

MOCK TEST – I
INTERMEDIATE (IPC) – GROUP – I
PAPER – 4: TAXATION
SUGGESTED ANSWERS/HINTS

1. (a) Computation of total income of Mr. Yogesh for the A.Y. 2013-14

Particulars	₹
Profits and gains of business or profession (<i>See Working Note 1</i>)	12,91,000
Income from other sources (<i>See Working Note 2</i>)	<u>46,000</u>
Gross Total Income	13,37,000
Less: Deduction under section 80C (Investment in PPF)	<u>80,000</u>
Total Income	<u>12,57,000</u>

Working Notes:

1. Computation of profits and gains of business or profession

Particulars	₹	₹
Net profit as per profit and loss account		12,80,000
Add : Expenses debited to profit and loss account but not allowable as deduction		
Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	8,000	
Motor car expenses attributable to personal use not allowable ($₹ 82,000 \times \frac{1}{2}$)	41,000	
Depreciation debited in the books of account	60,000	
Drawings (not allowable since it is personal in nature) [See Note (iii)]	18,000	
Investment in PPF [See Note (iii)]	<u>80,000</u>	<u>2,07,000</u>
		14,87,000
Add : Under statement of closing stock		<u>10,000</u>
		14,97,000
Less: Under statement of opening stock		<u>5,000</u>
		14,92,000
Less: Contribution to a University approved and notified under section 35(1)(ii) is eligible for weighted		

deduction@175%. Since only the actual contribution (100%) has been debited to profit and loss account, the additional 75% has to be deducted.		<u>75,000</u>
		14,17,000
Less: Incomes credited to profit and loss account but not taxable as business income		
Income from UTI [Exempt under section 10(35)]	30,000	
Interest on debentures (taxable under the head "Income from other sources")	21,000	
Winnings from races (taxable under the head "Income from other sources")	<u>25,000</u>	<u>76,000</u>
		13,41,000
Less: Depreciation allowable under the Income-tax Rules, 1962		<u>50,000</u>
		<u>12,91,000</u>

Notes :

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

2. Computation of "Income from other sources"

Particulars	₹
Interest on debentures	21,000
Winnings from races	<u>25,000</u>
	<u>46,500</u>

Note: In point no.9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is ₹ 50,000. It has been assumed that, in the said figure of ₹ 50,000, only proportional depreciation (i.e., 50% for business purposes) has been included in respect of motor car.

- (b) (i) (a) For a currency, when exchanged from, or to, Indian Rupees (INR), the value shall be equal to the difference in the buying rate or the selling rate, as the case may be, and the Reserve Bank of India (RBI) reference rate for that currency at that time, multiplied by the total units of currency.

Hence, in the given case, value of taxable service would be as follows:-
(RBI reference rate for \$ – Selling rate for \$) × Total units of US \$
= ₹ (66-65) × 8,500 = ₹ 8,500

- (b) If the RBI reference rate for a currency is not available, the value shall be 1% of the gross amount of Indian Rupees provided or received, by the person changing the money.

Hence, in the given case, value of taxable service would be as follows:-

1% of ₹ (65 × 8,500) = ₹ 5,525

- (ii) Where neither of the currencies exchanged is Indian Rupee, the value shall be equal to 1% of the lesser of the two amounts the person changing the money would have received by converting any of the two currencies into Indian Rupee on that day at the reference rate provided by RBI.

Hence, in the given case, value of taxable service would be 1% of the lower of the following:-

(a) US dollar converted into Indian rupees = \$ 8,500 × ₹ 67
= ₹ 5,69,500

(b) UK pound converted into Indian rupees = £ 4,250 × ₹ 90
= ₹ 3,82,500

Value of taxable service = 1% of ₹ 3,82,500
= ₹ 3,825

(c) Computation of VAT liability

Particulars	₹
Purchase price of goods acquired from local market excluding VAT (input tax credit does not form part of cost of production)	50,00,000
₹ $\left[52,00,000 \times \frac{100}{104} \right]$	
Transportation, insurance etc.	<u>25,000</u>
Cost of production	50,25,000
Profit @ 12% on cost of production	<u>6,03,000</u>

