Roll No. .....

MAY 2011

IPCC
GROUP-I PAPER-4
TAXATION

Total No. of Questions – **7**

Total No. of Printed Pages – **11**

Time Allowed – **3** Hours

Maximum Marks – **100**

NSG

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Question No. 1 is compulsory.

Attempt any **five** questions from the remaining **six** questions.

Wherever required, suitable assumptions may be made by the candidate and stated clearly in the answer. Working notes should form part of the answer.

All questions relate to the assessment year 2011-12, unless stated otherwise in the question.

Marks

1. (a) On 21-3-2010, Mr. Janak gifted to his wife Mrs. Thilagam 200 listed shares, which had been bought by him on 19-4-2009 at ₹ 2,000 per share. On 1-6-2010, bonus shares were allotted in the ratio of 1 : 1. All these shares were sold by Mrs. Thilagam as under : **5**

Date of Sale	Manner of sale	No. of shares	Net sales value (₹)
21-5-2010	Sold in recognized stock exchange, STT paid	100	2,20,000
21-7-2010	Private sale, to an outsider	All bonus shares	1,25,000
28-2-2011	Private sale, to her friend Mrs. Hema (Market value on this date was ₹ 2,10,000)	100	1,70,000

Marks

Briefly state the income-tax consequences in respect of the sale of the shares by Mrs. Thilagam, showing clearly the person in whose hands the same is chargeable, the quantum and the head of income in respect of the above transactions. Detailed computation of total income is **NOT** required.

Net sales value represents the amount credited after all taxes, levies, brokerage, etc., and the same may be adopted for computing the capital gains.

Cost inflation index for the FY 2010-11 is 711 and for the FY 2009-10 is 632.

(b) Nathan Aviation Ltd. is running two industrial undertakings, one in a SEZ (Unit S) and another in a normal area (Unit N). The brief summarized details for the year ended 31-3-2011 are as under : 5

(₹ in lacs)

	S	N
Domestic turnover	10	100
Export turnover	120	Nil
Gross profit	20	10
Less : Expenses and depreciation	7	6
Profits derived from the unit	13	4

The brought forward business loss pertaining to Unit N is ₹ 2 lacs. Briefly compute the business income of the assessee.

(c) Pareesh & Co., is a partnership firm engaged in the business of recruitment and supply of labourers. The firm, which had rendered taxable services to the tune of ₹ 20.2 lacs in the financial year 2009-10, furnishes the following details pertaining to the half year ended on 30-9-2010 : 5

		(₹)
(i)	Amounts collected from companies for pre-recruitment screening	2,50,000

Marks

(ii) Amounts collected from companies for recruitment of

Permanent staff	3,00,000
Temporary staff	4,00,000

(iii) Advances received from prospective employers for conducting campus interviews in colleges 1,00,000

Wherever applicable, service tax has been charged separately and received from clients. Compute the value of taxable services rendered and the service tax payable by the assessee for the relevant half year.

(d) The following are details of purchases, sales, etc. effected by Vasudha & Co., a registered dealer, for the year ended 31-3-2011 : 5

Particulars	Amount (₹)
Purchase of raw materials within State, 1000 units, inclusive of VAT levy at 6%	5,30,000
Inter-State purchases of raw materials, inclusive of CST at 2%	2,04,000
Import of raw materials, inclusive of customs duty of ₹ 35,000	4,35,000
Capital goods purchased on 1-5-2010, inclusive of VAT levy at 10% (input credit to be spread over 2 financial years)	3,30,000
Other manufacturing expenses	1,50,000
Sale of taxable goods within State, inclusive of VAT levy at 4%	7,28,000
Sale of goods within State, exempt from levy of VAT (Goods were manufactured from the Inter-State purchase of raw materials)	1,20,000
Closing stock as on 31-3-2011 was 100 units of raw materials purchased within the State	

Input credit is allowed only on raw materials used in manufacture of the taxable goods. Compute the VAT liability of the dealer for the year ended 31-3-2011.

Marks

2. (a) (i) Miss Vivitha paid a sum of 5000 USD to Mr. Kulasekhara, a management consultant practising in Colombo, specializing in project financing. The payment was made in Colombo. Mr. Kulasekhara is a non-resident. The consultancy related to a project in India with possible Ceylonese collaboration. Is this payment chargeable to tax in India in the hands of Mr. Kulasekhara, since the services were used in India ? 4

(ii) Mr. Praveen Kumar has furnished the following particulars relating to payments made towards scientific research for the year ended 31-3-2011 : 4

(₹ in lacs)

(i)	Payments made to K Research Ltd.	20
(ii)	Payment made to LMN College	15
(iii)	Payment made to OPQ College	10

Note : K Research Ltd. and LMN College are approved research institutions and these payments are to be used for the purposes of scientific research.

