Deduction under section 80C- Life insurance premium paid (assuming that the same is less than 10% of actual capital sum assured).	-	30,000
	Deduction under section 80TTA – Interest on savings bank account (Note 6)	10,000	8,000
Total Income		1,12,500	83,500

Notes:

- Mrs. Geetha is a non-resident since she has been living in Malaysia since 1984. Her sister, Mrs. Leena, who is settled in Indore, is a resident.
- In case of residents, their global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:

- Income received or deemed to be received in India in such year; and
- Income accruing or arising or deemed to accrue or arise in India during such year.

Therefore, income from profession in Malaysia, rent from property in Malaysia and dividend from Malaysian company would not be taxable in the hands of Mrs. Geetha in India, since she is a non-resident and such income was earned and received outside India. However, profit from business in Delhi, fees for technical services rendered in India, income from business in Pune, interest on debentures in an Indian company, short-term capital gain on sale of shares of an Indian company would be fully taxable in the hands of Mrs. Geetha, even though she is a non-resident, since such income accrues in India.

3. Receipt of cash exceeding ₹.50,000 from a non-relative is taxable under section 56(2)(vii). Therefore, the sum of ₹ 51,000 received by Mrs. Leena from her friend on her birthday is taxable under section 56(2)(vii).
4. Agricultural income from a land situated in India is exempt under section 10(1) in the case of both residents and non-residents.
5. ₹ 5,000 brought to India is not taxable in the previous year 2012-13 because it does not amount to "receipt" of income in the previous year 2012-13.
6. Deduction under section 80TTA is available to both residents and non-residents in respect of interest on savings bank account, subject to a maximum of ₹ 10,000.

2. **Taxability of certain receipts under the Income-tax Act, 1961**

S. No.	Taxable/ Not Taxable/ Partly Taxable	Amount liable to tax (₹)	Reason
(i)	Not Taxable	Nil	As per section 10(48), any income of a foreign company received in India in Indian currency on account of sale of crude oil to any person in India is exempt from tax. Therefore, ₹ 1,35,000 received by XYZ Inc., a foreign company, from sale of crude oil to an oil refining company in India would not be chargeable to tax in its hands, provided the conditions mentioned in section 10(48) are fulfilled.
(ii)	Not Taxable	Nil	The definition of charitable purpose under section 2(15) includes "advancement of any other object of general public utility" as charitable purpose provided that it does not involve carrying on of any activity in the nature of trade, commerce or business. However, "advancement of any other object of general public utility" could continue to be a "charitable purpose" even if the institution carries on a trading activity, if the total receipts from the trading activities do not exceed ₹ 25 lacs in that year. In this case, since the institution receives only ₹ 23 lacs in aggregate from an activity in the nature of trade during the P.Y. 2012-13, it will not lose its status as a charitable institution for that year. The institution can claim exemption, subject to fulfilment of other conditions under sections 11 to 13.

(iii)	Not Taxable	Nil	Section 10(2), exempts any sum received by an individual as a member of a HUF, where such sum has been paid out of the income of the family. Therefore, ₹ 8,000 would not be chargeable to tax in the hands of Mr. Sunil.
(iv)	Not Taxable	Nil	As per section 10(19), exemption is available in respect of family pension received by the widow of a member of the armed forces, where the death of such member has occurred in the course of operational duties. Therefore, family pension received by Mrs. B, widow of an army lieutenant, who died during the course of Kargil war is exempt under section 10(19).
(v)	Not Taxable	Nil	Pension received by Mr. Ankit, who is a 'Param Vir Chakra' awardee, is exempt under section 10(18).
(vi)	Partly taxable	3,000	As per section 10(14)(ii), children education allowance of ₹ 100 per month per child upto a maximum of two children is exempt. Therefore, ₹ 3,000 (₹ 5,400 - ₹ 2,400) is chargeable to tax in the hands of Mr. Chander.
(vii)	Taxable	25,000	As per section 10(26AAA), income by way of interest on securities is exempt from tax in the hands of Sikkimese individual. However, this exemption is not available to a Sikkimese woman who, on or after 1 st April, 2008, marries a non-Sikkimese individual. Since Mrs. X has married Mr. X, a non-Sikkimese individual, on 1.10.2009, (i.e. after 1.04.2008), she is not eligible for exemption under section 10(26AAA).

