PAPER – 4: TAXATION

PART – I: STATUTORY UPDATE

Significant Notifications and Circulars in income-tax and indirect taxes issued between 1st May, 2016 and 31st October, 2016

A. INCOME TAX

The income-tax law, as amended by the Finance Act, 2016, including significant notifications/circulars issued up to 31st October, 2016 are applicable for May, 2017 examination. The relevant assessment year for May, 2017 examination is A.Y.2017-18. The September 2016 edition of the Study Material for Paper 4: Taxation Part I: Income-tax is based on the provisions of income-tax law as amended by the Finance Act, 2016 and significant notifications/circulars issued upto 30th April, 2016. The significant notifications and circulars issued between 1st May, 2016 and 31st October, 2016, which are also relevant for May, 2017 examination, are given hereunder:

I. NOTIFICATIONS

1. Notification of Cost Inflation Index for Financial Year 2016-17 [Notification No. 42/2016, dated 2.6.2016]

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 (Urban) for the immediately preceding previous year to such previous year.

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 2016-17 as 1125.

S. No.	Financial Year	Cost Inflation Index	S. No.	Financial Year	Cost Inflation Index
1.	1981-82	100	19.	1999-2000	389
2.	1982-83	109	20.	2000-01	406
3.	1983-84	116	21.	2001-02	426
4.	1984-85	125	22.	2002-03	447
5.	1985-86	133	23.	2003-04	463
6.	1986-87	140	24.	2004-05	480
7.	1987-88	150	25.	2005-06	497
8.	1988-89	161	26.	2006-07	519
9.	1989-90	172	27.	2007-08	551
10.	1990-91	182	28.	2008-09	582

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11.	1991-92	199	29.	2009-10	632
12.	1992-93	223	30.	2010-11	711
13.	1993-94	244	31.	2011-12	785
14.	1994-95	259	32.	2012-13	852
15.	1995-96	281	33.	2013-14	939
16.	1996-97	305	34.	2014-15	1024
17.	1997-98	331	35.	2015-16	1081
18.	1998-99	351	**36.**	**2016-17**	**1125**

2. Method for determining the amount of expenditure in relation to income which does not form part of the total income under Rule 8D [Notification No 43/2016, dated 02-06-2016]

As per section 14A(1), for the purposes of computing the total income under Chapter IV of the Income-tax Act, 1961, no deduction shall be allowed in respect of expenditure incurred by the assessee in relation to income, which does not form part of total income under the Income-tax Act, 1961.

Section 14A(2) provides that the Assessing Officer shall determine the amount of expenditure incurred in relation to such income which does not form part of the total income under Income-tax Act, 1961 in accordance with such method as may be prescribed, if the Assessing Officer, having regard to the accounts of the assessee, is not satisfied with the correctness of the claim of the assessee in respect of such expenditure.

Rule 8D prescribes the method for determining the amount of expenditure in relation to income not includible in total income. Since there have been considerable number of disputes on the application of the formula prescribed therein, the Finance Minister had, in para 167 of his Budget Speech [Union Budget 2016-17] proposed to amend Rule 8D to restrict the disallowance to 1% of the average monthly value of investments yielding exempt income, but not exceeding the actual expenditure claimed.

Accordingly, vide this notification, the Central Government has substituted sub-rule (2) and omitted sub-rule (3) of the said Rule 8D. New sub-rule (2) provides that the expenditure in relation to income which does not form part of the total income shall be the aggregate of following amounts:

(i) the amount of expenditure directly relating to income which does not form part of total income; and

(ii) an amount equal to 1% of the annual average of the monthly averages of the opening and closing balances of the value of investment, income from which does not or shall not form part of total income:

However, the amount referred to in clause (i) and clause (ii) shall not exceed the total expenditure claimed by the assessee.

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3. Exemption from TDS on specified payments made to banks etc. [Notification No. 47/2016, dated 17-06-2016]

Section 197A(1F) provides that no deduction of tax shall be made from such specified payment 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 under Chapter XVII of the Income-tax Act, 1961 shall be made on specified payments, in case such payments are made by a person to a bank listed in the Second Schedule to the Reserve Bank of India Act, 1934, excluding a foreign bank, or to any payment systems company authorised by the Reserve Bank of India under section 4(2) of the Payment and Settlement Systems Act, 2007. The specified payments are:

(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) including interchange fee or any other similar charges, by whatever name called, charged at the time of settlement or for clearing activities under the Payment and Settlement Systems Act, 2007;

(vii) credit card or debit card commission for transaction between merchant establishment and acquirer bank.

4. Relaxation from deduction of tax at higher rate under section 206AA [Notification No 53/2016, dated 24-06-2016]

Under section 206AA, any person who is entitled to receive any sum or income or amount on which tax is deductible under Chapter XVIIB shall furnish his Permanent Account Number (PAN) to the person responsible for deducting such tax, failing which tax shall be deducted at –

(1) the rate mentioned in the relevant provisions of the Act or

(2) the rate or rates in force or

(3) the rate of 20%

whichever is higher.

The provisions of section 206AA also apply to non-residents, on account of which they have to obtain and furnish PAN. Otherwise, higher rate of tax deduction is attracted even if tax on such income is payable at a lower rate on account of applicability of special provisions of the Act or the relevant double taxation avoidance agreement.

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The benefit of non-applicability of the provisions of section 206AA was so far only in respect of payment of interest on long-term bonds by an Indian company or a business trust as referred to in section 194LC to non-corporate non-residents or foreign companies.

For the purpose of reducing the compliance burden, sub-section (7) of section 206AA has been substituted with effect from 1st June, 2016 to provide for non-applicability of the requirements contained in section 206AA to a non-corporate non-resident or a foreign company, in respect of any other payment, other than interest on long-term bonds as referred to in section 194LC, subject to such conditions as may be prescribed.

Accordingly, the CBDT has, vide this notification, inserted Rule 37BC to provide that the provisions of section 206AA shall not apply to a non-corporate non-resident, or to a foreign company not having PAN in respect of payments in the nature of interest, royalty, fees for technical services and payments on transfer of any capital asset on furnishing the following details and documents to the deductor:

- Name, e-mail id, contact number;
- address in the country or specified territory outside India of which the deductee is a resident;
- a certificate of his resident in any country or specified territory outside India from the Government of that country or specified territory, if the law of that country or specified territory provides for issuance of such certificate;
- Tax Identification Number of the deductee in the country or specified territory of his residence and in case no such number is available, then a unique number on the basis of which the deductee is identified by the Government of that country or specified territory of which he claims to be a resident.

5. Backward districts of states of Telangana, West Bengal, Bihar and Andhra Pradesh notified for the purposes of eligibility for higher additional depreciation under section 32(1)(iia) and investment allowance under section 32AD [Notification No. 61/2016, dated 20-07-2016 and Notification No. 85/2016, dated 28-09-2016]

Under section 32, depreciation on assets used for the purposes of business and profession is allowable as deduction while computing income under the head "Profits and gains of business or profession".

Section 32(1)(iia) provides for additional depreciation @ 20% for new machinery or plant (other than ships and aircraft), acquired and installed, by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or generation and distribution of power.

In order to promote economic activities in the backward areas of the states of Andhra Pradesh, Telangana, West Bengal and Bihar, the Finance Act, 2015 had inserted a proviso to section 32(1)(iia) to provide an increased rate of additional depreciation @ 35% to an assessee who sets up an undertaking or enterprise for manufacture or production of any

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article or thing, on or after 01.04.2015 in any backward area notified by the Central Government in this behalf, in such states, and acquires and installs any new machinery or plant (other than ships and aircraft) for the purposes of the said undertaking or enterprise during the period from 01.04.2015 to 31.3.2020 in the said backward area.

Further, section 32AD was inserted by the Finance Act, 2015 to provide incentive in the form of an additional investment allowance @ 15% of the cost of the new plant and machinery acquired and installed by an assessee who sets up an undertaking or enterprise for manufacture or production of any article or thing, on or after 01.04.2015 in any backward area notified by the Central Government in this behalf, in such states, and acquires and installs any new asset for the purposes of the said undertaking or enterprise during the period from 1.4.2015 to 31.3.2020 in the said backward area.

Both for the purpose of claim of investment allowance under section 32AD and higher additional depreciation under section 32(1)(iia), the Central Government has, vide this notification, notified the following districts of the states of Telangana, West Bengal, Bihar and Andhra Pradesh as backward areas:

S.No.	Telangana	West Bengal	Bihar	Andhra Pradesh
1.	Adilabad	South 24 Parganas	Arwal	Anantapur
2.	Nizamabad	Bankura	Banka	Chittoor
3.	Karimnagar	Birbhum	Begusarai	Cuddapah
4.	Warangal	Dakshin Dinajpur	Bhagalpur	Kurnool
5.	Medak	Uttar Dinajpur	Buxar	Srikakulam
6.	Mahbubnagar	Jalpaiguri	Gopalganj	Vishakhapatnam
7.	Rangareddy	Malda	Khagaria	Vizianagaram
8.	Nalgoda	East Medinipur	Kishanganj	
9.	Khammam	West Medinipur	Madhepura	
10.		Murshidabad	Munger	
11.		Purulia	West Champaran	
12.			East Champaran	
13.			Saharsa	
14.			Saran	
15.			Sheikhpura	
16.			Sitamarhi	
17.			Siwan.	

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Note *– The above list has been given so that the students are aware that backward areas have been notified in each of the four States for the purpose availing deduction under section 32AD and higher additional depreciation under section 32(1)(iia). Students are not expected to rote learn or memorize the names of the backward areas in each State.*

6. Scope of qualifications for e-Return Intermediary extended to include Company Secretaries, Cost Accountants and Tax Return Preparer [Notification No 66/2016, dated 09-08-2016]

Section 139(1B) provides for an alternative method to furnish return of income. Vide Notification No 210/2007, dated 27.07.2007, an Electronic Furnishing of Return of Income Scheme, 2007 was notified for the said purpose. The scheme, *inter alia* provides that an eligible person may, at his option, furnish his return of income which he is required to furnish under various provisions of the Act, to an e-Return Intermediary who shall digitize the data of such return and transmit the same electronically to a server designated for this purpose by the e-Return Administrator, on or before the due date.

Para 5 of the said Notification lays down the qualifications of an e-Return Intermediary. A firm of Chartered Accountants or Advocates, which has been allotted a Permanent Account Number, as well as a Chartered Accountant or an Advocate who has been allotted a Permanent Account Number, *inter alia,* qualified to be an e-Return intermediary.

Vide this Notification, a firm of Company Secretaries or Cost Accountants, if the firm has been allotted PAN as well as a Company Secretary or a Cost Accountant or Tax Return Preparer, who has been allotted a Permanent Account Number, would also qualify to be an e-Return intermediary.

7. Rescinding of initially notified Income Computation Disclosure Standards (ICDSs) *[Notification No S.O. 3078(E) dated 29.9.2016]* and Notification of new ICDSs to be applicable from A.Y.2017-18 *[Notification No. S.O. 3079(E) dated 29-09-2016]*

Section 145 of the Income-tax Act, 1961 provides for the method of accounting. Section 145(1) requires income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" to be computed in accordance with either the cash or mercantile system of accounting regularly employed by the assessee, subject to the provisions of section 145(2). Under section 145(2), the Central Government is empowered to notify in the Official Gazette from time to time, **income computation and disclosure standards (ICDSs)** to be followed by any class of assessees or in respect of any class of income.

