

BATCH : ALL BATCHES		
DATE: 02.10.2017	MAXIMUM MARKS: 100	TIMING: 3 Hours

Taxation

Answer 1:

(a) Computation of income of X:

	Rs.	
Income from other sources:		
- Purchase of paintings for inadequate consideration [paintings are purchased as stock-in-trade, and not as capital asset, provisions of section 56(2)(vii) not applicable]	Nil	
- Purchase of jewellery for inadequate consideration [jewellery is purchased as capital asset, provisions of section 56(2)(vii) are applicable] (Rs. 9,10,000 – Rs. 8,00,000)	1,10,000	
- Gift received by minor son [since gift is received from a "relative", provisions of section 56(2) (vii) not applicable]	Nil	
- Gift received by minor daughter [it is income of minor daughter, but it will be clubbed in the hands of X after availing exemption of Rs. 1,500 under section 10(32)]	58,500	
Net income	1,68,500	(1.25x4=5)

(b)

	Rs.	Rs.	
Salary income		8,00,000	½M
Income from house property			
House I	70,000		
House II	(-) 52,000		
House III	(-) 25,000	(-) 7,000	1M
Business income			
Business I	2,00,000		
Business II	(-) 75,000	1,25,000	1M
Business III (speculative)	(-) 1,60,000		
Business IV (speculative)	72,000		
Speculative loss (to be carried forward)	(-) 88,000		
Capital gains			
Short-term capital loss	(-)83,000		
Long-term capital gain	70,000	Nil	1M
Short-term capital loss (to be carried forward)	(-) 13,000		
Income from other sources			
Income from card games	80,000		
Income from betting	70,000		
Income from owning and maintaining race camels	2,00,000	3,50,000	1M
Loss from maintaining race horses (to be carried forward)	(-) 1,20,000		
Net income		(12,68,000)	½M

(c) Service tax liability of X Ltd. of August 2016 shall be calculated as follows:

	Rs.
Rent of residential property (not subject to service tax)	-
Rent of office space	32,00,000
Rent of cinema house	26,00,000

Total	58,00,000
Service tax @ 15%	8,70,000

4 M

Notes:

- Salary of caretaker and expenditure on repair are not deductible. These expenses are not incurred as an agent of tenant. These are incurred for providing taxable service.
- Advance rent received on September 1, 2016 will be taxable for the month of September, 2016.
- Rent of office space of August 2016 will be taxable on invoice basis.

1M

(d)

- Consideration received by an employee from his employer, is not subject to service tax.
- Service provider and service recipient is the same person (branch of the same company). Service tax is not applicable.
It is applicable only if service provider (branch) is situated in a non-taxable territory and the service recipient (branch) is situated in a taxable territory.
- Service provider (branch) is situated in a non-taxable territory. The service recipient (branch) is also situated in a non-taxable territory. Service tax is not applicable.
- Yes.

(1.25×4= 5M)

Answer 2:

- (a) X is a foreign citizen. One of his grandfathers was born in undivided India in 1932. Consequently, he is a person of Indian origin. He comes to India on a visit from April 7, 2016 to October 4, 2016. His total stay in India during the previous year 2016-17 is 181 days (i.e., 24 days + 31 days + 30 days + 31 days + 31 days + 30 days + 4 days). He can become resident in India only if he is in India for at least 182 days. He is, therefore, non-resident in India for the assessment year 2017-18. Income of X for the assessment year 2017-18 shall be calculated as follows:

3.5 M

	Nature of income	Rs.
Salary of Rs. 14,34,000 for rendering service in Pakistan	Foreign income	Nil
Salary of Rs. 6,63,000 for rendering service in India	Indian income	6,63,000
Business income of Rs. 9,95,000	Foreign income*	Nil
Rental income from Mumbai property (assumed that it is calculated after deducting standard deduction 30%)	Indian income	2,10,000
Business income of Rs. 10,72,000	Foreign income	Nil
Birthday gift	Indian income	74,000
		9,47,000

(0.75×6 =4.5M)

- (b) Computation of VAT liability of X :

	Rs.
Invoice price of inputs acquired from local market (including VAT)	58,24,000
VAT on input (Rs. 58,24,000 × 4 ÷ 104)	2,24,000

Purchase price (excluding VAT)	56,00,000	2M
Add: Transportation, insurance, warehousing and handling cot incurred by X	18,000	
Cost price of goods	56,18,000	2M
Profit margin @ 18%	10,11,240	
Sale price before VAT	66,29,240	
VAT on sale @ 12.5% of Rs. 66,29,240	8,28,655	2M
Less: VAT on purchase	2,24,000	2M
VAT payable by X to the Government	6,04,655	