3. Computation of total income of Mr. Rishi for the A.Y. 2013-14

S. No.	Particulars	₹
(i)	Basic Salary	6,00,000
(ii)	Dearness allowance (40% of basic salary)	2,40,000
(iii)	Motor car (engine cubic capacity above 1.6 litres), owned by employer, running expenses met by Mr. Rishi. Perquisite value ₹ 900 per month.	10,800

(iv)	Cost of laptop ₹ 40,000 less ₹ 5,000, being amount recovered from Mr. Rishi, would be chargeable to tax. Since the laptop is immediately transferred on acquisition, there would be no deduction by way of depreciation.	35,000
(v)	Leased accommodation: Actual lease rent ₹ 3 lakhs or 15% of salary i.e. 15% of ₹ 8,40,000 = ₹ 1,26,000; whichever is lower. ₹ 1,26,000, being the lower figure, less amount recovered from employee is the value of perquisite i.e. ₹ 1,26,000 minus 60,000	66,000
(vi)	Contribution of employer to PF was 15% of basic salary. Amount contributed above 12% of basic pay plus dearness allowance is taxable as perquisite. Amount contributed ₹ 90,000 (15% of ₹ 6,00,000). Contribution @ 12% of basic pay and DA is ₹ 1,00,800 (12% of ₹ 8,40,000). Since the amount contributed is less than 12% of basic pay plus DA, there is no perquisite value	Nil
(vii)	Professional tax paid by employer	<u>2,000</u>
Gross Salary		9,53,800
Less: Deduction u/s 16(iii)		
Professional tax (See Note 1)		<u>3,000</u>
Net Salary / Gross Total Income		9,50,800
Less: Deduction under section 80C		
PF contribution at 15% of basic pay		<u>90,000</u>
Total Income		<u>8,60,800</u>

Notes:

- As per section 17(2)(iv), "perquisite" includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Rishi. As per section 16(iii), a deduction from the salary is allowed on account of tax on employment i.e. professional tax paid during the year.

Therefore, in the present case, the professional tax paid by the employer on behalf of the employee ₹ 2,000 is first included in the salary by virtue of section 17(2)(iv) and deduction of the entire professional tax of ₹ 3,000 is allowed from salary under section 16(iii).
- Mr. Rishi can avail exemption under section 10(5) on the entire amount of ₹ 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.

4. Computation of Income from house property of Mr. Shivang for A.Y. 2013-14

Particulars	₹	₹
(A) Rented unit (50% of total area)		
Step I - Computation of Annual Letting Value		
Municipal valuation (₹ 1,80,000 x ½)	90,000	
Fair rent (₹ 1,72,000 x ½)	86,000	
Standard rent (₹ 1,60,000 x ½)	80,000	
[Annual letting value is higher of municipal valuation and fair rent, but restricted to standard rent]	80,000	
Step II - Actual Rent		
Rent receivable for the whole year (₹ 8,000 x 12)	96,000	
Actual rent received owing to vacancy (₹ 96,000 – ₹ 24,000)	72,000	
Step III – Computation of Gross Annual Value		
[Since owing to vacancy, the actual rent received is lower than the annual letting value, the actual rent received is taken as the Gross Annual value]		
Gross Annual Value		72,000
Less: Municipal taxes (5% of ₹ 90,000)		<u>4,500</u>
Net Annual Value		67,500
Less : Deductions under section 24		
(i) 30% of net annual value	20,250	
(ii) Interest on borrowed capital (₹ 600 x 12)	<u>7,200</u>	<u>27,450</u>
Taxable income from let out portion		40,050
(B) Self occupied unit (50% of total area)		
Annual value	Nil	
Less : Deduction under section 24:		
Interest on borrowed capital (₹ 600 x 12)	<u>7,200</u>	<u>(7,200)</u>
Income from house property		<u>32,850</u>

Note: No deduction will be allowed separately for light and water charges, insurance charges and repairs.

5. Computation of profits and gains of business of Mr. Anirudh for A.Y.2013-14

Particulars	₹ (in lacs)
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32)	25
Less: Depreciation under section 32 10% of ₹ 60 lakh, being (₹ 70 lakh – ₹ 20 lakh + ₹ 10 lakh)	<u>6</u>
Income chargeable under “Profits and gains from business or profession”	<u>19</u>

Computation of loss from specified business to be carried forward as per section 73A

	Particulars	₹ (in lacs)
(A)	Profits from the specified business of setting up a warehousing facility for storage of pulses (before providing deduction under section 35AD)	14
	Less: Deduction under section 35AD	
(B)	Capital expenditure incurred prior to 1.4.2012 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2012 (excluding the expenditure incurred on acquisition of land) = ₹ 20 lacs (₹ 50 lacs – ₹ 30 lacs)	20
(C)	Capital expenditure incurred during the P.Y.2012-13	20
(D)	Total capital expenditure (B + C)	40
(E)	Deduction under section 35AD 150% of capital expenditure	60
	Total deduction u/s 35AD for A.Y.2013-14	60
(F)	Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)	(46)

Notes:

- (1) Weighted deduction@150% of the capital expenditure is available under section 35AD for A.Y.2013-14 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2012. Pulses constitute agricultural produce and therefore, the capital

expenditure incurred for setting up a warehousing facility for storage of pulses is eligible for weighted deduction@150% under section 35AD.