Total Sales	<u>56,28,000</u>
Output VAT payable @ 12.5%	7,03,500
Less: Input tax credit [VAT paid on goods acquired from local market is eligible for input tax credit]	<u>2,00,000</u>
Net VAT payable	<u>5,03,500</u>

2. (a) The eligible exemption under section 10(13A) in respect of house rent allowance received would be least of the following:

	Particulars	₹	₹
(a)	Actual house rent allowance (HRA) received		1,10,000
(b)	Excess of rent paid over 10% of basic salary		
	Rent paid (12,000 x 12)	1,44,000	
	Less: 10% of basic pay (i.e. 10% of ₹ 1,50,000)	<u>15,000</u>	1,29,000
(c)	50% of salary (i.e. 50% of ₹ 1,50,000)		75,000

Least of the above is ₹ 75,000.

The house rent allowance received by Mr. Rahul would be exempt to the extent of ₹ 75,000 under section 10(13A). The balance of ₹ 35,000 is includible in his total income.

- (i) **Perquisite value in respect of concessional accommodation**

As per rule 3(1), where the accommodation is taken on lease or rent by the employer, the actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower, as reduced by the rent, if any, actually paid by the employee is the value of the perquisite.

(a) Actual rent paid by the employer = ₹ 12,000 x 12 = ₹ 1,44,000

(b) 15% of salary = 15% of basic pay plus special allowance = 15% of ₹ 2,50,000 = ₹ 37,500

Lower of the above is ₹ 37,500, which should be reduced by the rent of ₹ 18,000 paid by the employee (i.e. 1,500 x 12 = ₹ 18,000). The perquisite value is, therefore, ₹ 19,500.

- (ii) We have to see the cash flow from both the options to find out which one is more beneficial.

Particulars	₹	₹
Option 1: HRA		
Cash inflows [Basic Pay + HRA + Special Allowance]		3,60,000

Less: Cash outflows:		
Rent paid	1,44,000	
Tax (See Working Note 1 below)	<u>8,755</u>	<u>1,52,755</u>
Net cash flow		<u>2,07,245</u>
Option 2: Concessional accommodation		
Cash inflows [Basic Pay + Special Allowance]		2,50,000
Less: Cash outflows:		
Rent recovery	18,000	
Tax (See Working Note 2 below)	<u>7,159</u>	<u>25,159</u>
.		<u>2,24,841</u>

Since the net cash flow is higher in Option 2, Mr. Rahul should opt for Concessional Accommodation, which would be more beneficial to him.

Working Notes:

1. Computation of tax under Option 1 (HRA):

Particulars	₹
Salary:	
Basic Pay	1,50,000
HRA (taxable)	35,000
Special allowance	<u>1,00,000</u>
Total salary	<u>2,85,000</u>
Tax on ₹ 2,85,000	8,755

2. Computation of tax under Option 2 (Concessional accommodation)

Particulars	₹
Salary:	
Basic Pay	1,50,000
Special allowance	1,00,000
Concessional accommodation	<u>19,500</u>
Total salary	<u>2,69,500</u>
Tax on ₹ 2,69,500	7,159

(b) The important points to be kept in mind while paying service tax are as follows:

1. Service tax is to be paid on the value of taxable services which is charged by an assessee. Any income tax deducted at source is included in the charged

amount. Therefore, service tax is to be paid on the amount of income tax deducted at source also.

For example, if invoice is for ₹ 9,000 and payment received is ₹ 8,500 after deducting a TDS of ₹ 500, service tax will be payable on ₹ 9,000.

2. Payment should be rounded off in multiple of rupees.
 3. The date of presentation of cheque to the bank shall be deemed to be date on which service tax has been paid subject to the realization of the cheque.
- (c) Under the VAT system, trust has been reposed on tax payers, as there will be no regular assessment of all VAT returns, but only a few VAT returns will be taken up for scrutiny assessment. In other cases, the return filed by the trader will be accepted. It will not be also seen whether proper records have been maintained by the trader.

