

(All Batches)		
DATE: 23.03.2017	MAXIMUM MARKS: 100	TIMING: 3 Hours

Taxation

Q. No. 1 is compulsory.

Wherever necessary suitable assumptions should be made by the candidates.

Working notes should form part of the answer.

Candidates are also required to answer any five questions from the remaining six questions.

Answer 1:

(a) Computation of total income and tax liability of Ms. Purvi for the A.Y. 2017-18

Particulars	Rs.	Rs.	} 1M
Income from house property (See Working Note 1)		57,820	
Profit and gains of business or profession (See Working Note 2)		9,20,200	
Income from other sources (See Working Note 3)		15,800	
Gross Total Income		9,93,820	
Less: Deductions under Chapter VI-A (See Working Note 4)		10,000	
Total Income		9,83,820	
Tax on total income			
Upto Rs. 2,50,000	Nil		
Rs. 2,50,001 – Rs. 5,00,000 @10%	25,000		
Rs. 5,00,001 - Rs. 9,83,820 @20%	96,764	1,21,764	
Add: Education cess @ 2%		2,435	
Secondary and higher education cess @ 1%		1,218	
Total tax liability		1,25,417	

Working Notes:

(1) Income from House Property

Particulars	Rs.	Rs.	} 2M
Gross Annual Value under section 23(1)	85,600		
Less: Municipal taxes paid	3,000		
Net Annual Value (NAV)	82,600		
Less: Deduction under section 24 @ 30% of NAV	24,780	57,820	

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head "Profits & Gains of Business or Profession"

Particulars	Rs.	Rs.	} 2M
Net profit as per Income and Expenditure account		9,28,224	
Add: Expenses debited but not allowable			
Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds Rs. 20,000	30,000		
(ii) Amount paid for purchase of car is not allowable under	80,000		
(ii) Municipal Taxes paid in respect of residential flat let out	3,000	1,13,000	
		10,41,224	

Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,500	} 4M
		10,51,724	
Less: Income credited but not taxable under this head:			
(i) Dividend on shares of Indian companies	10,524		
(ii) Income from UTI	7,600		
(iii) Honorarium for valuation of answer papers	15,800		
(iv) Rent received from letting out of residential flat	85,600	1,19,524	
		9,32,200	
Less: Depreciation on motor car @15% (See Note (i) below)		12,000	
		9,20,200	

Notes :

(i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).

(ii) Incentive to articled assistants for passing IPCC examination in their first attempt is deductible under section 37(1).

(iii) Repairs and maintenance paid in advance for the period 1.4.2017 to 30.9.2017 i.e. for 6 months amounting to Rs.1,000 is allowable since Ms. Purvi is following the cash system of accounting.

(iv) Rs. 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

Particulars	Rs.	Rs.	} 2M
Dividend on shares of Indian companies	10,524		
Less: Exempt under section 10(34)	10,524	Nil	
Income from UTI	7,600		
Less: Exempt under section 10(35)	7,600	Nil	
Honorarium for valuation of answer papers		15,800	
		15,800	

(4) Deduction under Chapter VI-A :

Particulars	Rs.	} 1M
Deduction under section 80C (Investment in NSC)	10,000	
Deduction under section 80D (See Notes (i) & (ii) below)	Nil	
Total deduction under Chapter VI-A	10,000	

Notes:

(i) Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of "family" under section 80D.

(ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

(b) Since Legal Metrology Act, 2009 requires declaration of retail sale price on the package of shoes and shoes are also notified under section 4A of Central Excise Act, 1944 (RSP based valuation provisions), excise duty will be payable on the basis of RSP less abatement.

Particulars	Rs.
MRP marked on the package of a pair of shoes	2,000
Less: Abatement @ 25% of RSP [25% of Rs. 2,000]	500
Value for purpose of excise duty	1,500
Excise duty @ 12.5% [12.5% of Rs. 1,500]	187.50
Excise duty payable (rounded off)	188

5M

(c) As per section 66D of Finance Act, 1994, service of transportation of passengers, with or without accompanied belongings, by *inter alia*-

- (i) railways in a class other than an air conditioned coach;
- (ii) metro, monorail or tramway;
- (iii) metered cabs or auto rickshaws.

are included in the negative list of services.