Accordingly, the Central Government had, vide Notification No.S.O.892(E) dated 31.3.2015, in exercise of the powers conferred by section 145(2), notified ten income computation and disclosure standards (ICDSs) to be followed by all assessees, following the mercantile system of accounting, for the purposes of computation of income chargeable to income-tax under the head "Profit and gains of business or profession" or

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"Income from other sources". This notification was to come into force with effect from 1st April, 2015, to be applicable from A.Y. 2016-17.

However, the Central Government has, *vide* Notification No.S.O.3078(E) dated 29.9.2016, rescinded Notification No.S.O.892(E) dated 31.3.2015. Simultaneously, *vide* Notification No.S.O.3079(E) dated 29.9.2016, the Central Government has notified ten new ICDSs to be applicable from A.Y.2017-18.

The newly notified ICDSs have to be followed by all assessees (other than an individual or a Hindu undivided family who is not required to get his accounts of the previous year audited in accordance with the provisions of section 44AB) following the mercantile system of accounting, for the purposes of computation of income chargeable to income-tax under the head "Profits and gains of business or profession" or "Income from other sources", from A.Y.2017-18.

Note – Students are advised to refer to the Annexure to the October 2016 Edition of the Practice Manual of IIPCC Paper 4: Taxation Part I: Income-tax which explains the significant changes in the ICDSs notified on 29.9.2016 vis-à-vis ICDSs initially notified on 31.3.2015 (since rescinded). The Annexure also contains the text of the new ICDSs notified on 29.9.2016.

8. Expenditure for obtaining right to use spectrum for telecommunication services [New Rule 6A] [Notification No. 89/2016, dated 04-10-2016]

The Finance Act, 2016 has inserted new section 35ABA to provide for tax treatment of spectrum fee. Section 35ABA provides that where any capital expenditure has been incurred for acquisition of any right to use spectrum for telecommunication services either before the commencement of the business or thereafter, at any time during the previous year and for which payment has actually been made to obtain a right to use spectrum, appropriate fraction of the amount of such expenditure (1/total number of relevant previous years) would be allowed as deduction for the relevant previous years during which the spectrum, for which the fee is paid, shall be in force.

As per clause (iii) of *Explanation* to section 35ABA, the phrase "payment has actually been made" means the actual payment of expenditure irrespective of the previous year in which the liability for the expenditure was incurred according to the method of accounting regularly employed by the assessee or payable in such manner as may be prescribed.

Accordingly, the CBDT has, vide this Notification, inserted new Rule 6A which substantiates the meaning of the phrase 'payment has actually been made' :

(a) **In a case where upfront payment of spectrum fee has been made:** Where an assessee has opted and been allowed by the Department of Telecommunications, Government of India to make full upfront payment of spectrum fee, the actual payment of expenditure irrespective of the previous year in which the liability for the expenditure was incurred according to the method of accounting regularly employed by the assessee;

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(b) **In a case where deferred payment is made:** Where an assessee has opted and been allowed by the Department of Telecommunications, Government of India to make deferred payment, the amount which would have been payable by the assessee had he opted for full upfront payment of spectrum fee irrespective of the previous year in which the liability for the expenditure was incurred according to the method of accounting regularly employed by the assessee.

However, in case of deferred payment referred to in (b) above, where there is failure by the assessee to comply with any of the conditions specified by the scheme of the Department of Telecommunications, Government of India and Department of Telecommunications terminates the allotment or assignment of spectrum, the Assessing Officer shall, in exercise of power vested in him under section 35ABA(3), re-compute the total income of the assessee for the previous year in which the deduction has been claimed and granted to him by deeming that,-

(i) the total amount of spectrum fee paid up to the date of termination is the amount of "payment actually been made";

(ii) the spectrum was in force up to the date of its termination for the purpose of computing "relevant previous year".

II. CIRCULARS

1. Eligibility for grant of additional depreciation under section 32(1)(iia) in the case of an assessee engaged in printing or printing and publishing [Circular No. 15/2016, dated 19-05-2016]

An assessee, engaged in the business of manufacture or production of an article or thing, is eligible to claim additional depreciation under section 32(1)(iia) in addition to the normal depreciation under section 32(1).

The CBDT has, vide this Circular, clarified that the business of printing or printing and publishing amounts to manufacture or production of an article or thing and is, therefore, eligible for additional depreciation under section 32(1)(iia).

2. Admissibility of claim of deduction of bad debts under section 36(1)(vii) read with section 36(2) [Circular No. 12/2016, dated 30-05-2016]

The CBDT has clarified, vide this Circular, that claim for any debt or part thereof in any previous year, shall be admissible under section 36(1)(vii), if it is written off as irrecoverable in the books of accounts of the assessee for that previous year and it fulfills the conditions stipulated in section 36(2). There is no requirement in law that the assessee has to establish that the debt has, in fact, become irrecoverable.

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3. Clarification regarding attaining prescribed age of 60 years/80 years on 31st March itself, in case of senior/very senior citizens whose date of birth falls on 1st April [Circular No. 28/2016, dated 27-07-2016]

An individual who is resident in India and of the age of 60 years or more (senior citizen) and 80 years or more (very senior citizen) is eligible for a higher basic exemption limit of ₹3,00,000 and ₹5,00,000, respectively.

The CBDT has, vide this Circular, clarified that a person born on 1st April would be considered to have attained a particular age on 31st March, the day preceding the anniversary of his birthday. In particular, the question of attainment of age of eligibility for being considered a senior/very senior citizen would be decided on the basis of above criteria.

Therefore, a resident individual whose 60th birthday falls on 1st April, 2017, would be treated as having attained the age of 60 years in the P.Y.2016-17, and would be eligible for higher basic exemption limit of ₹ 3 lakh in computing his tax liability for A.Y.2017-18. Likewise, a resident individual whose 80th birthday falls on 1st April, 2017, would be treated as having attained the age of 80 years in the P.Y.2016-17, and would be eligible for higher basic exemption limit of ₹ 5 lakh in computing his tax liability for A.Y.2017-18.

4. Clarification on applicability of TDS provisions of section 194-I on lumpsum lease premium paid for acquisition of long term lease [Circular No.35/2016, dated 13-10-2016]

Under section 194-I, tax is required to be deducted at source at the prescribed rates from payment of any income by way of rent. For the purposes of this section, "rent" has been defined as any payment, by whatever name called, under any lease, sub-lease, tenancy or any other agreement or arrangement for the use of any land or building or machinery or plant or equipment or furniture or fittings.

The issue of whether or not TDS under section 194-I is applicable on 'lump sum lease premium' or 'one-time upfront lease charges" paid by an assessee for acquiring long-term leasehold rights for land or any other property has been examined by the CBDT.

Accordingly, the CBDT has, vide this Circular, clarified that lump sum lease premium or one-time upfront lease charges, which are not adjustable against periodic rent, paid or payable for acquisition of long-term leasehold rights over land or any other property are not payments in the nature of rent within the meaning of section 194-I. Therefore, such payments are not liable for TDS under section 194-I.

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5. Clarification on taxability of the compensation received by the land owners for the land acquired under the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (RFCTLARR Act) [Circular No. 36/2016, dated 25-10-2016]

Under the existing provisions of the Income-tax Act, 1961, an agricultural land which is not situated in specified urban area, is not regarded as a capital asset. Hence, capital gains arising from the transfer (including compulsory acquisition) of such agricultural land is not taxable. The Finance (No.2) Act, 2004 has inserted section 10(37) from 1-4-2005 to provide specific exemption to the capital gains arising to an Individual or a HUF from compulsory acquisition of an agricultural land situated in specified urban limit, subject to fulfilment of certain conditions. Therefore, compensation received from compulsory acquisition of an agricultural land is not taxable under the Act (subject to fulfilment of certain conditions for specified urban land).

The RFCTLARR Act which came into effect from 1st January, 2014, in section 96*, inter alia* provides that income-tax shall not be levied on any award or agreement made (except those made under section 46) under the RFCTLARR Act. Therefore, compensation received for compulsory acquisition of land under the RFCTLARR Act (except those made under section 46 of RFCTLARR Act), is exempted from the levy of income-tax.

As no distinction has been made between compensation received for compulsory acquisition of agricultural land and non-agricultural land in the matter of providing exemption from income-tax under the RFCTLARR Act, the exemption provided under section 96 of the RFCTLARR Act is wider in scope than the tax-exemption provided under the existing provisions of Income-tax Act, 1961. This has created uncertainty in the matter of taxability of compensation received on compulsory acquisition of land, especially those relating to acquisition of non-agricultural land.

The matter has been examined by the CBDT and it has been clarified that compensation received in respect of award or agreement which has been exempted from levy of income-tax vide section 96 of the RFCTLARR Act shall also not be taxable under the provisions of Income-tax Act, 1961 even if there is no specific provision for exemption of such compensation in the Income-tax Act, 1961.

III. Amendments made by the Taxation Laws (Amendment) Act, 2016

(1) Splitting up or reconstruction of an erstwhile public sector company into separate companies as a result of transfer of its shares by the Central Government deemed to be a demerger [Section 2(19AA)]

Effective from: A.Y.2017-18

(i) The existing provisions of the Income-tax Act, 1961 provide for tax neutrality in matters relating to transfer of capital asset, carry forward of loss, claim of certain deductions, etc., in case of demerger of entities.

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(ii) Upto A.Y.2016-17, the definition of the term "demerger" as per section 2(19AA) of the Income-tax Act, 1961, did not include within its scope, the splitting up or the reconstruction of a company, which ceased to be a public sector company as a result of transfer of its shares by the Government, into separate companies, even if such splitting up or reconstruction has been made to give effect to the conditions attached to the said transfer of shares by the Government.

(iii) With a view to facilitate the splitting up or the reconstruction of erstwhile public sector companies and to give effect to the conditions attached to the transfer of shares by the Government, *Explanation 5* has been inserted in section 2(19AA) with effect from A.Y.2017-18 to provide that the reconstruction or splitting up of a company, which ceased to be a public sector company as a result of transfer of its shares by the Central Government, into separate companies, shall be deemed to be a demerger, if such reconstruction or splitting up has been made to give effect to any condition attached to the said transfer of shares and also fulfils such other conditions as may be notified by the Central Government in the Official Gazette.

(iv) Consequently, as per section 47, transfer of a capital asset in the scheme of demerger would not be regarded as a transfer, and hence capital gains tax liability would not be attracted. Further, the accumulated loss and unabsorbed depreciation of the demerged public sector company can be carried forward for set-off in the hands of the resulting company as per the provisions of section 72A(4). Also, the profit-linked tax deductions under section 80-IA to 80-IE, which was available to the erstwhile demerged public sector company, would be available to the resulting company for the unexpired period. An Indian company incurring expenditure wholly and exclusively for the purposes of demerger of the undertaking would be entitled to deduction under section 35DD of an amount equal to one-fifth of such expenditure for each of the five successive previous years beginning with the year of demerger.

(2) Relaxation of minimum period of employment of an employee for the purpose of deduction under section 80JJAA, in case of assessees engaged in apparel business [Section 80JJAA]

Effective from: A.Y.2017-18

(i) Upto A.Y.2016-17, deduction under section 80JJAA in respect of employment of new workmen was available to assessees deriving profits and gains from manufacture of goods in a factory. In order to extend this employment generation incentive to all sectors, section 80JJAA has been substituted by the Finance Act, 2016 with effect from A.Y.2017-18.