Answer 3:

(a)

	Rs.	
Basic salary [(Rs. 52,000 × 7) + (Rs. 53,000 × 2)]	4,70,000	} Equally
Dearness allowance	90,000	
House rent allowance (Rs. 17,000 × 9)	1,53,000	
Leave travel concession (Rs. 42,000 – Rs. 39,000)	3,000	
Gratuity [see Note 1]	3,99,000	
Leave encashment (no exemption as he has already availed an exemption of Rs. 3,00,000)	48,000	
Pension (from January 1, 2017 to February 29, 2017) (Rs. 10,000 × 2)	20,000	
Pension (for March 2017) (Rs. 10,000 × 1 × 0.75)	7,500	
Commuted pension (nothing is taxable if commutation is availed for 1/3 of pension in case gratuity is received or ½ of pension in case gratuity is not received)	Nil	
Provident fund balance (not taxable in the case of recognized provident fund if an employee has rendered service of 5 years or more)	Nil	
Gift from employer at the time of retirement (Rs. 38,000 – Rs. 5,000)	33,000	} 5M
Salary	12,23,500	
Income from house property	(-)28,000	
Business income	9,20,000	
Income from other sources [see Note 2]	1,23,960	} 1M
Gross total income	22,39,460	
Less: Deduction under section 80C [12% of (Rs.4,70,000 + 43% of Rs. 90,000) + Rs. 1,05,000] subject to a maximum of Rs. 1,50,000	1,50,000	
Net income (rounded off)	20,89,460	} 1M
<i>Tax on net income</i>		
Income – tax*	4,46,838	} 1M
Add: Education cess	8,937	
Add: Secondary and higher education cess	4,468	
Tax liability (rounded off)	4,60,240	

Notes:

1. Computation of taxable gratuity – Gratuity is exempt under section 10(10)(ii) as follows:

- (a) Rs. 6,17,885 [(Rs.53,000+Rs.10,000) × 15 ÷ 26 × length of service : 17 years];
- (b) Rs. 10,00,000;
- (c) Rs. 10,16,885,

* Rebate under section 87A is not available as income of the assessee is more than Rs. 5,00,000. Surcharge on income-tax is not applicable as income of the assessee does not exceed Rs. 1 crore.

Whichever is lower is exempt. Consequently, Rs. 6,17,885 is exempt is the balance of Rs. 3,99,000 is chargeable to tax.

2. **Gift-in-kind:** Gift-in-kind received from a person other than relative and employer, is taxable in some cases under section 56(2) (vii) under the head "Income from other sources", if a few conditions are satisfied. For detailed discussion, see para 114.1 of Students' Guide to Income-tax. In this case, X has received from his colleagues a gift of music system and painting. Music system received by a person without any consideration is not chargeable to tax in the hands of recipient. However, if a person gets a painting (of above Rs. 50,000) without consideration, the fair market value of the painting is chargeable to tax.

(b)

	Rs.	
Machine price (excluding taxes and duties)	34,00,000	(1×7 = 7M)
Adjustments:		
Add: Installation and erection	Nil	
Add: Packing charges	12,000	
Add: Design & Engg. charges	70,000	
Add: Cost of material supplied free of charge by buyer	4,000	
Add: Pre-delivery inspection charges	80,000	
Less: Cash discount (3% of 34,00,000)	(-)1,02,000	
Add: Bought out accessories (these are not required for functioning of machine, hence not included)	Nil	
Assessable value	34,64,000	
Excise duty @ 12.5%	4,33,000	

Answer 4:

(a)

	House I (deemed to be let out) Rs.	House II (self- occupied) Rs.
Computation of gross annual value		
Step-I : Reasonable expected rent of the property [MV or FR, whichever is higher, but subject to maximum of SR]	Nil	
Step-II : Rent received/receivable after deducting unrealized rent but before adjusting loss due to vacancy	24,000	
Step-III : Amount computed in Step I or Step II, whichever is higher	Nil	
Step-IV : Gross annual value is Step III minus Step IV	24,000	Nil
Less: Municipal tax	4,000	Nil
Net annual value	20,000	Nil
Less: Deductions under section 24 – Standard deduction @ 30%	6,000	Nil
Interest from borrowed capital Income	1,000	4,000
Income	13,000	(-)4,000
	(2M)	(2M)