Therefore in the given case, service tax levibility on the various passenger transportation services used by Mr. A will be determined as under:

- (i) Rail travel in AC train – Not covered under negative list and thus, liable to service tax.
- (ii) Travel in a car rented for the whole day on a lumpsum consideration – Since travel by only metered cabs is covered in negative list, travel in a car rented for the whole day on a lumpsum consideration will be liable to service tax.
- (iii) Metro travel – Covered in negative list and hence, not taxable.
- (iv) Air travel – Not covered under negative list and thus, liable to service tax.
- (v) Radio taxi travel – Not covered in negative list and thus, liable to service tax.
- (vi) Rail travel in sleeper class - Covered in negative list and hence, not taxable.

(0.83x6M)

Answer 2:

(a) The residential status of Mrs. Geetha and Mrs. Leena has to be determined on the basis of the number of days of their stay in India. Since Mrs. Geetha is settled in Malaysia since 1986, she would be a non-resident for A.Y.2017-18. Her visit to India for a month every year would not change her residential status. However, Mrs. Leena would be resident and ordinarily resident for A.Y.2017-18, since she is settled in India permanently since 1994. Based on their residential status, the total income of Mrs. Geetha and Mrs. Leena would be determined as follows:

2M

Computation of total income of Mrs. Geetha & Mrs. Leena for the A.Y. 2017-18

S. No.	Particulars	Mrs. Geetha (Non-Resident) (Rs.)	Mrs. Leena (Resident) (Rs.)
1.	Income from profession in Malaysia (set up in India) received there (Note 1)	-	-
2.	Profit from business in Delhi, but managed directly from Malaysia (Note 1)	40,000	-

3.	Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels (Note 1)	-	-
4.	Dividend from PQR Ltd. an Indian Company [Exempt under section 10(34)]	-	-
5.	Dividend from Malaysian Company received in Malaysia (Note 1)	-	8,000
6.	Cash gift received from a friend on Mrs. Leena’s 50th birthday Note: As per section 56(2)(vii), cash gifts received from a non-relative would be taxable, if the amount exceeds Rs. 50,000 in aggregate during the previous year.	-	51,000
7.	Agricultural income from land in Maharashtra [Exempt under section 10(1), both in the hands of non-resident and resident].	-	-
8.	Past foreign untaxed income brought to India [Not taxable, since it does not represent income of the P.Y.2016-17].	-	-
9.	Fees for technical services rendered in India, but received in Malaysia (Note 1)	25,000	-
10.	Income from a business in Pune (Mrs. Geetha receives 50% of the income in India) (Note 2)	12,000	15,000
11.	Interest on debentures in an Indian company (Mrs. Geetha received the same in Malaysia) (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 (Note 2)	12,000	8,000
	Gross Total income	1,22,500	1,21,500
	Less: Deductions under Chapter VIA		
	- Section 80C [Life insurance premium paid] [Assuming that premium paid is within the specified percentage (10% /20%, as the case may be) of capital sum assured]	-	30,000
	- Section 80TTA (In case of an individual, interest upto Rs. 10,000 from savings account with, inter alia, a bank is allowable as deduction under section 80TTA)	10,000	8,000
	Total Income	1,12,500	83,500

(3×2 = 6M)

Notes:

(1) As per section 5(1), global income is taxable, in case of a resident. However, as per section 5(2), only the following incomes are chargeable to tax, in case of a non-resident:

- (i) Income received or deemed to be received in India; and
- (ii) Income accruing or arising or deemed to accrue or arise in India.

Therefore, income from profession in Malaysia, rent from property in Malaysia and dividend from Malaysian company received in Malaysia by Mrs. Geetha, a non-resident, would not be taxable in India, since both the accrual and receipt are outside India.

However, profit from business in Delhi would be taxable in India in the hands of Mrs. Geetha, even though it is managed directly from Malaysia.

Further, by virtue of section 9(1)(vii), fees for technical services rendered in India would also be taxable in the hands of Mrs. Geetha, since it is deemed to accrue or arise in India.

- (2) The income referred to in S. No. 10, 11, 12 and 13 are taxable in the hands of both Mrs. Geetha and Mrs. Leena due to their accrual/deemed accrual in India, even though a part of income from business in Pune and the entire interest on debentures in Indian company is received by Mrs. Geetha outside India.