(ii) Under new section 80JJAA, deduction is available in respect of employment of new employees, where the gross total income of an assessee **to whom section 44AB applies**, includes any profits and gains derived from business.

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(iii) In case of such assessees, deduction of an amount equal to 30% of additional employee cost incurred in the course of such business in the previous year, would be allowed for three assessment years including the assessment year relevant to the previous year in which such employment is provided, subject to the fulfillment of certain specified conditions. One of the conditions is that the employee should be employed for a period of not less than 240 during the previous year.

(iv) Considering the seasonal nature of the business of manufacturing of apparel, the minimum period of employment of an employee who is employed in this business has been reduced from 240 days to 150 days during the previous year. Therefore, in the case of an assessee engaged in the business of manufacturing of apparel, deduction under section 80JJAA would be allowable in respect of additional employee cost incurred in respect of employees employed for a period of atleast 150 days during the previous year.

PART II : INDIRECT TAXES

Indirect tax laws as amended by the Finance Act, 2016 including significant notifications/circulars issued up to 31st October, 2016 are applicable for May, 2017 examinations. The Study Material [Edition : September, 2015; Reprint Edition: October, 2016] contains all the relevant amendments made by the Finance Act, 2015 and significant notifications/circulars issued up to 30.04.2015. The Supplementary Study Paper, 2016 contains the amendments made by the Finance Act, 2016 and significant notifications/circulars issued from 01.05.2015 to 30.04.2016. In case of service tax and CENVAT credit, notifications/circulars issued till 01.06.2016 have been included in the Supplementary Study Paper, 2016. The remaining notifications/circulars i.e., the ones issued from 02.06.2016 to 31.10.2016 for service tax and CENVAT credit and from 01.05.2016 to 31.10.2016 for others are given below.

The amendments are given chapter-wise to facilitate co-relation with the Study Material. The chapter reference given in the Supplementary Study Paper, 2016 corresponds to the parallel chapter number of the Study Material.

Chapter 1 : Basic Concepts of Indirect Taxes

Unit-2: Central Excise Duty

1. Threshold exemption (SSI exemption) raised from ₹ 6 crore to ₹ 10 crore for jewellery manufacturers with simultaneous increase in eligibility limit from ₹ 12 crore to ₹ 15 crore

SSI exemption for articles of jewellery or parts of articles of jewellery or both [excluding silver jewellery not studded with diamonds/other precious stones] has been enhanced from ₹ 6 crore to ₹ 10 crore with simultaneous increase in the eligibility limit from ₹ 12 crore to ₹ 15 crore in the preceding year.

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Notification No. 8/2003 CE dated 01.03.2003 has been amended vide ***Notification No. 28/2016 CE dated 26.07.2016*** to carry out the above amendment.

[Effective from 26.07.2016]

2. ***Notification No. 8/2016 CE (NT) dated 01.03.2016*** has extended the facility for revision of returns to central excise returns. The amendment was to become effective from a date to be notified *[Refer Unit 2 : Central Excise Duty of Chapter 1 : Basic Concepts of Indirect Taxes of Supplementary Study Paper-2016].* ***Notification No. 42/2016 CE (NT) dated 11.08.2016*** has now notified 17.08.2016 as the date when the said amendment would become effective.

Chapter 5 : Exemptions and Abatements

1. **Services provided by a senior advocate to a business entity with a turnover up to ₹ 10 lakh in the preceding financial year exempted**

With effect from 01.04.2016, *Notification No. 25/2012 ST dated 20.06.2012* had been amended to *inter alia* withdraw the exemptions available in respect of the legal services provided by a senior advocate to-:

(i) an advocate or partnership firm of advocates providing legal services

(ii) a business entity with a turnover up to ₹ 10 lakh in the preceding financial year

However, services provided by a "senior advocate by way of legal services to a person other than a person ordinarily carrying out any activity relating to industry, commerce or any other business or profession" continued to remain exempted [Refer Chapter 5: Exemptions and Abatements in the Supplementary Study Paper-2016].

With effect from 06.06.2016, ***Notification No. 32/2016 ST dated 06.06.2016*** has amended *Mega Exemption Notification No. 25/2012 ST dated 20.06.2012* to exempt services provided by a senior advocate by way of legal services to a business entity with a turnover up to ₹ 10 lakh in the preceding financial year. Further, the exemption available to services provided by senior advocates to person other than persons ordinarily carrying out any activity relating to industry, commerce or any other business or profession has been reworded. As per the reworded exemption, *"services provided by a senior advocate by way of legal services to any person other than a business entity"* has been exempted.

Therefore, with effect from 06.06.2016, the taxability of legal services provided by a senior advocate and other advocates is explained as under:

Service	Senior Advocate	Other advocates / Partnership firm of advocates
Legal service provided to an advocate or partnership firm of advocates providing legal	Not exempt	Exempt

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services with turnover exceeding ₹ 10 lakh in the preceding financial year		
Legal service provided to an advocate or partnership firm of advocates providing legal services with turnover upto ₹ 10 lakh in the preceding financial year	Exempt	Exempt
Legal service provided to a business entity with a turnover up to ₹ 10 lakh in the preceding financial year	Exempt	Exempt
Legal service provided to any person other than a business entity	Exempt	Exempt

[Effective from 06.06.2016]

2. Services billed and provided prior to 01st June, 2016 exempted from Krishi Kalyan Cess (KKC)

Taxable services the invoice for which have been issued on or before the 31st May, 2016 have been exempted from the whole of **Krishi Kalyan Cess** vide ***Notification No. 35/2016 ST dated 23.06.2016*** if the provision of service has been completed on or before the 31st May, 2016.

[Effective from 23.06.2016]

3. Services of transportation of goods by a vessel from outside India upto customs station in India which have been billed prior to 01st June, 2016 exempted from service tax on fulfilment of specified conditions

Taxable services by way of transportation of goods by a vessel from outside India upto the customs station in India for which the invoice has been issued on or before 31.05.2016 have been exempted from service tax on fulfilment of the following conditions:

(i) the import manifest or import report required to be delivered under section 30 of the Customs Act, 1962 has been delivered on or before 31.05.2016; and

(ii) the service provider or recipient produces customs certified copy of such import manifest or import report ***[Notification No. 36/2016 ST dated 23.06.2016].***

[Effective from 23.06.2016]

4. 90% abatement granted to transport of passengers by air embarking from or terminating in Regional Connectivity Scheme (RCS) Airport for a period of 1 year

Notification No. 38/2016 ST dated 30.08.2016 has amended *Notification No. 26/2012 ST dated 20.06.2012* to grant abatement of 90% on service of transport of passengers, with or without accompanied belongings, by air, embarking from or terminating in a RCS Airport. The abatement would be available if the CENVAT credit on inputs, capital goods and input

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services, used for providing the said taxable service has not been taken by the service provider under the provisions of the CENVAT Credit Rules, 2004.

Further, the abatement will be valid only for a period of **1 year** from the date of commencement of operations of the RCS Airport as notified by the Ministry of Civil Aviation.

[Effective from 30.08.2016]

5. One time upfront amount payable on long term leases of industrial plots granted by State Government Industrial Development Corporations/ Undertakings to industrial units exempted from service tax

Taxable services provided by State Government Industrial Development Corporations/ Undertakings to industrial units by way of granting long term (30 years, or more) lease of industrial plots have been exempted from so much of service tax leviable thereon as is leviable on the one time upfront amount (called as premium, salami, cost, price, development charges or by any other name) payable for such lease ***[Notification No. 41/2016 ST dated 22.09.2016]***. However, subsequent payments, if any, will not enjoy such an exemption and will be liable to service tax.

[Effective from 22.09.2016]

6. No service tax on services by way of advancement of yoga provided by entities registered under section 12AA of the Income-tax Act, 1961 from 01.07.2012 to 20.10.2015

With effect from 21.10.2015, services relating to advancement of yoga provided by charitable entities registered under section 12AA of the Income-tax Act, 1961 have been exempted from service tax vide *Notification No. 20/2015 ST dated 21.10.2015 [Refer Chapter 5: Exemptions and Abatements in the Supplementary Study Paper-2016].*

According to the practice generally prevalent during the period from 01.07.2012 to 20.10.2015 there was non-levy of service tax on such services. Thus, service tax was not being paid on such services on account of the said practice even though such services were liable to service tax.

Now the Central Government, in exercise of the power conferred by section 11C of the Central Excise Act, 1944 read with section 83 of the Finance Act, 1994, has directed that no service tax will be required to be paid on the services provided by way of advancement of yoga by entities registered under section 12AA of Income-tax Act, 1961 for the period from 01.07.2012 to 20.10.2015 ***[Notification No. 42/2016 ST dated 26.09.2016].***

[Effective from 01.07.2012 till 20.10.2015]

Chapter 6 : Service Tax Procedures

1. (i) In case of legal services provided by senior advocates, service tax to be paid by the recipient of service under reverse charge (ii) In case of representational service provided by senior advocates if the senior advocate is engaged by another lawyer, service tax to be paid by the litigant

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With effect from 01.04.2016, service tax had been made payable under forward charge in case of legal services provided by senior advocates. For this purpose, necessary amendments were made in rule 2(1)(d)(i)(D) of Service Tax Rules, 1994.

However, rule 2(1)(d)(i)(D) has now been amended again vide ***Notification No. 33/2016 ST dated 06.06.2016*** to provide, inter alia, that in relation to service provided by an individual advocate or a firm of advocates by way of legal services other than representational services by senior advocates to any business entity located in the taxable territory, the person liable to pay service tax is the recipient of such service.

Further, another item (DD) has been inserted after item (D) in rule 2(1)(d)(i) to provide that "in relation to service provided or agreed to be provided by a senior advocate by way of representational services before any court, tribunal or authority, directly or indirectly, to any business entity located in the taxable territory, including where contract for provision of such service has been entered through another advocate or a firm of advocates, and the senior advocate is providing such services, the person liable to pay service tax is the recipient of such services, which is the business entity who is litigant, applicant, or petitioner, as the case may be".

To summarise,

(i) where legal services are provided by senior advocates to business entities, service tax will be payable by the recipient of service.

(ii) where representational services are provided by the senior advocates to any business entity, service tax will be payable by the recipient of service which is the business entity who is litigant, applicant, or petitioner.

(iii) where the contract for representational services provided by the senior advocates to any business entity has been entered through another advocate or a firm of advocates, service tax will be payable by the recipient of service which is the business entity who is litigant, applicant, or petitioner.

Further, reverse charge *Notification No. 30/2012 ST dated 20.06.2012* has been amended vide ***Notification No. 34/2016 ST dated 06.06.2016*** to provide that 100% of such service tax will be payable by the recipient of service i.e., there will be full reverse charge on services provided by senior advocates. It has been clarified by inserting an explanation in the notification that the business entity located in the taxable territory who is litigant, applicant or petitioner, as the case may be, shall be treated as the person who receives the legal services for the purpose of this notification.

[Effective from 06.06.2016]

2. Form ST 3 amended to include KKC etc.

Service tax return form ST 3 has been amended vide ***Notification No. 43/2016 ST dated 28.09.2016*** to incorporate columns and entries relating to KKC, disclosure of reversal of CENVAT credit under rule 6 of CENVAT Credit Rules, 2004 etc.