- (2) However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. Anirudh is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.
 - (3) Mr. Anirudh can claim depreciation@10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2012-13.
 - (4) Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of ₹ 46 lakh from the specified businesses of setting up and operating a warehousing facility for storage of pulses cannot be set-off against the profits of ₹ 19 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.
6. (i) A weighted deduction of 150% of the expenditure on skill development project incurred by a company is allowable as deduction under section 35CCD, assuming that the skill development project is notified by the Board and the expenditure is in accordance with the prescribed guidelines and is not in the nature of cost of any land or building.
- Accordingly, ₹ 1,12,500, being 150% of ₹ 75,000, is allowable as deduction under section 35CCD while computing the business income of A Ltd.
- (ii) A weighted deduction of 150% of the expenditure on agricultural extension project incurred by an assessee is allowable as deduction under section 35CCC, assuming that the agricultural extension project is notified by the Board and the expenditure is in accordance with the prescribed guidelines.
- Accordingly, ₹ 75,000, being 150% of ₹ 50,000, is allowable as deduction under section 35CCC while computing the business income of Mr. X.
- (iii) Z Ltd. would not be eligible for weighted deduction@200% under section 35(2AB), since the in-house research and development expenditure is incurred on land and building. However, it would be eligible for deduction of actual expenditure of ₹ 5 lakh incurred on building under section 35(1)(iv) read with section 35(2).
- (iv) ₹ 20 lacs is fully allowable as deduction under section 35AD, since B Ltd. has incurred capital expenditure, wholly and exclusively for a "specified business", namely, setting up and operating a warehousing facility for storage of sugar. It is assumed that this amount incurred prior to commencement of operations has been capitalized in the books of account of B Ltd. on 1.04.2012, being the date of commencement of its operation.

- (v) Under section 35DDA, expenditure incurred on payment of any sum to the employees in accordance with a scheme of voluntary retirement is allowable as deduction in five equal instalments over a period of five years, commencing from the previous year in which the payment was made.

Therefore, ₹ 4 lakh, being one-fifth of ₹ 20 lakh, would be allowable as deduction under section 35DDA, while computing the business income of Y Ltd. for A.Y.2013-14.

7. Computation of taxable capital gains of Mr. Harshit for A.Y.2013-14

Particulars	₹
Gross consideration	80,00,000
Less: Expenses on transfer (1% of the gross consideration)	<u>80,000</u>
Net consideration	79,20,000
Less: Indexed cost of acquisition (₹ 20,00,000 × 852/426)	<u>40,00,000</u>
	39,20,000
Less: Exemption under section 54GB (₹ 65,00,000 × ₹ 39,20,000 / ₹ 79,20,000)	<u>32,17,172</u>
Taxable capital gains	<u>7,02,828</u>

Deemed cost of new plant and machinery for exemption under section 54GB

	Particulars	₹	₹
(1)	Purchase cost of new plant and machinery acquired in August, 2013		70,00,000
	Less: Cost of office appliances, i.e., computers	6,00,000	
	Cost of vehicles, i.e., cars	8,00,000	
	Cost of air-conditioners installed at the residence of Mr. Harshit	<u>1,00,000</u>	<u>15,00,000</u>
			55,00,000
(2)	Amount deposited in the specified bank before the due date of filing of return		<u>10,00,000</u>
	Deemed cost of new plant and machinery for exemption under section 54GB		<u>65,00,000</u>

Note – Mr. Harshit can avail exemption under section 54GB on long-term capital gains on transfer of a residential house, since all the conditions given below are satisfied:

- (i) The sale proceeds are used for subscription in the equity shares of an eligible company, being a newly incorporated SME company engaged in the business of manufacturing of any article or thing,

- (ii) He holds more than 50% of the share capital in the said SME.
- (iii) Further, the amount of subscription as share capital has been utilized by the eligible company for purchase of new plant and machinery within a period of one year from the date of subscription in the equity shares.