(b) Computation of Invoice value and Net VAT to be paid by Mr. Goenka for the FY 2015-16:

S.No.	Particulars	Rs.	
1.	Purchase value (interstate purchase) is Inclusive of CST @ 2% and hence Input Credit cannot be availed	1,02,000	} 2M
2.	Intra state purchase (Gross)	2,25,000	
3.	VAT paid on above at 12.50% (2,25,000×12.5/112.5)	25,000	} 2M
4.	Invoice Price (1,02,000 + 2,00,000*+87,500)	3,89,500	
5.	VAT payable on sale (3,89,500×12.5%)	48,688	} 1M
6.	Net VAT payable by the trade (5) – (3)	23,688	
7.	Invoice value to be charged (4) + (5)	4,38,188	} 1M

*2,25,000 – 25,000 = 2,00,000

Answer 3:

- (a) 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. } 4M

- (b)
- (i) Provisions for tax deduction at source under section 194BB @ 30% are attracted if the amount exceeds Rs. 10,000 in respect of income arising by way of winning a jackpot in horse races.
Tax to be deducted = Rs. 1,00,000 x 30% = Rs. 30,000
- (ii) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a firm to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% if the payment is made to an individual or HUF and 2% for others.
Assuming that sub -contractor to whom payment has been made is an individual and the aggregate amount credited during the year is Rs. 4,20,000, tax is deductible @ 1% on Rs. 4,20,000.
Tax to be deducted = Rs. 4,20,000 x 1% = Rs. 4,200
- (iii) As per section 194-I, tax is to be deducted @ 2% on payment of rent for plant and machinery, only if the payment exceeds Rs. 1,80,000 during the financial year. Since rent of Rs. 1,50,000 paid by a partnership firm does not exceed Rs. 1,80,000, tax is not deductible. } (1Mark each point)

- (iv) Under section 194E, the person responsible for payment of any amount to a non-resident sportsman for contribution of articles relating to any game or sport in India in a newspaper shall deduct tax @ 20%. Further, since Ricky Ponting is a non-resident, education cess @2% and secondary and higher education cess @ 1% on TDS would also be added. } 1M
 Therefore, tax to be deducted = Rs. 25,000 x 20.60% = Rs. 5,150.

(c) Computation of Assessable Value and Excise Duty payable

Particulars	Rs.	
Total Invoice Price	7,50,000	
Less:		
Cash Discount at 2%	15,000	} (1x4=4M)
Erection charges	50,000	
Insurance	8,000	
Outward Freight	17,000	
Value inclusive of VAT	6,60,000	} 1M
Less: VAT (6,60,000x12.5/112.5)	73,333	
Value inclusive of Excise Duty	5,86,667	} 1M
Less: Excise Duty (5,86,667x12.5/112.5)	65,185	
Assessable Value	5,21,482	

Notes:

- (a) Invoice price includes state VAT and therefore it is deducted for computing assessable value.
 (b) Erection charges are includible in the transaction value if it results in moveable property. Assuming the above erection charges are incurred towards immoveable property, it is excluded for computation of assessable value.
 (c) Insurance charges and outward freight are allowed as deduction as the same are incurred after the place of removal.
 (d) Cash discount is allowed as deduction as it has been passed on to the buyer. } 2M

Answer 4:

(a) Computation of Income from House Property of Mrs. Indu for the A.Y.2017-18

Particulars	Rs.	Rs.
House property in USA		
GAV- Rent received {treated as fair rent} (\$2,000 p.m. x Rs. 60 per USD x 12 months)	14,40,000	
Less : Municipal taxes paid (\$1,500 x Rs. 60per USD)	90,000	
Net Annual Value (NAV)	13,50,000	
Less : Deduction under section 24 30% of NAV	4,05,000	} 3M
House property in Mumbai (Let-out portion - First Floor)		
Expected rent (lower of standard rent and fair rent)		
Standard Rent (Rs. 11,000 x 12)Rs. 1,32,000		
Fair rent (Rs. 10,000 x 12)Rs. 1,20,000	1,20,000	
Actual rent received (10,000 x 12)	1,20,000	
Gross Annual Value (higher of Expected rent and actual rent)	1,20,000	
Less : Municipal taxes paid (50% of Rs. 7,500)	3,750	