[Effective from 28.09.2016]

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Chapter 7: CENVAT Credit

1. Following amendments have been made in the CENVAT Credit Rules, 2004:

(a) Definition of manufacturer or producer amended [Rule 2(naa)]

The definition of manufacturer or producer under clause (naa) of rule 2 has been amended vide ***Notification No. 36/2016 CE (NT) dated 26.07.2016***. As per the amended definition, *"manufacturer or producer*

(i) in relation to articles of jewellery or parts of articles of jewellery or both, falling under heading 7113 of the First Schedule to the Excise Tariff Act, includes a person who is liable to pay duty of excise leviable on such goods under sub-rule (1) of rule 9 of the Articles of Jewellery (Collection of Duty) Rules, 2016;

(ia) in relation to articles of precious metals falling under heading 7114 of the First Schedule to the Excise Tariff Act, includes a person who is liable to pay duty of excise leviable on such goods under sub-rule (1) of rule 12AA of the Central Excise Rules, 2002;

(ii) in relation to goods falling under Chapters 61, 62 or 63 of the First Schedule to the Excise Tariff Act, includes a person who is liable to pay duty of excise leviable on such goods under sub-rule (1A) of rule 4 of the Central Excise Rules, 2002."

[Effective from 26.07.2016]

(b) Jewellery manufacturer with turnover upto ₹ 15 crore in preceding year eligible to avail 100% CENVAT credit on capital goods in the year of purchase [Rule 4(2)(a)]

As per explanation to rule 4(2)(a) read with third proviso to the said rule, an assessee whose aggregate value of clearances of all excisable goods for home consumption in the preceding financial year does not exceed ₹ 4 crores (computed in accordance with SSI notification), can take 100% CENVAT credit on capital goods in the financial year when the same are received by him.

With effect from 01.03.2016, explanation to rule 4(2)(a) has been amended to provide that a manufacturer of articles of jewellery [excluding silver jewellery, other than studded with diamonds/ ruby/ emerald/ sapphire] will be allowed to take 100% CENVAT credit on capital goods in the year of purchase, if his aggregate value of clearances of all excisable goods for home consumption in the preceding financial year, did not exceed ₹ 12 crore *[Refer Chapter 7 : CENVAT Credit in the Supplementary Study Paper – 2016].*

However, with effect from 26.07.2016, the said explanation has been amended again vide ***Notification No. 36/2016 CE (NT) dated 26.07.2016*** to provide that a manufacturer of articles of jewellery or parts of articles of jewellery or both, falling under heading 7113 of the First Schedule of the Central Excise Tariff Act, will be allowed to take 100% CENVAT credit on capital goods in the year of purchase, if his

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aggregate value of clearances of all excisable goods for home consumption in the preceding financial year, did not exceed ₹ 15 crore.

[Effective from 26.07.2016]

(c) Requirement of enclosing photocopies of the railway receipts with STTG for availing CENVAT credit dispensed with [Rule 9(1)(fa)]

Notification No. 45/2016 CE (NT) dated 20.09.2016 has amended rule 9(1)(fa) to do away with the requirement of enclosing photocopies of the railway receipts with Service Tax Certificate for Transportation of Goods by Rail (STTG), as a document for availing CENVAT credit. As per the amended rule 9(1)(fa), Service Tax Certificate for Transportation of Goods by Rail issued by the Indian Railways will be an eligible document for availing CENVAT credit.

[Effective from 20.09.2016]

(d) Ethanol produced from molasses generated from cane crushed in the sugar season 2015-16 removed from the list of excisable goods which are excluded from the purview of reversal provisions under rule 6 [Rule 6(6)]

The Central Government had exempted excise duty payable on ethanol produced from molasses generated from cane crushed in the sugar season 2015-16 i.e. 1st October, 2015 onwards, for supply to the public sector oil marketing companies, namely, Indian Oil Corporation Ltd., Hindustan Petroleum Corporation Ltd. or Bharat Petroleum Corporation Ltd., for the purposes of blending with petrol.

Further, such removals of ethanol had also been excluded from the purview of reversal provisions under rule 6. For this purpose, *Notification No. 21/2015 CE (NT) dated 07.10.2015* had inserted clause (ix) in sub-rule (6) of rule 6 to provide that the provisions of sub-rules (1), (2), (3) and (4) of rule 6 would not apply to ethanol produced from molasses generated from cane crushed in the sugar season 2015-16 i.e. 1st October, 2015 onwards, for supply to the public sector oil marketing companies, namely, Indian Oil Corporation Ltd., Hindustan Petroleum Corporation Ltd. or Bharat Petroleum Corporation Ltd., for the purposes of blending with petrol. This amendment became effective from 01.10.2015 *[Refer Chapter 7: CENVAT Credit in the Supplementary Study Paper – 2016]*.

Now since the exemption to ethanol has been withdrawn from 10.08.2016, clause (ix) of sub-rule (6) of rule 6 has been omitted vide ***Notification No. 41/2016 CE (NT) dated 10.08.2016.***

[Effective from 10.08.2016]

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PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Residential Status and Scope of total income

1. Mr. Suhaan furnished the following particulars of his income for the year ended 31.3.2017.

	Particulars	₹
(a)	Income earned from business in France which is controlled from Mumbai (₹ 65,000 is received in India)	90,000
(b)	Pension for services rendered in India but received in France	14,000
(c)	Dividend received in France from Titanium Inc., a French company	25,000
(d)	Rent from property in France deposited in a bank in France and later on, remitted to India through approved banking channels	85,000
(e)	Dividend from Sunset Ltd., an Indian company received in France	98,000

Compute his gross total income for the assessment year 2017-18, if he is:

(i) Resident and ordinarily resident;

(ii) Resident but not ordinarily resident;

(iii) Non-resident

Income which do not form part of total income

2. State with brief reasons whether the following statements are true or false with reference to the provisions of the Income-tax Act, 1961:

(a) Payment of ₹ 12 lakh from an approved superannuation fund made by T Ltd. by way of transfer to the account of Mr. Swayam, an employee of T Ltd., under Atal Pension Yojana is taxable in the hands of Mr. Swayam.

(b) Mr. Arpit, a member of a HUF, received ₹ 12,000 as his share from the income of the HUF. The same is to be included in his chargeable income.

(c) During the previous year 2016-17, Ms. Arpita received in aggregate ₹ 12 lakhs as dividend from Indian companies. The same is exempt in her hands under section 10(34).

(d) Exemption is available to a Sikkimese individual, only in respect of income from any source in the State of Sikkim.

Income from Salaries

3. Mrs. Shakshi is a Human Resources Manager of M/s. Trumph & Co. Pvt. Ltd., based at Mumbai. She is 61 years of age and receives the following salary and perquisites from the company during the year ending 31.03.2017:

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(i) Basic Salary ₹ 80,000 per month

(ii) Dearness Allowance ₹ 22,000 per month (forms part of pay for retirement benefits)

(iii) Bonus – 2 months basic pay.

(iv) Commission – 0.1% of the turnover of the company. The turnover for the F.Y. 2016-17 was ₹ 12.00 crores.

(v) Contribution of the employer and employee to the recognized provident fund Account ₹ 2,00,000 each.

(vi) Interest credited to Recognized Provident Fund Account at 9.5% - ₹ 80,000.

(vii) Rent free unfurnished accommodation provided by the company for which the company pays a rent of ₹ 84,000 per annum.

(viii) Entertainment Allowance – ₹ 35,000.

(ix) Hostel allowance for two children – ₹ 9,600.

She makes the following payments and investments :

(i) Premium paid to insure the life of her major daughter – ₹ 18,000.

(ii) Medical Insurance premium for self – ₹ 12,000 ; Spouse – ₹ 14,000.

(iii) Donation to a public charitable institution registered under 80G ₹ 1,50,000 by way of cheque.

(iv) LIC Pension Fund – ₹ 60,000.

Determine the tax liability of Mrs. Sakshi for the Assessment Year 2017-18.

Income from house property

4. In May, 2016, Mr. Aakarsh recovered rent of ₹ 17,000 from Ms. Gunjan, to whom he had let out his house from June 2010 to August 2012. He could not realise two months rent of ₹ 24,000 from her and to that extent his actual rent was reduced while computing income from house property for A.Y.2013-14.

From September 2012 to November 2015, he had let out his property to Mr. Sahil. In October, 2014, he had increased the rent from ₹ 13,000 to ₹ 15,000 per month and the same was a subject matter of dispute. The house remained vacant for three months from December 2015 to February 2016. In April, 2016 the matter was finally settled and Mr. Aakarsh received ₹ 28,000 as arrears of rent for the period October 2014 to November, 2015. However, in March 2016, Mr. Aakarsh had already sold this residential house property to Mr. Sagar.

Mr. Aakarsh, contends that the amount recovered as unrealised rent and arrears of rent in the P.Y.2016-17 would not be taxable in his hands in that year, since he had sold such house property in the previous year 2015-16 itself. Is the contention of Mr. Aakarsh

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correct? If not, under what head would such income be taxable and compute the income taxable under that head for A.Y.2017-18?

Profits and gains of business or profession

5. State, with reasons, the allowability of the following expenses under the Income-tax Act, 1961, as deduction, while computing income from business or profession for the Assessment Year 2017-18:

   (i) XYZ Credit Corporation, a non-banking finance company, made provision for bad and doubtful debts in the books of account for the year ended 31.3.2017.

   (ii) On 14.5.2017, ABC Ltd. paid ₹ 45,000 to the Indian Railways for the use of railway assets pertaining to previous year 2016-17.

   (iii) MNO Ltd. paid ₹ 55,000 as tax on non-monetary perquisite provided to an employee.

   (iv) ₹ 32,000 paid by S Ltd. in cash on 28.3.2017 to a transporter (owning 8 goods carriages throughout the previous year) for carriage of goods, without deduction of tax at source.

   (v) P Ltd. paid ₹ 80,000 in cash for purchase of wheat from a farmer on a banking day.

Capital Gains

6. Mr. Mayank, aged 55 years owned a residential house in Noida. It was acquired by Mr. Mayank on 17-12-1986 for ₹ 8,00,000. He sold it for ₹ 68,00,000 on 14-12-2016. The stamp valuation authority of the State fixed value of the property at ₹ 85,00,000. The assessee paid 2% of the sale consideration as brokerage on sale of the said property.

   Mr. Mayank acquired a residential house property at Kota on 3.3.2017 for ₹ 7,00,000 and deposited ₹ 3,50,000 on 14-5-2017 and ₹ 5,50,000 on 25-7-2017 in the capital gains bonds of the National Highway Authority of India. He deposited ₹ 4,50,000 on 16-7-2017 and ₹8,70,000 on 11-11-2017 in the capital gain deposit scheme in a Nationalized Bank for construction of an additional floor on the residential house property in Kota.

   Compute the Capital Gain chargeable to tax for the Assessment Year 2017-18 and income-tax chargeable thereon assuming Mr. Mayank has no other income.

   Cost Inflation Index for Financial Year 1986-87: 140 and Financial Year 2016-17: 1125

Income from other sources

7. During the previous year 2016-17, Mr. Gagan received ₹ 5,32,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2011-12.

   The above amount of interest include interest relating to the following financial years:

   F.Y. 2013-14: ₹ 1,58,000

   F.Y. 2014-15 ₹ 1,78,000

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F.Y. 2015-16 ₹ 1,96,000

He incurred ₹ 75,000 by way of legal expenses in the F.Y.2016-17 to receive the interest on such enhanced compensation.