8. Computation of taxable capital gain of Mr. Amit for A.Y. 2013-14

Particulars		₹	₹
Sale consideration received on sale of 9,500 shares @ ₹ 300 each			28,50,000
Less: Indexed cost of acquisition			
(a)	3,500 shares received as gift from father on 27.9.1980 Indexed cost ₹ 3500 x 40 x 852/100	11,92,800	
(b)	3,500 bonus shares received from Paras Ltd. Bonus shares are acquired on 27.8.1985. Hence, the cost is Nil.	Nil	
(c)	2500 shares purchased on 2.2.1994 @ ₹ 120 per share. The indexed cost is 2500 x 120 x 852/244	10,47,541	22,40,341
Long term capital gain			6,09,659
Less : Exemption under section 54F (See Note below)			
₹ 6,09,659 x ₹ 20,00,000 / ₹ 28,50,000			4,27,831
Taxable long term capital gain			1,81,828

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

- (a) The assessee should not own more than one residential house on the date of transfer of the long-term capital asset;
- (b) 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, Mr. Amit has fulfilled the two conditions mentioned above. Therefore, he is entitled to exemption under section 54F.

9. Taxability of certain transactions under section 56(2)(vii)

	Taxable/ Non-taxable	Amount liable to tax (₹)	Reason
(i)	Non-taxable	Nil	"Car" is not included in the definition of property for the purpose of section 56(2)(vii), therefore, the same shall not be taxable.

(ii)	Taxable	65,000	As per the provisions of section 56(2)(vii), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds ₹ 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (₹ 30,000) and jewellery (₹ 35,000) exceeds ₹ 50,000. Niece is not covered within the definition of relative, hence, the entire amount of ₹ 65,000 shall be taxable.
(iii)	Taxable	55,000	Sum of money exceeding ₹ 50,000 received without consideration from a non relative is taxable under section 56(2)(vii). Son of Mr. Manish's sister is not a relative of Manish HUF, since he is not a member of Manish HUF.
(iv)	Non-taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(vii). Since Shivang is a member of the HUF, he is a relative of the HUF.

10. **Computation of total income of Mr. Gurpreet for the Assessment Year 2013-14**

Particulars	₹	₹	₹
Professional Income (computed)			7,75,000
Interest on saving bank deposit			<u>16,000</u>
Gross Total Income			7,91,000
Less: Deduction under Chapter VIA			
Under section 80C (See Note 1)			
1. Life insurance premium paid for life insurance of:			
- major son	40,000		
- self ₹ 35,000, restricted to 10% of ₹ 3,00,000	30,000		
	<u>50,000</u>		
2. Investment in PPF	<u>1,20,000</u>		
Restricted to		1,00,000	
Under section 80D (See Note 2)			
Premium paid for health insurance of self and wife by cheque	17,500		
Payment made for health check-up:			
- Self ₹ 1,850			
- His Parents ₹ <u>6,500</u>			
<u>8,350</u> restricted to	<u>5,000</u>	22,500	

Under section 80E			
For payment of interest on loan taken from bank for MBA course of his son		7,500	
Under section 80TTA (See Note 3)			
Interest on savings bank account ₹ 16,000 restricted to		<u>10,000</u>	<u>1,40,000</u>
Total Income			<u>6,51,000</u>

Notes:

- (1) As per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents, whether they are dependent or not. Therefore, no deduction is allowable in respect of ₹ 55,000 paid as premium for life insurance of dependent parents of Mr. Gurpreet.

As per the amendment made by Finance Act, 2012, deduction shall be allowed in respect of premium paid for life insurance only to the extent of 10% of actual capital sum assured in respect of insurance policy issued on or after 01.04.2012. In case the insurance policy is issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of actual capital sum assured.

Therefore in the present case, deduction of ₹ 40,000 is allowable in respect of life insurance of Mr. Gurpreet's major son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of ₹ 2,50,000. However, in respect of premium paid for life insurance policy of Mr. Gurpreet himself, deduction is allowable only up to 10% of ₹ 3,00,000 since the policy was issued on or after 01.04.2012 and the premium amount exceeds 10% of sum assured.

- (2) As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person who is a senior citizen i.e., aged 60 years or more, deduction shall be allowed up to ₹ 20,000. Further, as per amendment made by Finance Act, 2012, deduction up to ₹ 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-check up can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash.