(iv)	Payment made to National Laboratory	8
(v)	Machinery purchased for in-house scientific research	25
(vi)	Salaries to research staff engaged in in-house scientific research	12

Compute the amount of deduction available under section 35 of the Income-tax Act, 1961 while arriving at the business income of the assessee.

Marks

(b) During the year ended 31-3-2010, Kohli & Co., running a coaching centre, has collected a sum of ₹ 10.2 lacs as service tax. ₹ 70,000 was met through Cenvat credit and the balance was paid by cheque on various dates. The details pertaining to the quarter ended 30-6-2010 are as under : 4

Particulars	Amount (₹)
Value of free coaching rendered	20,000
Coaching fees collected from students (Service tax collected separately)	14,50,000
Advance received from a college for coaching their students, on 30-6-2010. However, no coaching was conducted and the money was returned on 12-4-2011	3,00,000

Determine the service tax liability for the quarter and indicate the date by which the service tax has to be remitted by the assessee.

(c) Which variant of VAT is most widely used in the world and why ? Are some services also included in the VAT net by such countries ? 4

3. (a) Mr. Vidyasagar, resident individual aged 64, is a partner in Oscar Musicals & Co., a partnership firm. He also runs a wholesale business in medical products. The following details are made available for the year ended 31-3-2011 : 8

		₹
(i)	Interest on capital received from Oscar Musicals & Co., at 15%	1,50,000
(ii)	Interest from bank on fixed deposit (Net of TDS ₹ 1,500)	13,500
(iii)	I.T. refund received relating to asst. year 2009-10 including interest of ₹ 2,300	34,500

Marks

		₹	₹
(iv)	Net profit from wholesale business		5,60,000
	Amounts debited include the following :		
	Depreciation as per books	34,000	
	Motor car expenses	40,000	
	Municipal taxes for the shop (For two half years; payment for one half year made on 12-6-2011 and for the other, on 14-11-2011)	7,000	
	Salary to manager for whom single cash payment was made for	21,000	
(v)	The WDV of the assets (as on 1-4-2010) used in above wholesale business is as under :		
	Computers	1,20,000	
	Motor car (20% used for personal use)	3,20,000	
(vi)	LIP paid for major son	60,000	
	PPF of his wife	70,000	
	Long-term infrastructure bonds (Approved)	30,000	

Compute the total income of the assessee for the assessment year 2011-12. The computation should show the proper heads of income. Also compute the WDV of the different blocks of assets as on 31-3-2011.

(b) (i) Where any transaction of taxable service is entered into with an associated enterprise, receipt of service tax is not material for levy of service tax. Explain with reasons, whether you agree or disagree with this statement. 2

(ii) Briefly discuss about the adjustment of excess amount of service tax paid in case of renting of immovable property service, owing to property tax payment. 2

Marks

(c) M/s. Staruss & Co., a registered dealer under the local VAT law, having stock of goods purchased from outside the State, wishes to opt for the Composition Scheme. Advise him whether the same is possible. Will the VAT chain be broken if the dealer opts for the said scheme ? 4

4. (a) The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31-3-2011 : 8

	(₹)
Income from salaries	2,20,000
Loss from house property	1,90,000
Loss from cloth business	2,40,000
Income from speculation business	30,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid)	1,10,000
Loss from card games	32,000
Income from betting	45,000
Life Insurance Premium paid	1,20,000

Compute the total income and show the items eligible for carry forward.

(b) State the provisions which enable the Central Government to make rules for administering service tax. For what purposes are such rules made ? Name any four such rules issued by the Central Government so far. 4

(c) What is meant by input tax credit in the context of VAT provisions ? How does input tax credit help in achieving the essence of VAT ? 4

Marks

5. (a) Mr. Rakesh purchased a house property on 14th April, 1979 for ₹ 1,05,000. He entered into an agreement with Mr. B for the sale of house on 15th September, 1982 and received an advance of ₹ 25,000. However, since Mr. B did not remit the balance amount, Mr. Rakesh forfeited the advance. 8

Later on, he gifted the house property to his friend Mr. A on 15th June, 1986. Following renovations were carried out by Mr. Rakesh and Mr. A to the house property :

	Amount (₹)
By Mr. Rakesh during FY 1979-80	10,000
By Mr. Rakesh during FY 1983-84	50,000
By Mr. A during FY 1993-94	1,90,000

The fair market value of the property as on 1-4-1981 is ₹ 1,50,000/-

Mr. A entered into an agreement with Mr. C for sale of the house on 1st June, 1995 and received an advance of ₹ 80,000. The said amount was forfeited by Mr. A, since Mr. C could not fulfil the terms of the agreement.