Determine how much of interest on enhanced compensation would be chargeable to tax for the assessment year 2017-18? Can he claim deduction in respect of legal expenses from the amount of interest on enhanced compensation chargeable to tax?

Income of Other Persons included in assessee's Total Income

8. Compute the gross total income of Mr. Abhinav & and his wife Mrs. Suhaani from the following information:

	Particulars	₹
(a)	Salary income (computed) of Mrs. Suhaani	3,25,000
(b)	Income from business of Mr. Abhinav	4,15,000
(c)	Income of minor son Chetan from fixed deposit	25,000
(d)	Income of minor daughter Shreya from music concerts given by her	28,000
(e)	Interest from bank received by Shreya on deposit made out of income derived from music concerts	7,000
(f)	Gift received by Shreya on 4.10.2016 from friend of Mrs. Suhaani	5,500

Set off and Carry Forward of Losses

9. Compute the total income of Mr. Tarun, a resident Indian, aged 57 years, from the following details for the year ended 31.3.2017. Also, show the items eligible for carry forward to the A.Y. 2018-19:

Particulars	₹
Income from salaries	2,55,000
Loss from house property	2,19,000
Loss from toys business	2,45,000
Income from speculation business	28,000
Loss from specified business covered by section 35AD	46,000
Long-term capital gains from sale of urban land	2,75,500
Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid)	1,32,000
Loss from card games	23,000

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Income from betting (Gross)	49,000
Deposit in PPF	1,00,000

Deductions from Gross Total Income

10. State with proper reasons whether the following statements are True/False with regard to the provisions of the Income-tax Act, 1961:

    (i) Mrs. Leena, widow of Mr. Sahitya (who was an employee of M/s. ABC Ltd.), received ₹ 9 lakhs on 11.12.2016, being amount standing to the credit of Mr. Sahitya in his NPS Account, in respect of which deduction has been allowed under section 80CCD to Mr. Sahitya in the earlier previous years. Such amount received by her as a nominee on closure of the account is deemed to be her income for A.Y.2017-18.

    (ii) Mr. Gopal, a businessman, whose total income (before allowing deduction under section 80GG) for A.Y.2017-18 is ₹ 3,80,000, paid house rent at ₹ 8,000 p.m. in respect of residential accommodation occupied by him at Chennai. He is eligible to claim flat deduction of ₹ 60,000 under section 80GG for A.Y.2017-18.

    (iii) Mr. Anay purchased a residential house property for self-occupation at a cost of ₹ 40 lakh on 1.7.2016, in respect of which he took a housing loan of ₹ 32 lakh from Oriental Bank of Commerce@11% p.a. on the same date. He does not own any other house property. He is eligible to claim deduction of ₹ 2 lakh under section 24(b) out of the total interest paid or payable by him during the previous year 2016-17. He is not eligible for deduction of interest paid by him under any other provision of the Income-tax Act, 1961.

Computation of Total Income of an individual

11. From the following information, you are required to compute the total income of Mr. Dinesh (aged 52 years) for the assessment year 2017-18, based on provisions contained under section 44AE of the Income-tax Act, 1961.

    Mr. Dinesh is solely engaged in the business of plying goods vehicles since financial year 2010-11. He owned 5 heavy goods vehicles as on 01.04.2016. He acquired 3 more heavy goods vehicles on 1.7.2016.

    He did not opt for presumptive provision contained in section 44AE for the financial year 2015-16. His books were audited under section 44AB and the return of income was filed on 18.9.2016. He has unabsorbed depreciation of ₹ 95,000 and business loss of ₹ 1,28,000 for the financial year 2015-16.

    Following further information relating to P.Y.2016-17 is also provided to you:

    (i) He paid premium on life insurance policy of his married daughter ₹ 28,000. The policy was taken on 1.07.2016 and the minimum sum assured is ₹ 2,50,000.

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(ii) He repaid principal of ₹ 88,000 and interest of ₹ 22,000 to Indian Bank towards education loan of his son, who completed MBA two years ago. He is employed after completion of his studies.

(iii) He deposited ₹ 55,000 in Tax Saver Deposit with Indian Bank in the name of married daughter.

(iv) He paid medical insurance premium of ₹ 31,500 for his mother, resident in India, aged 75 years by cheque.

Provisions concerning Advance Tax and Tax Deducted at source

12. State the applicability of TDS provisions and amount of tax, if any, to be deducted in the following cases:

(a) Mr. Karthik received ₹ 2,50,000 as rent from Trip Ltd. for hire of machinery.

(b) Dr. Sarthak performed a plastic surgery on Mr. Verma, Karta of Verma's Family. The Verma HUF paid ₹ 35,000 to Dr. Sarthak for such surgery.

(c) Mr. Abhinav received ₹ 29,000 as director's sitting fees on 21-03-2017 from XYZ Ltd.

Provisions for filing of Return of Income

13. Mr. Vardaan earned income under the head "Salaries", "Income from House Property" and bank interest during the previous year 2016-17. He furnished his return of income on 30.11.2017 for A.Y 2017-18. Later, on 1.5.2018, he realized that he had not claimed deduction under section 80C in respect of the amount deposited by him in public provident fund (PPF). He now wants to revise his return of income. Can he do so? Explain with reference to the provisions of the Income-tax Act, 1961.

Computation of excise duty

14. Mr. Shivaay, a manufacturer, sold a machine for ₹ 4,00,000 (excluding tax and duties). Further, he furnished the following additional information with respect to said transaction:

Particulars	
Transit insurance shown separately	₹ 20,000
Packing charges	₹ 20,000
Extra charges for designing of the machine	₹ 50,000
Outward freight beyond the place of removal	₹ 30,000
Cash discount @ 2% on price of machinery was allowed as per terms of contract since full payment was received within 15 days of the dispatch of machinery	
VAT rate	2%
Excise duty rate	12.5%

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Calculate the excise duty payable by Mr. Shivaay stating the reason for inclusion or exclusion for each of the items.

Computation of customs duty

15. Star Importers imports a carton of goods from China on 10.10.2016 containing 10,000 pieces valued at ₹ 2,00,000 (assessable value in terms of section 14 of the Customs Act, 1962). On the said product, customs duty @ 10% and excise duty @ 12.5% *ad valorem* is leviable.

    Similar products in India are assessable under section 4A of Central Excise Act 1944, after allowing an abatement of 30%. MRP printed on package at the time of import is ₹ 50 per piece. Special CVD under section 3(5) of the Customs Tariff Act, 1975 is also applicable on such goods. Determine the total customs duties payable on the imported goods.

Applicability of central sales tax

16. Briefly explain whether central sales tax will be applicable:-

    (i) when goods are sent by dealer outside the State to his other place of business.

    (ii) if at the time of stock transfer outside the State, dealer has an order for such sale in hand.

Computation of VAT liability

17. Mr. Maahi of Kolkata purchased goods from Mr. Vicky of Kolkata amounting to ₹ 8,55,000 including VAT @ 12.50% in the month of January, 2016. He incurred ₹ 1,00,000 as manufacturing & other expenses and added profit @ 25% on cost.

    Mr. Maahi sold 80% of the goods to Mr. Rajat of Kolkata and charged VAT @ 12.50% on 02.02.2016. Remaining 20% of the goods were transferred to his branch in Manipur on 05.02.2016.

    Compute the net VAT payable and input tax credit, if any, for the month of February, 2016 by assuming input output ratio to be 1:1.

Basic concepts of service tax

18. With reference to the provisions of service tax law, briefly examine the service tax implications in the following independent cases:-

    (a) Mr. A is working in a leading multinational company for two years. One of the clause of his employment contract provides that he would be given 3 months' notice by the said company in the event of termination of his services by such company. However, he has been terminated suddenly on account of his poor performance. He was paid termination compensation of ₹ 1,25,000.

    (b) Mr. B has entered into a contract with Zeal Technologies Ltd. for rendering legal consultancy services for one year on a lumpsum fee of ₹ 2,50,000 per month.

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Point of taxation

19. With reference to the Point of Taxation Rules, 2011, determine the point of taxation in respect of following independent transactions:

    (a) A public limited company paid director's fees of ₹ 2,10,000 to one of its director for attending a Board Meeting held in the month of April. The meeting was held for taking important policy decisions for the company. Though the journal entry for the transaction was passed on the same day, actual payment was made to the director by the end of August of the next year.

    (b) XYZ Ltd. paid consultancy fees of ₹ 60,000 to its associated enterprises located in Dubai. Dubai firm raised the invoice on 27.01.2016 and the same was received by XYZ Ltd. on 06.02.2016. Though the journal entry was passed on 07.02.2016 in the books of XYZ Ltd., actual payment to Dubai firm was made on 25.02.2016.

Payment of service tax at special rates

20. Compute the service tax liability of Mr. P, an air travel agent, for the quarter ended September 30, 2016 using the following details:-

Particulars	₹
Basic air fare collected for domestic booking of tickets	40,00,000
Basic air fare collected for international booking of tickets	60,00,000
Commission received from the airlines on the sale of domestic and international tickets	5,00,000

In the above case, would the service tax liability of Mr. P be reduced if he opts for the special provision for payment of service tax as provided under rule 6 of the Service Tax Rules, 1994 instead of paying service tax at normal rates?

Notes:

1. Mr. P is not eligible for the small service providers' exemption under *Notification No. 33/2012 ST dated 20.06.2012*.
2. Service tax and cesses have been charged separately.

Computation of service tax liability

21. Compute the service tax including SBC and KKC payable on the services provided in each of the following independent cases:-

Services	₹
Sale of space for advertisement in a leading newspaper	2,15,000
Services related to preparation of advertisement	60,000
Sale of space for advertisements on internet websites	40,000

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Sale of time for advertisement to be broadcast on TV Channel	1,50,000
Advertising in business directories	30,000
Advertising on film screen in theatres	1,00,000

Note: All the amounts stated above are exclusive of service tax and cesses. Ignore exemption available to small service providers.

Exemptions under service tax

22. Safe Alps Cable Car Co. runs a cable car to transport pilgrims uphill to a mountain top where a holy shrine is situated. Examine whether Safe Alps Cable Car Co. is required to pay any service tax.

23. With reference to the provisions of Finance Act, 1994 and relevant notifications issued thereunder, whether service tax is payable in the following independent cases:-

    (a) Gyan Mandal, an Educational Trust, runs a play school for providing pre-school education.

    (b) Shining Stars Public School provides educational services upto higher secondary school.

    (c) Aggarwal Classes, a coaching center, provides coaching for MBA entrance examinations to meritorious students of economically weak background.

Interest on delayed payment of service tax

24. Compute the interest payable on delayed payment of service tax by service provider where service tax has not been collected from service receivers in following cases:

Name of the service provider	ABC Ltd.	Gagan
Service tax liability	₹ 1,00,000	₹ 2,00,000
Delay in payment of service tax	10 days	20 days

Aggregate value of taxable services rendered in preceding financial year by ABC Ltd. was ₹ 35,00,000 and by Gagan was ₹ 70,00,000.

