

BATCH : LI –ALL BATCHES

DATE: 31.01.2017

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

(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>		1M
Income – tax*	4,46,838	
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.

- 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	(1x7 = 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 x 5 = 5M)
Service tax Rs. 13,40,000 × 15/115	1,74,782	3M

Answer 5:

(a)

	Rs.	
Net profits as per profit and loss account	22,00,000	
Adjustments :		
Add: House-hold expenses	23,000	Equally
Add: Provision for bad debts	400	
Add: Salary o X	12,000	
Add: Contribution to unrecognized provident fund	72,000	
Add: Interest to X	42,000	
Add: Depreciation	11,500	
Add: Capital expenditure on signboard	20,000	
Less: Interest on investment	(-)14,000	
Less: Interest on securities	(-)11,000	
Add: Medical expenditure (being personal expenditure)	500	
Add: Income not recorded in books	35,000	
Less: Depreciation under section 32	(-)8,000	
Business income	23,83,400	5M
Income from other sources (Rs. 14,000 + Rs. 11,000)	25,000	
Gross total income	24,08,400	1M
Less: Deduction under section 80C	1,10,000	1M
Net income	22,98,400	

* 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.

Tax on net income	
Income-tax*	5,09,520
Add: Education cess	10,190
Add: Secondary and higher education cess	5,095
Tax liability (rounded off)	5,24,810

1M

(b) Sale price of the manufactured goods:

Cost of raw materials purchased	Rs.	Input VAT credit available
Rs. 6,24,000×100/104	6,00,000	24,000 (½M)
Add: Manufacturing expenses	<u>3,00,000</u> (½M)	
	9,00,000	
Add: Profit @ 25% on cost	<u>2,25,000</u> (½M)	
Sale price	<u>11,25,000</u>	
Bill to be raised by R for sale made to S.		
Sale price as computed above	11,25,000	
Add: Excise duty @ 10.3%	<u>1,15,875</u> (½M)	VAT payable Rs. 1,55,109
Total value of sale price	12,40,875	
Add: VAT @ 12.5% (rounded off)	<u>1,55,109</u> (½M)	
	<u>13,95,984</u>	

Net VAT payable by R – Rs. 1,55,109 – 24,000 = 1,31,109 (**1½M**)

Cost of goods in the hand of S

Rs. 13,95,984 – 1,55,109

(VAT included in invoice)

Add: Profit 20% on cost

12,40,875 Input credit available (**2M**)

2,48,175 Rs. 1,55,109

14,89,050

Add: VAT @ 12.5% (rounded off)

1,86,131 VAT payable Rs. 1,86,131

16,75,181

Net VAT payable by S – Rs. 1,86,131 – 1,55,109 = Rs. 31,022. (**2M**)

Note: Cenvat credit of excise duty is not allowed to S as he is not a manufacturer but a trader.

Answer 6:

(a)

	Initial compensation (AY 2016-17)	Additional compensation (AY 2019-20)
Sale consideration	18,00,000	5,00,000
Less: Indexed cost of acquisition (Rs.80,000×223÷100)	1,78,400	Nil
Balance	16,21,600	5,00,000
Less: Exemption Under section-54 (not available in the case of a company)	Nil	Nil
Under section 54EC	Nil	3,00,000
Long-term capital gain	16,21,600	2,00,000
	(4M)	(4M)

* 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.

(b)

	Rs.	
Assessable value	34,00,000	
Add: Basic custom duty @ 10% on Rs. 34,00,000	3,40,000	1M
Total	37,40,000	
Add: CVD @ 12.5%	4,67,500	2M
Add: Education cess @ 3% on Rs. (3,40,000 + 4,67,500)	24,225	2M
	42,31,725	2M
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	

Note: The rate of duty shall be :

- (i) The rate in force on the date of presentation of bill of entry, or
 (ii) The rate in force on the date of entry inward. } **1M**
 Whichever is later.

Answer 7:

(a)

	Rs.	
Basic pay	8,50,000	
Dearness pay	35,000	
Bonus and commission	40,200	
House rent allowance (exemption is not available as he resides in his own house)	1,90,000	2M
Employees' contribution towards recognized provident fund (not chargeable to tax as it does not exceed 12% of salary)	Nil	1M
Free car (Rs. 1800 × 12)	21,600	1M
Free holiday tour (fully taxable)	28,500	
Sale of fridge (original cost : Rs. 42,000 – normal wear and tear @ 10% per annum for 12 years – Rs. 6,000)	Nil	1M
Salary income	11,65,300	
Income from house property	(-) 30,000	½M
Income from other sources (Rs. 94,000 + Rs. 2,10,000 + Rs. 70,000 + Rs. 62,000)	4,36,000	½M
Gross total income	15,71,300	
Less: Deduction under section 80C	1,50,000	1M
Net income	14,21,300	
Tax on net income*	2,51,390	
Add: Education cess	5,028	
Add: Secondary and higher education cess	2,514	
Tax payable (rounded off)	2,58,930	1M

* 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.

(b)

Determination of Point of Taxation

Particulars	Point of Taxation	Remarks
Issue of invoice for Rs. 24,00,000 on 16.10.2016 consequent upon completion of service on 16.10.2016 Service to foreign diplomatic mission for official use in India has been specifically exempted from levy of Service Tax.	16.10.2016	Since, the invoice is issued within 30 days from the date of completion of the service, Point of Taxation will be earlier of the following two dates: (i) Issue of invoice for the service provided or to be provided; or (ii) Date of payment to the extent it is received
Issue of invoice for Rs. 28,00,000 on 29.11.2016 consequent upon completion of service on 25.11.2016	29.11.2016	The above provisions will apply in the present case also. Point of Taxation shall be date of issue of invoice i.e. 29.11.2016 as the invoice has been issued within 30 days of the completion of the service
Receipt of advance amount of Rs. 6,00,000 on 10.12.2016 against taxable services to be provided on 11.01.2016	10.12.2016	Wherever any advance by whatever name known is received by the service provider towards the value of provision of taxable service, the Point of Taxation shall be the date of receipt of each such advance.

(B) & (C) Value of Taxable Service, amount of service tax payable, and date of deposit

Value of Taxable Services	Point of Taxation	Amount of Service Tax Payable	Due date of depositing service tax without any interest
Rs. 24,00,000	16.10.2016	Rs. 3,36,000	06.11.2016
Rs. 28,00,000	29.11.2016	Rs. 3,92,000	06.12.2016
Rs. 6,00,000	10.12.2016	Rs. 84,000	06.01.2017
(2M)	(2M)	(2M)	(2M)