Therefore, in the present case, deduction of ₹ 17,500 is allowed in respect of premium paid for health insurance of self and wife, since Mr. Gurpreet is a senior citizen and the payment is made by cheque. Also, the aggregate value of premium paid for health insurance and the payment for health check-up is ₹ 19,350 (₹ 17,500 + ₹ 1,850), which is less than ₹ 20,000. Further, deduction up to a maximum of ₹ 5,000 is allowable in respect of health check-up of self and his parents.

- (3) As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of ₹ 10,000. Therefore, a deduction of ₹ 10,000 is allowable from the gross total income of Mr. Gurpreet, even though the interest from savings bank account is ₹ 16,000.
- (4) No deduction shall be allowed under section 80G in case donation of a sum exceeding ₹ 10,000 is made in cash. Therefore, the amount of ₹ 20,000 donated in cash to an institution approved under section 80G for family planning is not allowable as deduction.

11. Computation of total income and tax liability of Mr. Puneet for A.Y.2013-14

Particulars	₹
Income from salaries (See Working Note 1)	32,500
Capital gains (See Working Note 2)	5,13,680
Income from other sources (See Working Note 3)	<u>80,000</u>
Gross Total Income	6,26,180
Less: Deductions under Chapter VI-A (See Working Note 4)	<u>1,12,500</u>
Total Income	<u>5,13,680</u>
Tax on total income (See Note below)	52,736
Add: Education cess @ 2% and SHEC @ 1%	<u>1,582</u>
Total tax Liability	<u>54,318</u>

Note: Since the Gross Total Income comprises entirely of long term capital gain, the same would be subject to tax @20% after adjusting the basic exemption limit of ₹ 2,50,000, applicable to resident individual of the age of 60 years or more at any time during the previous year. Therefore ₹ 52,736 (20% of ₹ 2,63,680, i.e. ₹ 5,13,680 - ₹ 2,50,000), would be the tax on total income of Mr. Puneet for A.Y. 2013-14. The total tax liability would be ₹ 54,318.

Working Notes:

1. Income from salaries

Particulars	₹
Salary for 3 months received from Government of India (₹ 7,000 x 3)	21,000
Pension for 5 months from July 2013 to Nov 2013 @ ₹ 1,500 p.m. (₹ 1,500 x 5)	7,500

Pension for 4 months from Dec 2013 to March 2014 @ ₹ 1,000 p.m. (₹ 1,000 x 4)	<u>4,000</u>
	<u>32,500</u>

Note: Commuted value of pension of ₹ 1,60,000 received from the Central Government is fully exempt under section 10(10A).

2. Capital gains

Particulars	₹
Long term capital gains on sale of house plot at Salem on 21.01.2013	
Sale consideration received is ₹ 4,50,000. However, since the value assessed by the stamp valuation authority (i.e. ₹ 6,50,000) is higher than the sale consideration, such value assessed is deemed to be the full value of the consideration received or accruing as a result of such transfer as per section 50C	6,50,000
Less: Indexed cost of acquisition ₹ 16,000 x 852/100	<u>1,36,320</u>
	<u>5,13,680</u>

3. Income from other sources

Particulars		
Interest on bank FDRs		70,000
Dividend of ₹ 13,000 on units of Mutual Fund [exempt under section 10(35)]		-
Interest on maturity of NSC	45,000	
Less: Interest already shown on accrual basis in the past returns	<u>35,000</u>	<u>10,000</u>
		<u>80,000</u>

4. Deductions under Chapter VI-A

Particulars	₹	₹
Under section 80C		
Investment in PPF		1,00,000
Under section 80D		
Medical insurance premium paid	18,250	
Preventive health check up of ₹ 6,000, restricted to	<u>5,000</u>	
	<u>23,250</u>	
Maximum deduction under section 80D restricted to ₹ 20,000, since Mr. Puneet is a senior citizen		<u>20,000</u>
Total		<u>1,20,000</u>
Deduction under Chapter VI-A restricted to Gross Total Income (excluding LTCG)		1,12,500

12. (i) Under section 194E, where any income referred to in section 115BBA is payable to a non-resident sportsman for contribution of articles relating to any game or sport in India in a newspaper, such income shall be liable to tax @ 20%. Further, since Jacques Kallis is a non-resident, education cess @2% and secondary and higher education cess @ 1% on TDS would also be added.

Therefore, tax to be deducted = ₹ 27,000 x 20.60% = ₹ 5,562.

- (ii) As per section 194-I, tax is deductible at the time of credit or payment, whichever is earlier @ 2% on payment of rent for plant and machinery, only if the credit or payment exceeds ₹ 1,80,000 during the financial year. Since rent of ₹ 1,70,000 paid by a partnership firm does not exceed ₹ 1,80,000, tax is not deductible.
- (iii) Provisions for tax deduction at source under section 194BB @ 30% are attracted in respect of income arising by way of winnings from any horse race at the time of payment thereof, if the winnings exceed ₹ 5,000.