CENVAT credit

25. Compute the CENVAT credit available with Hanuman Services Ltd., an output service provider, in respect of the following services availed by it in the month of October, 2016:-

S.No.	Services availed	Service tax paid* (₹)
(i)	Accounting and auditing services	30,00,000
(ii)	Legal services	7,50,000
(iii)	Security services	60,000

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(iv)	Motor vehicles taken on rent (Such motor vehicles are not eligible capital goods for the purposes of claiming CENVAT credit)	2,50,000

** including Swachh Bharat Cess (SBC) & Krishi Kalyan Cess (KKC)*

SUGGESTED ANSWERS

1. Computation of gross total income of Mr. Suhaan for the A.Y. 2017-18

	Particulars	Resident & ordinarily resident	Resident but not ordinarily resident	Non-Resident
		₹	₹	₹
(a)	Income earned from business in France which is controlled from Mumbai, out of which ₹ 65,000 is received in India	90,000	90,000	65,000
(b)	Pension for services rendered in India but received in France	14,000	14,000	14,000
(c)	Dividend received in France from a Titanium Inc., a French company	25,000	-	-
(d)	Rent from property in France deposited in a bank in France	59,500	-	-
(e)	Dividend from Sunset Ltd., an Indian Company	-	-	-
Gross Total Income		**1,88,500**	**1,04,000**	**79,000**

Notes:

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

(i) Income received or deemed to be received in India; and

(ii) Income accruing or arising or deemed to accrue or arise in India.

Further, the income which accrues or arise outside India would be chargeable to tax in case of resident but not ordinarily resident in India, only if such income is derived from a business controlled in India.

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Accordingly, the entire income earned from business in France which is controlled from Mumbai would be chargeable to tax in the hands of Mr. Suhaan if he is a resident in India or resident but not ordinarily resident. However, if he is non-resident then only that part of income which is received in India would be taxable in his hands.

(b) Pension for services rendered in India but received in France would be taxable in all cases, since it has accrued or arisen in India.

(c) Dividend received in France from a French company would be taxable in the hands of Mr. Suhaan, only if he is resident and ordinarily resident in India. If he is a resident but not ordinarily resident or a non-resident, the same would not be taxable in his hands in India since it has neither accrued or arisen in India nor is it received in India.

(d) Likewise, rental income from property in France would also be taxable only if he is resident in India. It has been assumed that the rental income is the gross annual value of the property. Therefore, deduction @30% under section 24, has been provided and the net income so computed is taken into account for determining the gross total income of a resident and ordinarily resident.

	₹
Rent received (assumed as gross annual value)	85,000
Less: Deduction under section 24 (30% of ₹ 85,000)	25,500
Income from house property	59,500

(e) Dividend from Indian company is exempt under section 10(34), whether the recipient is a resident, resident but not-ordinarily resident or non-resident.

2. (a) False: Any payment from an approved superannuation fund made by way of transfer to the account of an employee under a notified pension scheme referred to in section 80CCD is exempt under section 10(13). Since Atal Pension Yojana is a notified pension scheme under section 80CCD, the payment of ₹12 lakhs made by T Ltd. by way of transfer from an approved superannuation fund to Mr. Swayam's account under such scheme is exempt under section 10(13).

(b) False: 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, ₹ 12,000 would not be included in Mr. Arpit's taxable income.

(c) False: As per section 115BBDA, dividend in excess of ₹10 lakhs would be chargeable to tax @10% in the hands of, *inter alia*, an individual, resident in India. Section 10(34) exempts dividend distributed by domestic companies in the hands of the recipient, since the same has been subject to dividend distribution tax under section 115-O in the hands of the company. However, the amount of dividend which is chargeable to tax under section 115BBDA would not be exempt under section 10(34).

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Accordingly, dividend received upto ₹ 10 lakh would be exempt under section 10(34) in the hands of Ms. Arpita. However, dividend in excess of ₹10 lakh i.e., ₹ 2 lakhs, would be taxable@10% in her hands.

(d) False: Exemption under section 10(26AAA) is available to a Sikkimese individual not only in respect of income from any source in the state of Sikkim, but also in respect of income by way of dividend or interest on securities.

3. Computation of Total Income and tax liability of Mrs. Shakshi for A.Y. 2017-18

Particulars	₹	₹
Income from salary		
Basic salary		9,60,000
Dearness allowance		2,64,000
Bonus		1,60,000
Commission (calculated as percentage of turnover)		1,20,000
Entertainment allowance		35,000
Children's hostel allowance	9,600	
Less **:** Exemption (₹ 300 x 12 x 2)	7,200	2,400
Interest credited to recognized provident fund account (exempt)		-
Rent free unfurnished accommodation (Refer Working Note 1)		84,000
Excess contribution to PF by employer (Refer Working Note 2)		38,720
Gross salary/Gross Total Income		**16,64,120**
***Less* : Deduction under section 80C**		
Life insurance premium paid for insurance of major daughter	18,000	
Contribution to recognized provident fund	2,00,000	
	2,18,000	
Restricted to	1,50,000	
Deduction under section 80CCC in respect of LIC pension fund	60,000	
	2,10,000	
Deduction limited to ₹ 1,50,000 as per section 80CCE		1,50,000

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Deduction under section 80D		
Medical Insurance premium in respect of self and spouse		26,000
Deduction under section 80G		
Donation to Public Charitable Trust ₹ 1,50,000 restricted to 50% of ₹ 1,48,812 (10% of adjusted total income) (Refer Working Note 3)		74,406
Total income		**14,13,714**
Total Income (Rounded Off)		**14,13,710**
Tax on total income [20,000 + 1,00,000 + (14,13,710 -10,00,000) x 30%]		2,44,113
Add : Education cess @ 2%		4,882
Add : Secondary and higher education cess @ 1%		2,441
Total tax liability		**2,51,436**
Tax Liability (rounded off)		**2,51,440**

Working Notes:

(1) Value of rent free unfurnished accommodation

Particulars	₹
Basic salary	9,60,000
Dearness allowance	2,64,000
Bonus	1,60,000
Commission@0.1% of turnover	1,20,000
Entertainment allowance	35,000
Children's hostel allowance	2,400
Gross Salary	**15,41,400**
15% of salary	2,31,210
Actual rent paid by the company	84,000
The least of the above is chargeable perquisite.	

(2) Employer's contribution to P.F. in excess of 12% of salary

Employer's contribution	₹ 2,00,000
Less : 12% of basic salary, dearness allowance & commission 12% of ₹ 13,44,000	₹ 1,61,280
	₹ 38,720

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(3) Deduction@50% is allowable on donation made to public charitable trust subject to qualifying limit, which is 10% of adjusted total income i.e., ₹ 1,48,812 [i.e., Gross Total Income ₹ 16,64,120 (-) Deduction under section 80C/80CCC ₹ 1,50,000 (-) Deduction under section 80D ₹ 26,000].

Therefore, ₹ 74,406, being 50% of ₹ 1,48,812 is allowable as deduction under section 80G. In this case, since donation is made otherwise than by way of cash, it qualifies for deduction under section 80G.

4. Since the unrealised rent was recovered in the P.Y.2016-17, the same would be taxable in the A.Y.2017-18 under section 25A, irrespective of the fact that Mr. Aakarsh was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y.2016-17, and hence the same would also be taxable in the A.Y.2017-18 under section 25A, even though Mr. Aakarsh was not the owner of the house in that year. Both unrealised rent and arrears of rent would be taxable under the head "Income from house property". A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Aakarsh for A.Y.2017-18.

Computation of income from house property of Mr. Aakarsh for A.Y.2017-18

Particulars		₹
(i)	Unrealised rent recovered	17,000
(ii)	Arrears of rent received	28,000
		45,000
Less:	Deduction@30%	13,500
Income from house property		**31,500**

5. (i) Allowable as deduction: As per section 36(1)(viia)(d), deduction is allowed to a non-banking financial company on account of provision for bad and doubtful debts of an amount not exceeding 5% of total income (before making any deduction under section 36(1)(viia) and Chapter VI-A).

Accordingly, XYZ Credit Corporation, a non-banking finance company would be eligible for deduction in respect of provision for bad and doubtful debt provided such amount does not exceed 5% of total Income (before making any deduction under section 36(1)(viia) and Chapter VI-A).

(ii) Allowable as deduction: As per section 43B, the allowability of deduction in respect of any sum payable by an assessee to the Indian Railways for use of Railway Assets is subject to actual payment of such sum on or before the due date of filing return of income under section 139(1).

Thus, in the present case, ₹ 45,000 paid by ABC Ltd. to Indian Railways for use of railway assets would be allowed as deduction while computing the business income

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for the previous year 2016-17, since such payment is made on or before the due date for filing return of income for the previous year 2016-17, being the year in which such liability incurred.

(iii) Not allowable as deduction: Income-tax paid by the employer in respect of non-monetary perquisites provided to its employees is exempt in the hands of the employee under section 10(10CC). As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.

Therefore, income-tax of ₹ 55,000 paid by the MNO Ltd. in respect of non-monetary perquisites provided to an employee would not be allowed as deduction while computing its business income.

(iv) Allowable as deduction: The limit for attracting disallowance under section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft is ₹ 35,000 in case of payment made for plying, hiring or leasing goods carriage to a transporter.

Therefore, in the present case, no disallowance under section 40A(3) would be attracted in the hands of S Ltd. in respect of payment of ₹ 32,000 made in cash for carriage of goods to a transporter. Further, disallowance under section 40(a)(ia) for non-deduction of tax at source would also not be attracted, since the provisions for deduction of tax at source under section 194C are not applicable, in case of a transporter owning not more than 10 goods carriages at any time during the previous year.

(v) Allowable as deduction: As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A(3) is attracted even if the cash payment for the expense exceeds ₹ 20,000.

Therefore, disallowance under section 40A(3) would not be attracted in this case, since cash payment for purchase of wheat is made directly to the farmer.

6. Computation of Capital Gains chargeable to tax in the hands of Mr. Mayank for the A.Y. 2017-18

Particulars	₹	₹
Gross Sale Consideration on transfer of residential house		85,00,000
[As per section 50C, in case the actual sale consideration is lower than the stamp duty value fixed by the stamp valuation authority, the stamp duty value shall be deemed as the full value of consideration]		
Less: Brokerage @ 2% of actual sale consideration of ₹ 68,00,000		1,36,000
Net Sale Consideration		83,64,000

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Less: Indexed cost of acquisition [₹ 8,00,000 x 1125/140]		64,28,571
Long-term capital gain		19,35,429
***Less:* Exemption under section 54**		
- Acquisition of residential house property at Kota on 3.3.2017 (i.e., within the prescribed time of two years from 14.12.2016, being the date of transfer of residential house at Noida).	7,00,000	
- Amount deposited in Capital Gains Accounts Scheme on or before the due date of filing return of income for construction of additional floor on the residential house property at Kota. Since Mr. Mayank has no other source of income, his due date for filing return of income is 31st July, 2017		
[Therefore, ₹ 4,50,000 deposited on 16.7.2017 will be eligible for exemption whereas ₹ 8,70,000 deposited on 11.11.2017 will not be eligible for exemption under section 54]	4,50,000	11,50,000
Exemption under section 54EC		
- Amount deposited in capital gains bonds of NHAI within six months from the date of transfer (i.e., on or before 13.6.2017) would qualify for exemption.		
[Therefore, in this case, ₹ 3,50,000 deposited in capital gains bonds of NHAI on 14.5.2017 would be eligible for exemption under section 54EC, whereas ₹ 5,50,000 deposited on 25.7.2017 would not qualify for exemption]		3,50,000
Long-term capital gain		**4,35,429**

Computation of tax liability of Mr. Mayank for A.Y. 2017-18

Particulars	₹
Tax on ₹ 1,85,429 (i.e. Long term capital gain ₹ 4,35,429 less basic exemption limit of ₹ 2,50,000) is charged @ 20% [Section 112]	37,086
(Since long-term capital gains is the only source of income, the entire basic exemption limit can be exhausted against this income)	
Less: Rebate under section 87A	5,000
	32,086
Add: Education cess@2% and Secondary & higher education cess @ 1%	963
Total tax liability	**33,049**
Total tax liability (rounded off)	**33,050**

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Note: *As per the decision of Gauhati High Court in CIT vs Rajesh Kumar Jalan 286 ITR 274 and Haryana High Court in CIT vs Jagriti Agarwal 245 CTR 629, exemption under section 54 is allowable even if the amount of capital gain is deposited in Capital Gains Accounts Scheme within the period specified for filing a belated return under section 139(4) [i.e., on or before 31.3.2018].*

If we apply the above interpretation in this case, Mr. Mayank would be eligible for exemption under section 54 in respect of ₹ 8,70,000 deposited in Capital Gains Accounts Scheme on 11.11.2017 also, since the said date falls within the time specified under section 139(4). On the basis of this interpretation, the long term capital gain chargeable to tax in the hands of Mr. Mayank would be Nil and the consequent tax liability would also be Nil.