As a consequence, a check on compliance becomes essential. Chartered Accountants can ensure tax compliance by:-

- (i) helping the client in systematic record keeping;
 - (ii) helping the client in interpretation of the provisions of VAT law, and
 - (iii) performing audit of VAT accounts.
 - (iv) reporting the under-assessment, if any, made by the dealer requiring additional payment or
 - (v) reporting any excess payment of tax warranting refund to the tax payers.
3. (a) (i) As per section 139(4C), a registered trade union referred to in section 10(24)(b) must file its return of income if the total income exceeds the basic exemption limit without giving effect to the provisions of section 10.
- Since the total income of the trade union before giving effect to the exemption under section 10(24), is less than the basic exemption limit of ₹ 2,00,000, it need not file its return of income for the A.Y. 2013-14.
- (ii) As per section 139(4A), a charitable trust registered under section 12AA must file its return of income, if its total income computed as per the provisions of the Income-tax Act, 1961, without giving effect to the provisions of sections 11 and 12, exceeds the maximum amount which is not chargeable to income-tax. Since the total income of the charitable trust exceeds ₹ 2,00,000, it has to file its return of income for the A.Y. 2013-14.
- (iii) As per third proviso to section 139(1), every company or firm shall furnish on or before the due date the return in respect of its income or loss in every previous year. Since LLP is included in the definition of "firm" under the Income-tax Act, 1961, it has to file its return mandatorily, even though it has incurred a loss.

(iv) Section 139(4C) enjoins that, a university referred to in section 10(23C), should file the return of income if its total income without giving effect to the exemption under section 10, exceeds the basic exemption limit. The provisions of the Act will apply as if it were a return required to be furnished under section 139(1). In the given case, since the total income of the University, before giving effect to the exemption, exceeds the basic exemption limit, it has to file its return of income.

(b) An insurer carrying on life insurance business has the option to pay tax:

- (i) on the gross premium charged from a policy holder reduced by the amount allocated for investment, or savings on behalf of policy holder, if such amount is intimated to the policy holder at the time of providing of service;
- (ii) Where amount of the gross premium allocated for investment or savings on behalf of policy holder is not intimated to the policy holder at the time of providing of service:-

First year	on 3% of the gross amount of premium charged
Subsequent year	on 1.5% of the gross amount of premium charged

towards the discharge of his service tax liability instead of paying service tax at the rate of 12%.

However, such option shall not be available in cases where the entire premium paid by the policy holder is only towards risk cover in life insurance.

(c) VAT system has many advantages like no tax evasion, transparency, certainty, reduction in cascading effect of taxes etc. However, since the VAT is imposed or paid at various stages and not at last stage, it increases the working capital requirements and the interest burden on the same. In this way, it may be considered to be non-beneficial as compared to the single stage-last point taxation system though to a certain extent, this rigour can be brought down through input credits on purchases.

4. (a) Computation of Total Income of Mr. Adinath, Mrs. Aruna and their minor son for the A.Y. 2013-14

Particulars	Mr. Adinath (₹)	Mrs. Aruna (₹)	Minor Son (₹)
Salary income (of Mrs. Aruna)	-	2,64,000	-
Pension income (of Mr. Adinath) (₹ 15,000×12)	1,80,000	-	-
Income from House Property [See Note (3) below]	48,000	-	-
Income from other sources			

Interest on Mr. Adinath's fixed deposit with Bank of India (₹ 1,00,000×9%) [See Note (1) below]	9,000	-	-	-
Commission received by Mrs. Aruna from a partnership firm, in which Mr. Adinath has substantial interest [See Note (2) below]	32,000	41,000	-	-
Income before including income of minor son under section 64(1A)		2,69,000	2,64,000	-
Income of the minor son from the investment made in the business out of the amount gifted by Mr. Adinath [See Note (4) below]		16,500	-	-
Income of the minor son through a business activity involving application of his skill and talent [See Note (5) below]		-	-	35,000
Total Income		2,85,500	2,64,000	35,000

Notes:

- (1) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 9,000 transferred by Mr. Adinath to Mr. Bholenath shall be included in the total income of Mr. Adinath.
- (2) As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

In this case, the commission income of ₹ 32,000 received by Mrs. Aruna from the partnership firm has to be included in the total income of Mr. Adinath, as Mrs. Aruna does not possess any technical or professional qualification for earning such commission and Mr. Adinath has substantial interest in the partnership firm as he holds 60% share in the firm.
- (3) According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an

agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. Adinath shall be deemed to be the owner of the flat gifted to Mrs. Aruna and therefore, the income arising from the same shall be computed in the hands of Mr. Adinath.