Tax to be deducted = ₹ 1,50,000 x 30% = ₹ 45,000

- (iv) As per section 194J, the company shall be liable to deduct tax at source @ 10% on any fees paid to a director on or after 1.07.2012, on which the tax is not deductible under section 192. The threshold limit of ₹ 30,000 for non-deduction of tax at source under section 194J is not applicable in case of any remuneration or fees or commission payable to director of a company.

Tax to be deducted = ₹ 16,000 x 10% = ₹ 1,600

- (v) With effect from 1.07.2012, tax shall be deducted at source under section 194LA if the consideration or enhanced consideration paid to a resident individual during the financial year exceeds ₹ 2,00,000 in aggregate. Since in this case, the amount paid to Mr. A, a resident individual, on 22.2.2013 does not exceed ₹ 2,00,000, tax is not deductible under section 194LA

13. (a) The following are the authorised signatories specified in section 140, for the return of income filed under section 139 in case of each of the following assesseees -

	Assessee	Authorised Signatory
(i)	ABC Ltd., an Indian company not having managing director	Any director of the company
(ii)	XYZ Ltd., an Indian company which is being wound up	Liquidator
(iii)	Local authority	The principal officer
(iv)	Limited Liability Partnership	Designated Partner. Where for any unavoidable reason, such

		designated partner is not able to sign and verify the return, or where there is no designated partner then, any partner of the LLP can be the authorised signatory.
(v)	HUF, where the Karta is absent from India	Any other adult member of the HUF

- (b) No, Mr. Ashok cannot file a revised return under section 139(5), to claim deduction under section 80D, even though the time limit for filing a revised return has not expired, since he had filed the original return for A.Y.2013-14 on 16th August, 2013 which is after 31st July, 2013, being the due date for filing of return under section 139(1) for A.Y.2013-14. Only a return which has been filed on or before the due date of filing of return under section 139(1) can be revised under section 139(5).

In this case, the original return filed by Mr. Ashok on 16th August, 2013 was a belated return under section 139(4). A belated return filed under section 139(4) cannot be revised under section 139(5). Therefore, Mr. Ashok cannot file a revised return under section 139(5) to claim deduction under section 80D.

14. (a) Mr. Aditya is not liable to pay service tax as service tax is leviable on the services provided or to be provided. Mr. Aditya has performed an activity without consideration and any activity without consideration does not come within the ambit of definition of "service". In this case passengers are under no obligation to pay any amount for listening to him nor have they engaged him for his services.
- (b) Service tax is not leviable in this case as in order to be service, an activity has to be carried out for a consideration. Therefore, fine being the legal consequence of Mr. Ramu's action is not in the nature of consideration for an activity.

If Mr. Aditya is called upon Mumbai to perform in an award show for ₹ 50,000, then this activity would come within the ambit of definition of "service" as it becomes an activity for a consideration. Resultantly, this activity would be liable to service tax.

15. Whenever there is change in effective rate of tax, point of taxation is to be determined in accordance with Rule 4 of Point of Taxation Rules, 2011. According to Rule 4, notwithstanding anything contained in Rule 3, the Point of Taxation in cases where there is a change in effective rate of tax in respect of a service shall be determined in the following manner:

S. No.	Time[Date] of Provision of Taxable Service	Time[Date] of Issue of Invoice	Time[Date] of Receipt of Payment	Point of Taxation
(a)	Before the change in effective rate of tax	(i) After the change in effective rate of tax	After the change in effective rate of tax	Earlier of following two dates:

				Date of issuance of invoice; or Date of payment of invoice
		(ii) Prior to change in effective rate of tax	After the change in effective rate of tax	Date of issuance of invoice
		(iii) After the change in effective rate of tax	Prior to the change in effective rate of tax	Date of payment
(b)	After the change in effective rate of tax	(i) Prior to change in effective rate of tax	After the change in effective rate of tax	Date of Payment
		(ii) Prior to change in effective rate of tax	Prior to change in effective rate of tax	Earlier of the following two dates: (A) Date of receipt of payment; or (B) Date of issuance of invoice
		(iii) After the change in effective rate of tax	Prior to change in effective rate of tax	Date of issuance of invoice

In the light of above-mentioned Rule 4 of POT Rules, 2011, the point of taxation as well as applicable rate of tax in the present case is determined as under:

Case	Time[Date] of Provision of Service	Time[Date] of Issue of Invoice]	Time[Date] of Receipt of Payment	Point of Taxation	Applicable Rate of Tax
I	25.03.2012	03.04.2012	09.04.2012	03.04.2012, being earlier of Date of Issuance	12.36%

Case	Time[Date] of Provision of Service	Time[Date] of Issue of Invoice]	Time[Date] of Receipt of Payment	Point Taxation of	Applicable Rate of Tax
				of Invoice [i.e. 03.04.2012] or Receipt of Payment [09.04.2012.]	
II	06.04.2012	28.03.2012	07.04.2012	07.04.2012, being Date of Receipt of Payment	12.36%
III	26.03.2012	28.03.2012	12.04.2012	28.03.2012, being Date of Issuance of Invoice	10.30%

16. Computation of service tax payable by Rock Farmer Association for May, 2013

Sl. No.	Particulars	Amount (₹)
(i)	Cultivation of ornamental flowers[Note 1]	-
(ii)	Packing of tomato ketchup[Note 3]	54,000
(iii)	Warehousing of potato chips[Note 3]	1,65,000
(iv)	Sale of tea on commission basis[Note 1]	-
(v)	Packaging of pulses in retail packs[Note 3]	42,000
(vi)	Training of farmers on use of scientific tools and agro machinery[Note 1]	-
(vii)	leasing of vacant land to a stud farm[Note 2]	1,63,000
(viii)	Grading of wheat according to its quality[Note 3]	-
(ix)	Testing of samples from plants for pest detection [Note 1]	1,21,500
(x)	Rearing of silk worms[Note 1]	-
	Total	<u>5,45,500</u>
	Service tax @ 12.36% (rounded off)	67,424

Notes:

- (1) Clause (d) of negative list of services [section 66D] covers 'services relating to agriculture or agricultural produce by way of *inter alia* –
 - (i) services provided by a commission agent for sale or purchase of agricultural produce
 - (ii) agricultural extension services. Agriculture extension means application of scientific research and knowledge to agricultural practices through farmer education or training.
 - (iii) agricultural operations directly related to production of any agricultural produce including seed testing. Since only seed testing is included in the negative list, hence testing of samples from plants for pest detection is taxable.
- (2) Services relating to agriculture or agricultural produce by way of renting or leasing of vacant land are covered under clause (d) of section 66D. Agriculture means the cultivation of plants and rearing of all life-forms of animals, except the rearing of horses, for food, fibre, fuel, raw material or other similar products. Thus, renting of vacant land to a stud farm will be outside the purview of negative list.
- (3) Loading, unloading, packing, storage or warehousing of agricultural produce is covered under clause (d) of Section 66D. However, agricultural produce means any produce of agriculture on which either no further processing is done or such processing is done as is usually done by a cultivator or producer which **does not alter its essential characteristics** but makes it marketable for **primary market**. Thus, warehousing of potato chips and Packing of tomato ketchup will be taxable as potato chips and tomato ketchup is not an agricultural produce. Packaging of pulses in retail packs would be taxable as only such processes are covered in the negative list which makes agricultural produce marketable in the primary market.
- (4) As Rock Farmer Association has paid service tax of ₹ 7,14,000 during the FY 2012-13, it is not eligible to small service providers exemption provided under *Notification No. 33/2012 ST dated 20.06.2012* in the FY 2013-14.

17. Computation of service tax liability:-

Case	Gross amount of currency exchanged	Service tax liability
I	₹26,000	=₹26,000 × 0.12% = ₹31.20 or ₹ 30 whichever is higher = ₹31.20
II	₹22,000	=₹22,000 × 0.12% = ₹26.40 or ₹ 30

		whichever is higher = ₹30
III	₹1,50,000	= ₹ 120 + [(₹1,50,000 - ₹1,00,000) × 0.06%] = ₹ 120 + ₹ 30 = ₹ 150
IV	₹21,00,000	= ₹ 660 + [(₹21,00,000 - ₹10,00,000) × 0.012%] = ₹792 or ₹ 6,000 whichever is lower = ₹ 792

Notes: It has been assumed that point of taxation in all the aforesaid cases is in July, 2013.

18. No, service tax is not liable to be paid at the time of issue of reminder letters by life insurance company to pay renewal premiums.

Under the Point of Taxation Rules 2011, the point of taxation generally is the date of issue of invoice or receipt of payment whichever is earlier. The invoice mentioned refers to the invoices as issued under Rule 4A of the Service Tax Rules 1994. No tax point arises on account of such reminders. Thus, it is clarified **as per Circular No.166/1 /2013 – ST dated 01.01.2013** that reminder letters / notices for insurance policies not being invoices would not invite levy of service tax. In case of issuance of any invoice, point of taxation would accordingly be determined.