Long-term capital loss of ₹ 4,34,571 can be carried forward for set-off against long-term capital gains of subsequent assessment year. It can be carried forward for a maximum of eight assessment years.

7. Section 145A provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates.

Section 56(2)(viii) states that such income shall be taxable as 'Income from other sources'.

50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income.

Therefore, he cannot claim deduction in respect of legal expenses incurred to receive the interest on enhanced compensation from such income.

Computation of interest on enhanced compensation taxable as "Income from other sources" for the A.Y 2017-18:

Particulars	₹
Interest on enhanced compensation taxable under section 56(2)(viii)	5,32,000
Less: Deduction under section 57(iv) (50% x ₹ 5,32,000)	2,66,000
Taxable interest on enhanced compensation	2,66,000

8. As per the provisions of section 64(1A) of the Income-tax Act, 1961, all the income of a minor child has to be clubbed in the hands of that parent whose total income (excluding the income of the minor) is greater. The income of Mr. Abhinav is ₹ 4,15,000 and income of Mrs. Suhaani is ₹ 3,25,000. Since the income of Mr. Abhinav is greater than that of Mrs. Suhaani, the income of the minor children have to be clubbed in the hands of Mr. Abhinav. It is assumed that this is the first year when clubbing provisions are attracted.

Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be clubbed. Hence, the income of

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minor child Shreya from giving music concerts will not be included in the hands of either parent.

However, interest from bank deposit has to be clubbed even when deposit is made out of income arising from application of special talent.

The Gross Total Income of Mrs. Suhaani is ₹ 3,25,000. The gross total income of Mr. Abhinav giving effect to the provisions of section 64(1A) is as follows:

Computation of gross total income of Mr. Abhinav for the A.Y. 2017-18

Particulars	₹	₹
Income from business		4,15,000
Income of minor son Chetan from fixed deposit	25,000	
Less: Exemption under section 10(32)	1,500	23,500
Income of minor daughter Shreya		
(i) From music concerts		
[From special talent – not to be clubbed]	-	
(ii) Interest from bank	7,000	
(iii) Gift of ₹ 5,500 received from a non-relative is not taxable under section 56(2)(vii) being less than the aggregate limit of ₹ 50,000	Nil	
	7,000	
Less : Exemption under section 10(32)	1,500	5,500
Gross Total Income		**4,44,000**

9. Computation of total income of Mr. Tarun for the A.Y.2017-18

Particulars	₹	₹
Salaries		
Income from salaries	2,55,000	
Less: Loss from house property	2,19,000	36,000
Profits and gains of business or profession		
Income from speculation business	28,000	
Less: Loss from toys business set off	28,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,75,500	
Less: Loss from toys business set off	2,17,000	58,500
Income from other sources		
Income from betting		49,000
Gross total income		**1,43,500**

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Less: Deduction under section 80C (deposit in PPF)		36,000
Total income		**1,07,500**

Losses to be carried forward to A.Y. 2018-19:

Particulars	₹
(1) Loss from toys business **(₹ 2,45,000 - ₹ 28,000 - ₹ 2,17,000)**	Nil
(2) Loss from specified business covered by section 35AD	46,000

Notes:

(i) Long-term capital gains from sale of listed shares in a recognized stock exchange is exempt under section 10(38). Loss from an exempt source cannot be set off against profits from a taxable source. Therefore, long-term capital loss on sale of listed shares cannot be set-off against long-term capital gains from sale of urban land.

(ii) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business as per section 73A. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year, provided the return is filed on or before the due date under section 139(1).

(iii) Loss from toys business cannot be set off against salary income. However, the balance business loss of ₹ 2,17,000 [₹ 2,45,000 – ₹ 28,000 set-off against income from speculation business as per section 70(1)] can be set-off against long-term capital gains of ₹ 2,75,500 from sale of urban land as per section 71(2). Consequently, the taxable long-term capital gains would be ₹ 58,500.

(iv) Loss from card games can neither be set off against any other income, nor can it be carried forward.

(v) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of the amount deposited in PPF has to be restricted to ₹36,000 [i.e., Gross Total Income of ₹ 1,43,500 – ₹ 58,500 (LTCG) - ₹ 49,000 (Casual income)].

(vi) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

10. (i) **False**: A proviso has been inserted in section 80CCD(3) to provide that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee.

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Therefore, ₹ 9 lakhs, being the amount received by Mrs. Leena, widow of Mr. Sahitya as a nominee on closure of NPS account on his death would not be deemed as income in her hands.

(ii) **False,** as per section 80GG, least of the following is allowed as deduction:

(a) Actual rent paid *less* 10% of total income

96,000 minus $\frac{(10 \times 3,80,000)}{100}$ = ₹ 58,000

(b) 25% of total income

$\frac{25 \times 3,80,000}{100}$ = ₹ 95,000

(c) Amount calculated at ₹ 5,000 p.m.= ₹ 60,000

Thus, Mr. Gopal is eligible to claim deduction of only ₹ 58,000 under section 80GG and not a flat deduction of ₹ 60,000.

(iii) **False:** Mr. Anay has to pay ₹ 2,64,000 (₹ 32,00,000 x 11% x 9/12) towards interest on housing loan during the previous year 2016-17.

He would be eligible to claim ₹ 2,00,000 as deduction under section 24(b) under the head "Income from House Property" In addition, he can claim deduction of ₹ 50,000 under section 80EE from gross total income, in respect of the balance amount of ₹ 64,000 (₹ 2,64,000 – ₹ 2,00,000) during the P.Y. 2016-17.

11. Computation of total income of Mr. Dinesh for the A.Y. 2017-18

Particulars	₹	₹
Income from business of plying goods vehicle (Refer Note 1)		6,52,500
Less: Brought forward business loss of financial year 2015-16 (Refer Note 2 & 3)		1,28,000
Gross Total Income		**5,24,500**
Less: **Deduction under Chapter VI-A**		
Section 80C:-		
Life insurance premium paid for insurance of married daughter (Refer Note 5)	25,000	
Section 80D:-		
Medical insurance premium paid for insurance of mother (Refer Note 6)	30,000	

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Section 80E:-		
Interest paid towards education loan taken for studies of his son (Refer Note 7)	22,000	77,000
Total Income		**4,47,500**

Working Notes:

(1) **Computation of income from business of plying goods vehicles under section 44AE**

Particulars	₹
5 heavy goods vehicle held throughout the year (₹ 7,500×5×12)	4,50,000
3 heavy goods vehicle – held for 9 months (₹ 7,500×3×9)	2,02,500
Income under section 44AE	6,52,500

(2) As per section 44AE, any deduction allowable under the provisions of sections 30 to 38 shall be deemed to have been already allowed. Therefore, the unabsorbed depreciation of ₹ 95,000 shall not be allowed as a deduction since it is covered by section 32.

(3) Brought forward business loss of ₹ 1,28,000 shall be allowed as deduction, by virtue of section 72, as it is allowed to be carried forward for 8 assessment years following the assessment year to which it relates, since the return for A.Y. 2016-17 was filed before the due date specified under section 139(1).

(4) Tax saver deposit in the name of married daughter does not qualify for deduction under section 80C.

(5) Premium paid for insurance on the life of any child of the individual, whether married or not, qualifies for deduction under section 80C. In respect of policies issued on or after 1.04.2012, only premium paid to the extent of 10% of "minimum capital sum assured" qualifies for deduction under section 80C. Therefore, out of the life insurance premium of ₹ 28,000 paid for insurance policy of married daughter, only ₹ 25,000 (being 10% of ₹ 2,50,000) is allowable as deduction under section 80C.

(6) Deduction is allowed under section 80D for payment made for medical insurance of parents. Medical insurance premium paid for insuring the health of a person who is a senior citizen i.e. of age 60 years or more, qualifies for deduction under section 80D, subject to a maximum of ₹ 30,000. Hence, deduction of ₹ 30,000 is provided to Mr. Dinesh, as his mother is a senior citizen and the premium is paid otherwise than by way of cash.

(7) It is only the payment of interest on education loan which qualifies for deduction under section 80E. Deduction under section 80E is allowed in respect of interest on loan taken for education of children of the individual even if they are not dependent.

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Principal repayment of the education loan is not eligible for deduction under section 80E.

12. (a) Since the rent paid for hire of machinery by Trip Ltd. to Mr. Kartik exceeds ₹ 1,80,000, the provisions of section 194-I for deduction of tax at source are attracted.

The rate applicable for deduction of tax at source under section 194-I on rent paid for hire of plant and machinery is 2%, assuming that Mr. Kartik has furnished his permanent account number to Trip Ltd.

Therefore, the amount of tax to be deducted at source:

= ₹ 2,50,000 x 2% = ₹ 5,000.

Note: In case Mr. Kartik has not furnished his permanent account number to Trip Ltd., tax shall be deducted @ 20% on ₹ 2,50,000, by virtue of provisions of section 206AA.

(b) As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if it is subject to tax audit under section 44AB in the financial year preceding the current financial year.

However, if such payment made for professional services is exclusively for the personal purpose of any member of Hindu Undivided Family, then, the liability to deduct tax is not attracted.

Therefore, even if Verma (HUF) is liable to tax audit in the immediately preceding financial year, the liability to deduct tax at source is not attracted in this case since, the fees for professional service to Dr. Sarthak is paid for a personal purpose i.e. the surgery of a member of the family.

(c) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of ₹ 30,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director.

Therefore, in this case, tax@10% has to be deducted at source under section 194J in respect of the sum of ₹ 29,000 paid by XYZ Ltd. to its director. Thus, tax of ₹ 2,900 has to be deducted at source.

13. Since Mr. Vardaan has income only under the heads "Salaries", "Income from house property" and "Income from other sources", he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2017-18 under section 139(1), in his case, is 31st July, 2017. Since Mr. Vardaan had submitted his return of income only on 30.11.2017, the said return is a belated return under section 139(4).

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Section 139(5) now permits a return furnished under section 139(1) as well as a belated return furnished under section 139(4) to be revised. Thus, a belated return under section 139(4) can also be revised. The time limit for filing a revised return is one year from the end of the relevant assessment year. In this case, the time limit would expire only on 31.3.2019. He has discovered the mistake in May 2018 itself. Therefore, Mr. Vardaan can revise the belated return of income filed by him to claim deduction under section 80C, since the time limit of one year from the end of the relevant assessment year has not elapsed.