Net Annual Value (NAV)		1,16,250		
Less : Deduction under section 24				
30% of NAV	Rs.34,875			
Interest on housing loan (50% of Rs. 24,000)	Rs.12,000	46,875	69,375	} 3M
Income from House property in Mumbai (Self -occupied portion - Ground Floor)				
Gross annual value		Nil		
Less: Municipal taxes		Nil		
Net Annual Value (NAV)		Nil		
Less : Deduction under section 24				
30% of NAV		Nil		
Interest on housing loan (50% of Rs. 24,000)		12,000	(-) 12,000	} 2M
Income from house property			10,02,375	

(b) Computation of Customs duty payable by MSNM Ltd.

S.No.	Particulars	Rs.
1	Transaction value u/s. 14(1) or Tariff Value u/s. 14(2) of Customs Act	10,00,000
2	Add: Basic customs duty @ 10%	1,00,000
3	Total Value for computing CVD u/s. 3(1)	11,00,000
4	CVD u/s. 3(1) @ 12.5% on 11,00,000	1,37,500
5	Total duty for education cess of customs [(2) + (4)]	2,37,500
6	Education cess @ 2% on 2,37,500	4,750
7	Secondary and Higher Education Cess @ 1%	2,375
8	Total Customs duty payable before SAD u/s. 3(5) [(5)+(6)+(7)]	2,44,625
9	Total Value for computing additional customs duty [(1)+(8)]	12,44,625
10	SAD u/s. 3(5)@ 4% of 12,44,625	49,785
	Total Customs Duty Payable [(8)+(10)]	2,94,410

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
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)	
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
Income from other sources		
Lottery winnings (Gross)		5,00,000
Total Income		5,80,000

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: Education Cess @ 2% and Secondary and higher education cess @1%	4,500
Total tax liability	1,54,500

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.

Notes:

- 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.
- 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.

(b) Computation of service tax liability of D&Co. for the quarter ending on 30.09.20XX

Particulars	Rs.
Sale of time for advertisement on Zee TV [Note 1]	25,00,000
Sale of space for advertisement in various websites [Note 1]	12,00,000
Sale of space for advertisement in DNA Newspaper [Note 1]	Nil
Sale of time/space for advertisement in various multiplexes [Note 1]	32,00,000
Services related to preparation of advertisement [Note 2]	8,50,000
Value of taxable service	77,50,000
Service tax (Rs. 77,50,000 × 14/100) [rounded off]	10,85,000
Add: SBC @ 0.5% (Rs.77,50,000 × 0.5%) (rounded off)	38,750
KKC @ 0.5% (Rs.77,50,000 × 0.5%) (rounded off)	38,750
Service tax liability (including SBC & KKC)	11,62,500

Notes:

- It has been stated that invoices have been issued (within 30 days of the completion of service) in the quarter July-September, 20XX. Since invoices have been issued in the quarter July-September 20XX, which is earlier than receipt of payment (October, 20XX), point of taxation will fall in the quarter ending on 30.09.20XX [Rule 3 of Point of Taxation Rules, 2011].
- As per section 66D(g) of the Finance Act, 1994, selling of space for advertisements in only print media is included in the negative list of services. Therefore, sale of space/time for advertisements on TV channels, websites and multiplexes would be liable to service tax.
- Services related to preparation of advertisement are liable to service tax as they are not included in the negative list [Section 66D(g) of the Finance Act, 1994].

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

8M

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 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		<u>3,21,000</u>	} 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:

1. The following income are exempt under section 10 –
 - (i) Dividend income [Exempt under section 10(34)], assuming that dividend is received from a domestic company.
 - (ii) Agricultural income [Exempt under section 10(1)].
 - (iii) Long-term capital gains on which STT is paid [Exempt under section 10(38)].
2. It is presumed that loss from iron-ore business relates to P.Y.2011-12, the year in which the business was discontinued.

} 1M

(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.

4M

Hence, Mr. Saravanan has to remit the amount collected mistakenly as service tax to the credit of the Central Government.