Computation of income of Mrs. X:

	Rs.	
Salary (Rs. 24,000 × 12)	2,88,000	
Income from house property (Rs. 13,000 – Rs. 4,000)	9,000	
Business income	5,60,000	
Gross total income	8,57,000	2M
Less: Deduction under section 80C	1,20,000	
Net income	7,37,000	1M
Tax on net income		
Income-tax*	72,400	
Add: Education cess	1,448	
Add: Secondary and higher education cess	724	
Tax liability (rounded off)	74,570	1M

(b) Computation of service tax liability of G amount inclusive of service tax

	Rs.	
Bill for audit fee after deduction of amount of credit note	8,00,000	
Advance received from S Ltd.	4,00,000	
Service provided free of cost to brother	-	
Fees received from T Ltd for appearance before the CESTAT Tribunal	1,40,000	
Amount received from college in the course of part time employed (not a service)	-	
Total	13,40,000	(1 × 5 = 5M)
Service tax Rs. 13,40,000 × 15/115	1,74,782	3M

Answer 5:**(a) Computation of total income of Balamurugan for the year ended 31.03.2017**

Particulars	Rs.	Rs.	
Salaries	60,000		
Less: Loss from house property	(15,000)		
Net Salary (after set off of loss from house property)		45,000	} 1M
Profits and gains of business or profession			
Speculation business income	1,00,000		
Less: Business loss set-off	(1,35,000)		
Net business loss to be set-off against long-term capital gain	(35,000)		} 1M
Capital Gains			
Long term capital gain	70,000		
Less: Business loss set-off	(35,000)		
Long term capital gain after set off of business loss		35,000	} 1M
Income from other sources			
Lottery winnings (Gross)		5,00,000	
Total Income		5,80,000	

* Rebate under section 87A is not available as income of the assessee is more than Rs. 5,00,000. Surcharge on income-tax is not applicable as income of the assessee does not exceed Rs. 1 crore.

Computation of tax liability

Particulars	Rs.
On total income of Rs. 80,000 (excluding lottery winning)	Nil
On lottery winnings of Rs. 5,00,000 @ 30%	1,50,000
Add: Edu. Cess @ 2% and Secondary and higher education cess @1%	4,500
Total tax liability	1,54,500

2M

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since the remaining tax liability of Rs. 4,500 (Rs. 1,54,500 – Rs. 1,50,000) is less than Rs. 10,000, advance tax liability is not attracted.

2M

Notes:

- (1) The basic exemption limit of Rs. 2,50,000 has to be first exhausted against salary income of Rs. 45,000. The unexhausted basic exemption limit of Rs. 2,05,000 can be adjusted against long-term capital gains of Rs. 35,000 as per section 112, but not against lottery winnings which are taxable at a flat rate of 30% under section 115BB.
- (2) The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining installments of advance tax which are due. Where no such installment is due, the entire tax should be paid by 31st March, 2017. The first proviso to section 234C(1) would be attracted only in case of non-deduction or short-deduction of tax at source under section 194B.

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(b)

	Rs.
Assessable value	34,00,000
Add: Basic custom duty @ 10% on Rs. 34,00,000	3,40,000
Total	37,40,000
Add: CVD @ 12.5%	4,67,500
Add: Education cess @ 3% on Rs. (3,40,000 + 4,67,500)	24,225
	42,31,725
Special CVD @ 4% on Rs. 42,17,700	1,69,269
Total duty payable (Rs. 3,40,000 + Rs. 4,67,500 + 24,225 + 1,69,269+ 10,00,994)	44,00,994

1M

2M

2M

2M

Note: The rate of duty shall be :

- The rate in force on the date of presentation of bill of entry, or
 - The rate in force on the date of entry inward.
- Whichever is later.

1M

Answer 6:

(a) Computation of capital gains on slump sale of Unit 1

Particulars	Rs.
Sale value	25,00,000
Less: Expenses on sale	28,000
Net sale consideration	24,72,000
Less: Net worth (See Note 1 below)	12,50,625
Long-term capital gain	12,21,375

Notes:

1. Computation of net worth of Unit 1 of Akash Enterprises

Particulars	Rs.	Rs.
Building (excluding Rs. 3 lakhs on account of revaluation)		9,00,000
Machinery		3,00,000
Debtors		1,00,000
Patents (See Note 2 below)		28,125
Other assets (Rs. 1,50,000 – Rs. 50,000)		1,00,000
Total assets		14,28,125
Less: Creditors	37,500	
Bank Loan	1,40,000	1,77,500
Net worth		12,50,625

2. Written down value of patents as on 1.4.2016

Value of patents:	Rs.
Cost as on 1.7.2014	50,000
Less: Depreciation @ 25% for Financial Year 2014-15	12,500
WDV as on 1.4.2015	37,500
Less: Depreciation for Financial Year 2015-16	9,375
WDV as on 1.4.2016	28,125

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of Rs. 3 lakh and Rs. 9 lakh (Rs. 12 lakh – Rs. 3 lakh) represent the written down value of machinery and building, respectively, of Unit 1.

3. Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

(b)

- (i) **Yes.** Service provided by way of supply of farm labour relating to agriculture is covered in the negative list of services.
- (ii) **Yes.** Services by way of renting of residential dwellings for use as residence are covered in the negative list of services.
- (iii) **Yes.** Services of funeral, burial, crematorium or mortuary and transportation of the deceased are covered in the negative list of services.
- (iv) **No.** Service of transportation of passengers with or without accompanied

8M

belongings, by Railways in a class other than first class; or an air conditioned coach is covered in the negative list of services. Thus, service of transportation of passengers with or without accompanied belongings, by Railways in an air conditioned coach is not covered in the negative list of services.

(v) No. Services by way of transportation of goods by road, except the services of a goods transportation agency or a courier agency are covered in the negative list of services. Thus, services by way of transportation of goods by road by a goods transportation agency are not covered in the negative list of services.

(vi) No. Only selling of space for advertisements in print media is covered in the negative list of services. Thus, selling of space or time slots for advertisement broadcast by FM Radio will not be covered in the negative list of services.

(1.33 × 6 = 8M)

Answer 7:

(a) Computation of gross total income of Mr. Soohan for the A.Y.2017-18

Particulars	Rs.	Rs.	
Salaries			
Income from salary	3,00,000		
Less: Loss from house property set-off against salary income as per section 71	(40,000)	2,60,000	1M
Profits and gains of business or profession			
Income from sugar business	50,000		
Less: Brought forward loss from iron-ore business set-off as per section 72(1)	(50,000)	Nil	1M
Balance business loss of Rs. 70,000 of P.Y.2011-12 carried forward to A.Y.2018-19			
Capital gains			
Long term capital gain	40,000		
Less: Short term capital loss set-off	(40,000)	Nil	2M
Balance short-term capital loss of Rs. 20,000 to be carried forward Short-term capital loss of Rs. 10,000 under section 111A also to be carried forward			
Income from other sources			
Winnings from lottery	50,000		
Winnings from card games	6,000		
Bank interest	5,000	61,000	
Gross Total Income		3,21,000	2M
Losses to be carried forward to A.Y.2018-19			
Loss of iron-ore business	70,000		
Short term capital loss (Rs. 20,000 + Rs. 10,000)	30,000		1M

Notes:

- The following income are exempt under section 10 –
 - Dividend income [Exempt under section 10(34)], assuming that dividend is received from a domestic company.
 - Agricultural income [Exempt under section 10(1)].
 - Long-term capital gains on which STT is paid [Exempt under section 10(38)].

1M

2. It is presumed that loss from iron-ore business relates to P.Y.2011-12, the year in which the business was discontinued.

(b) Point of taxation and due date of payment of service tax

S. No.	Date of invoice	Date of payment	Point of taxation	Due date of payment
(i)	15-10-2015	10-11-2015	10-11-2015 (Note 1)	06-01-2016 (Note 2)
(ii)	20-10-2015	15-02-2016	21-01-2016 (Note 1)	31-03-2016 (Note 2)

Notes:

1. Rule 7 of POTR inter alia provides that in respect of services taxed on reverse charge basis, point of taxation is the date of making payment or the first day occurring immediately after 3 months from the date of invoice, whichever is earlier.
2. All assesses are mandatorily required to pay service tax electronically. In case of an individual assessee, due date for e-payment of service tax for a quarter in which service is deemed to be provided is the 6th day of the month immediately following said quarter. However, in case service is deemed to be provided in the quarter ending in March, the due date is 31st March [Rule 6 of the Service Tax Rules, 1994].

4M

- (c)** Section 73A of the Finance Act, 1994 casts an obligation on every person who has collected any amount, which is not required to be collected, from any other person, in any manner as representing service tax, to forthwith remit the same to the credit of the Central Government.
- Hence, Mr. Saravanan has to remit the amount collected mistakenly as service tax to the credit of the Central Government.

4M