14. Computation of excise duty payable

Particulars	₹
Price of the machinery	4,00,000
Add: Packing charges [Note 1]	20,000
Add: Extra design charges [Note 1]	50,000
Total	4,70,000
Less : 2% cash discount on price of machinery [₹ 4,00,000 x 2%] [Note 2]	8,000
Assessable value	4,62,000
Excise duty @ 12.5%	**57,750**

Notes:

1. While computing assessable value, packing charges and extra designing charges have been included as such payments are in connection with sale.
2. Cash discount has been allowed as deduction since discount has been passed on to the buyer.
3. While computing assessable value, outward freight and transit insurance has not been included as they are incurred for transporting the goods beyond the place of removal.
4. State VAT does not affect excise duty payable.

15. Computation of customs duty payable

Particulars		₹
Assessable value (A)	(A)	2,00,000.00
Basic customs duty @ 10% of (A)	(B)	20,000.00
CVD [Refer note below]	(C)	43,750.00
Education cesses of customs @ 3% on [(B) + (C)]	(D)	1,912.50
Value for computing special CVD [(A) + (B) + (C) + (D)]	(E)	2,65,662.50
Special CVD @ 4% on (E) (rounded off)	(F)	10,626.50
Total custom duty payable [(B) + (C) + (D) + (F)] [Rounded off]		**76,289**

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Note: If imported goods are similar to goods covered under section 4A of the Central Excise Act, 1944, CVD is payable on basis of MRP printed on the package less abatement, as permissible. Therefore, CVD is computed as under:

Particulars	₹
Maximum retail price [10,000 pieces × ₹ 50]	5,00,000
Less: Abatement @ 30%	1,50,000
Assessable value for CVD	3,50,000
CVD @ 12.5% of ₹ 3,50,000	43,750

16. (i) When the goods are sent by dealer outside the State to his other place of business, such movement of goods is an inter-State stock transfer and is not liable to central sales tax. The burden to prove that the inter-State movement of goods is stock transfer, lies on the dealer and not on the Department. For this purpose, the dealer has to submit a declaration obtained from his other place of business in Form F.

(ii) If at the time of stock transfer outside the State, the dealer has an order for such sale in hand; movement of such goods shall be deemed to have been occasioned as a result of sale. Therefore, such inter-State sale of goods will be liable to central sales tax.

17. Computation of Net VAT payable and input tax credit

Particulars	₹
Output VAT	
Purchases of raw material [excluding VAT of ₹ 95,000 (₹ 8,55,000 × 12.5/112.5)]	7,60,000
Manufacturing and other expenses	1,00,000
Cost of production	8,60,000
Cost of goods sold [80% of ₹ 8,60,000]	6,88,000
Add: Profit @ 25% on the cost of goods sold	1,72,000
Sale price	8,60,000
Output VAT payable @ 12.5% **(A)**	1,07,500
Input VAT	
Input tax credit on raw materials used in manufacture of finished goods that are sold [₹ 95,000 x 80%]	76,000
Input tax credit on raw materials used in manufacture of finished goods that are stock transferred to Manipur [₹ 7,60,000 × 20% × (12.5 – 2)%]	15,960

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(In case of inter-state stock transfer of finished goods, input tax paid on inputs used in manufacture of such finished goods in excess of 2% is available as input tax credit.)	
Total input tax credit (B)	**91,960**
Net VAT payable (A) – (B)	**15,540**

18. (a) The compensation for termination of employment will not attract service tax as it is under the terms of employment. Such amount paid by the employer to the employee for premature termination of contract of employment is treatable as amounts paid in relation to services provided by the employee to the employer in the course of employment. Hence, amount so paid would not be chargeable to service tax.

(b) As per section 65B(44) of the Finance Act, 1994, only services provided by an employee to the employer are outside the ambit of services under service tax law; services provided outside the ambit of employment for a consideration would be a taxable service liable to service tax. In the present case, Mr. B is hired as a legal consultant, and hence Mr. B is liable to pay service tax.

Further, Mr. B has to register under service tax law, make quarterly payment of service tax (since he is an individual) and file half yearly returns for the half year ending on 30th September and 31st March.

19. (a) In case of taxable service provided by a director of a company to said company, service recipient is liable to pay service tax under reverse charge mechanism.

Further, rule 7 of Point of Taxation Rules, 2011, *inter alia,* provides that in respect of persons liable to pay service tax under reverse charge mechanism, the point of taxation shall be the date on which payment is made subject to the condition that payment is made within a period of three months of the date of invoice.

However, if payment is not made within a period of 3 months of date of invoice, point of taxation will be first day that occurs immediately after expiry of said 3 months.

Since, in the present case, payment is made in August end, which is beyond 3 months of the date of invoice (invoice is issued in April), the point of taxation would be the first day that occurs immediately after expiry of said 3 months.

(b) Point of taxation in case of import of service by "associated enterprises" where the person providing the service is located outside India is-

(i) date of debit in the books of account of the person receiving the service

OR

(ii) date of making the payment

whichever is earlier

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Here, date of debit in XYZ Ltd.'s books of accounts is 07.02.2016 and date of payment to Dubai firm is 25.02.2016. Therefore, point of taxation is 07.02.2016.

20. As per rule 6 of the Service Tax (Determination of Value) Rules, 2006, only the commission received by the air travel agent from the airlines is included in the value of taxable service. The air fare collected by the air travel agent in respect of the service provided by him does not form part of the value of taxable service. Accordingly, the service tax liability of Mr. P would be computed as under:

Particulars	₹
Basic air fare collected for domestic booking of tickets	Nil
Basic air fare collected for international booking of tickets	Nil
Commission received from the airlines on the sale of domestic and international tickets	5,00,000
Value of taxable service	5,00,000
Service tax @ 14%	70,000
Add: Swachh Bharat Cess (SBC) @ 0.5% (₹ 5,00,000 x 0.5%)	2,500
Add: Krishi Kalyan Cess (KKC) @ 0.5% (₹ 5,00,000 x 0.5%)	2,500
Service tax payable (including SBC & KKC)	**75,000**

However, if Mr. P opts for the special provision for payment of service tax as provided under rule 6 of the Service Tax Rules, 1994, service tax liability would be computed as under:

Particulars	₹
0.7% of the basic air fare collected for domestic booking of tickets [₹ 40,00,000 × 0.7%]	28,000
1.4% of the basic air fare collected for international booking of tickets [₹ 60,00,000 × 1.4%]	84,000
Service tax	1,12,000
Add: Swachh Bharat Cess (SBC) @ 0.5% (₹ 1,12,000 x $\frac{0.5}{14}$)	4,000
Add: Krishi Kalyan Cess (KKC) @ 0.5% (₹ 1,12,000 x $\frac{0.5}{14}$)	4,000
Service tax payable (including SBC & KKC)	**1,20,000**

Therefore, as can be seen from the above two computations of service tax, the service tax liability of Mr. P would not be reduced in the aforesaid option.

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21. As per section 66D(g) of the Finance Act, 1994, selling of space for advertisements in print media is included in the negative list of services. In other words, advertisement in all media except print media is liable to service tax. Therefore, sale of space for advertisements on internet websites, sale of time for advertisement to be broadcast on TV Channel and advertising on film screen in theatres are liable to service tax.

Further, definition of print media specifically excludes business directories. Therefore, advertising in business directories attracts service tax.

Services related to preparation of advertisement are liable to service tax as they are not included in the negative list.

Computation of service tax payable

Services	Value of service (₹)	Service tax @ 15% (including SBC & KKC) (₹)
Sale of space for advertisement in a leading newspaper	2,15,000	Nil
Services related to preparation of advertisement	60,000	9,000
Sale of space for advertisements on internet websites	40,000	6,000
Sale of time for advertisement to be broadcast on TV Channel	1,50,000	22,500
Advertising in business directories	30,000	4,500
Advertising on film screen in theatres	1,00,000	15,000

22. With effect from 01.04.2016, the exemption available to transportation of passengers, with or without accompanied belongings by, *inter alia,* a ropeway, cable car or aerial tramway vide Mega Exemption *Notification No. 25/2012 ST dated 20.06.2012* has been withdrawn.

Therefore, service tax is payable in case of transporting of pilgrims by cable car to the holy shrine situated at the mountain top. It may be noted that service tax is payable irrespective of the purpose of transport of the passengers i.e., religious or otherwise.

23. Mega exemption *Notification No. 25/2012 ST dated 20.06.2012* exempts services provided by an educational institution to its students, faculty and staff. Further, an educational institution means an institution providing services by way of *inter alia* —

(i) pre-school education and education up to higher secondary school or equivalent;

(ii) education as a part of a curriculum for obtaining a qualification recognised by any law for the time being in force.

(a) Service tax is not payable on educational services rendered by the play school (providing pre-school education) in the given case as the Educational Trust - Gyan

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Mandal - falls under the definition of 'educational institution' and services provided by it are exempt from service tax.

(b) Service tax is not payable in this case as Shining Stars Public School providing educational services upto higher secondary school is covered within the definition of educational institution and services provided by it are exempt from service tax.

(c) Since coaching given by private coaching institutes/centers is not part of a curriculum for obtaining recognized qualification, the same is not covered within the definition of educational institution. Therefore, service tax is payable by coaching center providing coaching for MBA entrance examination.

24. Computation of interest on delayed payment of service tax

Name of the service provider	ABC Ltd.	Gagan
Service tax liability	₹ 1,00,000	₹ 2,00,000
Delay in payment of service tax	10 days	20 days
Value of taxable services in previous financial year	₹ 35,00,000	₹ 70,00,000
Rate of interest	12% per annum	15% per annum
Interest (rounded off)	[₹ 1,00,000 × (12/100) × (10/365)] =₹ 329 (rounded off)	[₹ 2,00,000 × (15/100) × (20/365)] =₹ 1,644 (rounded off)

Note: As per section 75 of Finance Act, 1994 read with *Notification No. 13/2016 ST dated 01.03.2016,* in case of collection of any amount as service tax but failing to pay the amount so collected to the credit of the Central Government on or before the date on which such payment becomes due, the simple interest @ 24% p.a. is payable.

However, in all other cases, 15% simple interest p.a. is payable. Since in the above case, service tax has not been collected, so simple interest @ 15% p.a. is payable.

Further, the applicable rate gets reduced by 3% for service providers whose turnover of services does not exceed ₹ 60 lakh in the preceding financial year.

25. Computation of CENVAT credit available with Hanuman Services Ltd.:

Particulars	Service tax @ 14% (₹)	Krishi Kalyan Cess @ 0.5% (₹)
Accounting and auditing services [Note 1]	28,00,000	1,00,000
Legal services [Note 1]	7,00,000	25,000
Security services [Note 1]	56,000	2,000

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Motor vehicles taken on rent [Note 2]	Nil	Nil
Total CENVAT credit available	**35,56,000**	**1,27,000**

Notes:

1. As per the definition of the input services, there is a specific inclusion with regard to the following services:-
   (a) Accounting and auditing services
   (b) Legal services
   (c) Security services

   Hence, the CENVAT credit of the service tax paid on the aforesaid services is available.
2. The definition of input services specifically excludes the services of renting of motor vehicles which are not eligible capital goods.
3. Credit of SBC is not available since it is not CENVATable. Further, since Hanuman Services Ltd. is an output service provider, credit of KKC is available.

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