Note: The provisions of section 56(2)(vii) would not be attracted in the hands of Mrs. Aruna, since she has received immovable property without consideration from a relative i.e., her husband.

- (4) As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child.

Therefore, the income of ₹ 18,000 received by minor son from the investment made out of the sum gifted by Mr. Adinath shall, after providing for exemption of ₹ 1,500 under section 10(32), be included in the income of Mr. Adinath, since Mr. Adinath's income of ₹ 2,69,000 (before including the income of the minor child) is greater than Mrs. Aruna's income of ₹ 2,64,000. Therefore, ₹ 16,500 (i.e., ₹ 18,000 – ₹ 1,500) shall be included in Mr. Adinath's income. It is assumed that this is the first year in which clubbing provisions are attracted.

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

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

Therefore, the income of ₹ 35,000 derived by Mr. Adinath's minor son through a business activity involving application of his skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor son.

4 (b) Computation of interest on delayed payment of service tax

Particulars	LMN Ltd.	Mr. Sharad
Service tax liability	₹ 1,25,600	₹ 2,18,000
Delay in payment of service tax	20 days	30 days
Value of taxable services in the previous financial year	₹ 50,00,000	₹ 65,00,000

Rate of interest	15%	18%
Interest	$[1,25,600 \times (15/100) \times (20/365)] = ₹ 1,032$	$[2,18,000 \times (18/100) \times (30/365)] = ₹ 3,225$

Delay in payment of service tax attracts interest @ 18%. However, the applicable rate gets reduced to 15% for service providers whose turnover of services does not exceed ₹ 60 lakh during any of the years covered in the notice or the preceding financial year.

(c) Benefits of composition scheme for a dealer:-

- VAT system requires detailed accounting and record keeping which increases the labour and the compliance cost. The composition scheme saves a lot of labour and efforts in keeping records thereby reducing the cost of doing business. Under this scheme, a very small amount of tax is payable.
- Composition scheme simplifies the calculation of tax liability of a dealer. Moreover, there is a simple return form to cover longer return period.

Drawbacks of composition scheme for a dealer:-

- The dealer under a composition scheme cannot avail input tax credit and issue tax invoices in order to pass on tax credit. This adds to the cost of the goods sold by him.
- As the purchaser would not get any tax credit for the purchases made by him from the dealer operating under the composition scheme, the purchasers desirous of availing input tax credit on their purchases may not prefer to buy from composition dealers. Hence, the profitability of the dealer may get affected.

5. (a) Computation of taxable income of Mrs. Pari from gifts for A.Y.2013-14

Sl. No.	Particulars	Taxable amount (₹)	Reason for taxability or otherwise of each gift
1.	Relatives and friends	Nil	Gifts received on the occasion of marriage are not taxable.
2.	Cousin of Mrs. Pari's mother	40,000	Cousin of Mrs. Pari's father is not a relative. Hence, the cash gift is taxable.
3.	Friend	Nil	Ipad is not included in the definition of "property" as per <i>Explanation</i> to section 56(2)(vii). Hence, it is not taxable.
4.	Elder brother of husband's	35,000	Sister of husband's grandmother is not a relative. Hence, the cash gift is

5.	grandfather		taxable.
	Friend	<u>15,000</u>	Cash gift from friend is taxable.
	Aggregate value of gifts	<u>90,000</u>	

Since the sum of money received by Mrs. Pari without consideration during the previous year 2012-13 exceeds ₹ 50,000, the whole of the amount is chargeable to tax under section 56(2)(vii) of the Income-tax Act, 1961.