19. Input tax credit is first to be utilized for payment of VAT. The excess credit can be then adjusted against the central sales tax (CST) for the said period. After the adjustment of VAT and CST, excess credit, if any, will be carried over to the end of the next month.

	₹
(a) Input tax credit available for the month of June, 2013	2,80,000
(b) Less: VAT payable for the month of July, 2013	<u>1,75,000</u>
(c) Excess credit left	1,05,000
(d) CST payable for the month of July, 2013	<u>30,000</u>
(e) Tax credit to be carried to the next month (c) - (d)	75,000

Hence, Mr. Pankaj can carry forward the tax credit of ₹ 75,000 to the next month.

20. (i) True, The merits accrue in full measure only under a situation where there is only one rate of VAT and VAT applies to all commodities without any question of exemptions whatsoever. Once concessions like differential rates of VAT, composition schemes, exemption schemes, exempted category of goods etc. are built into the system, distortions are bound to occur and the fundamental principle that VAT will totally eliminate cascading effects of taxes will also be subject to qualifications.

- (ii) False, All VAT Returns are not required to be filed on monthly basis. VAT returns are to be filed on monthly/quarterly/annual basis as per the provisions of the State Acts/Rules.
21. Under gross product variant of VAT, deduction for taxes on all purchases of raw materials and components is allowed. However, deduction for tax paid on capital goods is not allowed. Hence, the VAT liability under gross product variant would be calculated as under:

Computation of VAT liability under Gross Product Variant

Particulars	₹
VAT payable on sales (90,00,000 × 4%)	3,60,000
Less: Input VAT allowed on raw material (50,00,000 × 4%)	<u>2,00,000</u>
Net VAT payable	1,60,000

Under consumption variant of VAT, deduction for taxes paid on all business purchases including capital goods is allowed. Hence, VAT liability under consumption variant would be calculated as under:

Computation of VAT liability under Consumption Variant

Particulars	₹	₹
VAT payable on sales (90,00,000 × 4%)		3,60,000
Less: Input VAT allowed on raw material (50,00,000 × 4%)	2,00,000	
Input VAT allowed on capital goods (30,00,000 × 4%)	<u>1,20,000</u>	3,20,000
(whole input tax credit is allowed in the year of acquisition itself)		—
Net VAT payable		<u>40,000</u>

Since, the net VAT liability under consumption variant is less than the VAT liability under gross product variant, consumption variant is beneficial to the Soumya Enterprises.

22. **Computation of VAT liability of M/s Madhav & Co for the month of May, 2013.**

Particulars	Amount (₹)
Input tax credit available on:	
Inter-State purchases of raw materials (CST paid on inter State purchases is not eligible for input tax credit.)	Nil
Intra-State purchases of 400 units of raw materials $\left[\frac{11,25,000 \times 12.5}{112.5} \right]$	1,25,000

Purchase of raw material from registered dealer opting for composition scheme, inclusive of VAT at 4%. (Purchases from registered dealer opting for composition scheme is not eligible for input tax credit)	Nil
Import of packing material (Customs duty is not eligible for input tax credit.)	Nil
Purchase of goods for personal use, inclusive of VAT at 4%. (Purchase of goods for personal use is not eligible for input tax credit)	Nil
Purchase of Capital Goods : (VAT paid on purchase of capital goods is eligible for input tax credit.) However, the same has to be spread over a period of two years $\left[\frac{11,00,000 \times 10}{110 \times 2} \right]$	<u>50,000</u>
Total input tax credit available (A):	<u>1,75,000</u>
Output VAT payable on:	
Sale of taxable goods within State [(65,00,000 × 4)/104]	2,50,000
Sale of exempted goods within State [See Note below]	<u>Nil</u>
Total output VAT payable (B)	<u>2,50,000</u>
Net VAT payable (B) – (A)	<u>75,000</u>

Note: Since these goods were manufactured from the inter-State purchases of raw materials (non-vatable inputs), input tax credit is not affected.

- 23** The statement is valid. Return filing procedures under VAT laws are designed with the objective of:
- reducing the compliance costs incurred by the businesses in completing and filing their returns; and
 - encouraging businesses to comply with their obligations to file returns and pay VAT through the application of penalties in case of late payment of VAT and late filing of returns; and
 - ensuring the efficient processing of the data included in the returns.