Finally, the house was sold by Mr. A to Mr. Sanjay on 2nd January, 2011 for a consideration of ₹ 12,00,000.

Compute the capital gains chargeable to tax in the hands of Mr. A for the assessment year 2011-12. Cost inflation indices are as under :

Financial Year	Cost inflation index
1981-82	100
1983-84	116
1986-87	140
1993-94	244
2010-11	711

(b) Briefly explain the provisions relating to advance payment of service tax.

(c) What are the major deficiencies of VAT system in India ?

Marks

(a) Harish Jayaraj Pvt. Ltd. is converted into Harish Jayaraj LLP on 1-1-2011. The following particulars are available to you : 8

		(₹)
(i)	WDV of land as on 1-4-2010	5,00,000
(ii)	WDV of machinery as on 1-4-2010	3,30,000
(iii)	Patents acquired on 1-6-2010	3,00,000
(iv)	Building acquired on 12-3-2009 for which deduction was allowed under section 35 AD.	7,00,000
(v)	Above building was revalued as on the date of conversion into LLP as	12,00,000
(vi)	Unabsorbed business loss as on 1-4-2010 (A.Y. 2007-08)	9,00,000

Though the conversion into LLP took place on 1-1-2011, there was disruption of business and the assets were put into use by the LLP only from 1st March, 2011 onwards.

The company earned profits of ₹ 8 lacs, prior to computation of depreciation.

Assuming that the necessary conditions laid down in section 47(xiiib) of the Income-tax Act, 1961 have been complied with, explain the tax treatment of the above in the hands of the LLP.

(b) Nigamanth Cargo Handlers P. Ltd. is a cargo handling agency, in existence since 2003. For the quarter ended 31-3-2011, total collections for handling cargo (excluding service tax) was ₹ 32,00,000. The same included the following receipts also : 4

		(₹)
(i)	Handling of cargo containing life saving drugs	2,00,000
(ii)	Handling of export cargo	3,00,000
(iii)	Handling of cargo for storage in cold storage	1,00,000
(iv)	Towards providing service of packing together with transportation of cargo	4,00,000

Ascertain the quantum of taxable cargo handling services for the quarter ended 31-3-2011. Wherever applicable, service tax was charged separately and received in full.

Marks

(c) How can a Chartered Accountant help a client in the handling of VAT audit called for by the Department and in conducting external audit of VAT records ? 4

7. (a) Answer any **two** of the following **three** sub divisions :

(1) Specify the persons who are authorized to sign and verify under section 140, the return of income filed under section 139 of the Income-tax Act, 1961 in the case of : 4

(i) Political party;

(ii) Local authority;

(iii) Association of persons, and

(iv) Limited Liability Partnership (LLP).

(2) The following details have been furnished by Mrs. Hemali, pertaining to the year ended 31-3-2011 : 4

(i) Cash gift of ₹ 51,000 received from her friend on the occasion of her "Shastiaptha Poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.

(ii) On the above occasion, a diamond necklace worth ₹ 2 lacs was presented by her sister living in Dubai.

(iii) When she celebrated her daughter's wedding on 21-2-2011, her friend assigned in Mrs. Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was ₹ 51,000.

Compute the income, if any, assessable as income from other sources.

Marks

(3) During the financial year 2010-11, the following payments/expenditure were made/incurred by Mr. Yuvan Raja, a resident individual (whose turnover during the year ended 31-3-2010 was ₹ 39 lacs) : 4

(i) Interest of ₹ 12,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;

(ii) Interest of ₹ 4,000 was paid as interest to Mr. R.D. Burman, a non-resident, without deduction of tax at source;

(iii) ₹ 3,00,000 was paid as salary to a resident individual without deduction of tax at source;

(iv) He had sold goods worth ₹ 5 lacs to Mr. Deva. He gave Mr. Deva a cash discount of ₹ 12,000 later. Commission of ₹ 15,000 was paid to Mr. Vidyasagar on 2-7-2010. In none of these transactions, tax was deducted at source.

Briefly discuss whether any disallowance arises under the provisions of section 40(a)(i)/40(a)(ia) of the Income-tax Act, 1961.

(b) State the due dates for filing of service tax returns. Will the delayed filing of service tax return result in payment of any late fee ? If so, how much ? 4

(c) Briefly list out the contents of VAT invoice. 4