- (b) Where an assessee has issued an invoice, or received any payment, against a service to be provided which is not so provided by him either wholly or partially for any reason or where the amount of invoice is renegotiated due to deficient provision of service, or any terms contained in a contract, the assessee may take the credit of such excess service tax paid by him, if the assessee:
- has refunded the payment or part thereof, so received for the service provided to the person from whom it was received; or
 - has issued a credit note for the value of the service not so provided to the person to whom such an invoice had been issued.
- (c) (i) Purchases made by Goyal & Co. from Aryan Enterprises are not eligible for input tax credit as purchases from registered dealer who opts for composition scheme under the provisions of VAT are not eligible for input tax credit.
- (ii) Purchases made by Anil are not eligible for input tax credit as the purchases where invoice does not show the amount of tax separately are not eligible for input tax credit.

6. (a) Computation of Capital Gains of Mr. Gopal for the A.Y. 2013-14

Particulars	₹	₹
Full value of consideration [See Notes (i) & (ii) below]		22,00,000
Less: Indexed Cost of acquisition [See Note (iii) below]		
Indexed cost of land (₹ 1,50,000 × 852/100)	12,78,000	
Indexed cost of building (₹ 3,50,000 × 852/447)	<u>6,67,114</u>	<u>19,45,114</u>
Long-term capital gain		2,54,886
Less: Brought forward short-term capital loss set off [See Note (iv) below]		<u>2,00,000</u>
Taxable capital gains (Amount to be invested in RECL bonds to get full exemption from tax on capital gains) [See Note (v) below]		<u>54,886</u>

Notes :

- (i) As per section 50C(1), where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the value adopted by the Stamp Valuation Authority for the purpose of payment of stamp duty, such value adopted by the Stamp Valuation Authority shall be deemed to be the full value of the consideration received or accruing as a result of such transfer. Accordingly, full value of consideration would be ₹ 25 lakhs in this case.
 - (ii) As per section 50C(3), where the valuation is referred by the Assessing Officer to Valuation Officer and the value ascertained by such Valuation Officer is more than the actual consideration but less than the stamp duty value, then the value as per the report shall be adopted as the consideration received or accruing as a result of the transfer. Since, the value ascertained by the Valuation Officer (i.e. ₹ 22 lakhs) is more than the actual consideration of ₹ 20 lakhs but less than the value adopted by the Stamp Valuation Authority (i.e., ₹ 25 lakhs), the full value of consideration in this case would be ₹ 22 lakhs.
 - (iii) Since the cost of land acquired by Gopal on 1.4.1981 is not given in the question, the fair market value as on 1.4.1981 is taken as the cost of acquisition. Indexation benefit is available since land and building are both long-term capital assets, as they are held by Gopal for more than 36 months.
 - (iv) As per section 74, brought forward unabsorbed short term capital loss can be set off against any capital gains, short term or long term, for 8 assessment years immediately succeeding the assessment year for which the loss was first computed. Therefore, short-term capital loss on sale of shares during the F.Y.2008-09 can be set-off against the current year long-term capital gains on sale of land and building.
 - (v) As per section 54EC, an assessee can avail exemption in respect of long-term capital gains, if such capital gains are invested in the bonds issued by the RECL redeemable after 3 years. Such investment is required to be made within a period of 6 months from the date of transfer of the asset. The exemption shall be the amount of capital gains or the amount of such investment made, whichever is less. Therefore, in this case if Gopal invests the entire capital gains of ₹ 54,886 (rounded off to ₹ 55,000) in bonds of RECL, he can get full exemption from tax on capital gains.
- (b) The assessee has been provided a facility to make advance payment of service tax on his own and adjust the amount so paid against the service tax which he is liable to pay for the subsequent period. Such facility shall be available when the assessee:

- (i) intimates the details of the amount of service tax paid in advance, to the Jurisdictional Superintendent of Central Excise within a period of 15 days from the date of such payment, and
- (ii) indicates the details of the advance payment made, and its adjustment, if any in the subsequent return to be filed under section 70.

(c) Computation of net VAT liability and total sales value

	₹
Intra-State purchases of raw material (excluding VAT ₹ 6,000)	1,50,000
Purchases of raw materials from unregistered dealer [Refer Note 1]	80,000
High seas purchases of raw materials [Refer Note 2]	2,03,500
Purchase of raw materials from other States [Refer Note 3]	51,000
Transportation charges, wages and manufacturing expenses	<u>1,45,000</u>
Cost of production	6,29,500
Add : Profit margin 15%	<u>94,425</u>
	7,23,925
Add: VAT @ 12.5%	<u>90,491</u>
Total sales value	<u>8,14,416</u>

Computation of VAT liability:-	₹	₹
VAT on above sales price @ 12.5%		90,491
Less: Set off of VAT on purchases:		
From high seas	Nil	
From intra-State [Refer Note 4]	6,000	
From inter-State	Nil	
From unregistered dealer	Nil	<u>6,000</u>
Net VAT payable		<u>84,491</u>

Notes:

1. Input tax credit is not available on the purchases of raw materials from unregistered dealer. Hence, VAT paid thereon is a part of cost of production.
2. Duty paid on high seas purchases i.e., imports is not a State VAT, so the input tax credit is not available in respect of the same and it is a part of cost of production.
3. Set-off of tax paid on inter-state purchases is not allowed.

4. Tax on intra-State purchases is ₹ 6,000. As credit of the same will be available, it is not included in the cost of production.
5. Interest on loan has been excluded for calculating the cost of production on the presumption that the loan is availed for purposes other than working capital.
6. It has been assumed that the entire production is sold.
7. (a) (i) (1) As per *Circular No. 4/2008 dated 28th April, 2008* issued by the CBDT, the service tax paid by the tenant does not partake the nature of income of the landlord. The landlord only acts as a collecting agency for collection of service tax. Therefore, tax deducted at source under section 194-I would be required to be made on the amount of rent paid or payable excluding the amount of service tax, i.e. tax has to be deducted under section 194-I on ₹ 9 lakh.
 - (2) Tax is deductible @ 10% under section 194-I.
 - (3) Hence, in the given case, TDS under section 194-I would amount to ₹ 7,500, to be deducted every month.
 - (4) Tax deducted should be deposited within prescribed time i.e., on or before seven days from the end of the month in which the deduction is made and upto 30th April for the month of march.
- (ii) (1) Advance tax is payable by an assessee on his/its total income, which includes capital gains and casual income like income from lotteries, crossword puzzles etc.
 - (2) Since it is not possible for the assessee to estimate his capital gains, income from lotteries, etc., it has been provided that if any such income arises after the due date for any installment, then, the entire amount of tax payable (after considering tax deducted at source) on such capital gains or casual income should be paid in the remaining installments of advance tax which are due.
 - (3) Where no such installment is due, the entire tax should be paid by 31st March of the relevant financial year.
 - (4) If the entire tax liability is so paid, no interest liability under section 234C would arise for deferment of advance tax,

Note: In case of casual income (winnings from lotteries, crossword puzzles, card games, gambling, betting, races including horse races etc.), the entire tax liability is fully deductible at source@30% under section 194B and 194BB. Therefore, advance tax liability would arise only in respect of the education cess and secondary and higher education cess element of such tax, if the same, along with tax liability in respect of other income, if any, is ₹ 10,000 or more.

- (b) Section 67(1)(iii) and Service Tax (Determination of Value) Rules, 2006 make provisions for valuation even when consideration is not ascertainable. However, these provisions apply only when there is consideration. If there is no consideration i.e., in case of free service, section 67 and Service Tax (Determination of Value) Rules, 2006 cannot apply.

Thus, no service tax is payable when value of service is zero. In other words, if the value is zero, the tax will also be zero even though the service may be taxable. However, this principle applies only when there is really a 'free service' and not when its cost is recovered through other means.

Therefore, in the light of the aforesaid discussion, it may be inferred that, the service tax is not payable on service rendered by Miss Tanya to Mr. Raj Kundra as Miss Tanys has not charged any fee from Mr. Raj Kundra.

- (c) (i) The statement is false. Taxpayer's Identification Number (TIN) is a 11 digit numeral. The first two characters represent State Code as used by the Union Ministry of Home Affairs and the next nine characters will be different in different states.
- (ii) The statement is true. Under VAT, a dealer assesses the VAT liability on his own and submits the return. The dealer is deemed to be self-assessed on the basis of the return filed by him if he does not receive any notice proposing departmental audit of his books of account within the time-limit specified in the VAT Act of the respective State.