

(GI-5+7, GI-6, GI-8, GI-9, SI-2+4, SI-3 & VI-2)

DATE: 31.08.2019

MAXIMUM MARKS: 100

TIMING: 3¼ Hours

TAXATION

SECTION – A : INCOME TAX LAW (60 MARKS)

Working Notes should form part of the answer. Whenever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Question in Division A, working notes are not required.

Your answers should be based on the provisions of Income-tax law as amended by the Finance Act, 2018. The relevant assessment year is A.Y. 2019-20

DIVISION A – MULTIPLE CHOICE QUESTIONS

Total Marks: 18 Marks

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given, All questions are compulsory.

- | | |
|------------|--------------|
| 1. Ans. b | } {1 M Each} |
| 2. Ans. c | |
| 3. Ans. a | |
| 4. Ans. a | |
| 5. Ans. b | |
| 6. Ans. d | } {2 M Each} |
| 7. Ans. a | |
| 8. Ans. b | |
| 9. Ans. a | |
| 10. Ans. b | |
| 11. Ans. d | |
| 12. Ans. b | |

DIVISION B : DESCRIPTIVE QUESTIONS

Questions No. 1 is compulsory

Attempt any two questions the remaining three questions

Total Marks: 42 Marks

Answer 1:

Computation of Total Income of Mr. Murari for the A.Y. 2019-20

Particulars	Rs.	Rs.
Profit and gains from business or profession		
Net income as per Income and Expenditure Account		1,52,500
Add: Expenses debited but not allowable		
- Excess salary of Rs. 2,000 per month to brother-in-law [not disallowed since brother-in-law does not fall within the definition of 'relative' under section 2(41)]	-	
- Motor car expenses attributable to personal use not allowable (Rs. 58,000 x 40%)	23,200	{1/2 M}
- Depreciation as per books of account	47,500	{1/2 M}
- Medical expenses of Rs. 15,000 for family planning expenditure for the employees [disallowed, since such expenditure is allowable to company assessee only]	15,000	{1/2 M}
- Medical expenditure of Rs. 55,000 [including expenses of Rs. 35,000 for his father, not allowable, since it is personal in nature]	55,000	{1/2 M}
Note: If it is assumed that only Rs. 35,000 is medical		

<p>expenditure for father and balance Rs. 20,000 is expenditure for staff, then such expenditure is eligible for deduction. In such case, the disallowance would be limited to Rs. 35,000 instead of Rs. 55,000.</p> <ul style="list-style-type: none"> - Purchase of computer (not allowable since it is capital in nature) - Bonus (allowed since it is paid on the due date of filing of return of income i.e., on 30.9.2019) <p>Note: For the P.Y.2018-19, the gross receipts i.e., fees of Mr. Murari from consultancy services is Rs. 8 lakhs. Since his gross receipt in respect of such profession is less than Rs. 50 lakhs, he is eligible to opt for presumptive income scheme under section 44ADA. His profits and gains from profession would be Rs. 4,00,000, being 50% of Rs. 8,00,000. No deduction in respect of any expenditure is allowed while computing presumptive business income as per the provisions of section 44ADA.</p> <p>Since he is maintaining books of account and his profits and gains from profession as per books of account is Rs. 2,77,400, which is less than Rs. 4,00,000, it is more beneficial for him to declare profits and gains from such profession as per the regular provisions of the Act. For this purpose, he has to get his books of account audited under section 44AB, in which case, his due date for filing return of income would be 30.9.2019)</p> <ul style="list-style-type: none"> - Commission paid without deduction of tax at source [Disallowance is not attracted since he is not liable to deduct tax at source, assuming that his gross receipts did not exceed Rs. 50 lakhs in the P.Y.2017-18 also] [See Note given at the end of the solution for alternate view] <p>Less: Income credited but not taxable or taxable under any other head</p> <ul style="list-style-type: none"> - Share of profit from HUF (Exempt) - Interest on saving bank deposit - Interest on income-tax refund <p>Less: Depreciation allowable under the Income-tax Act, 1961 [See Working Note]</p> <p>Income from Other Sources</p> <ul style="list-style-type: none"> - Interest on saving bank deposit of wife [Interest not to be included in the total income of Mr. Murari since the deposit was made out of pocket money given to her, assuming that pocket money is in the nature of pin money1]. Note – It is also possible to assume that pocket money is not in the nature of pin money. If it is so assumed, the interest of Rs. 15,000 would be included in the hands of Mr. Murari. Consequently, he would be entitled to a deduction of Rs. 10,000 under section 80TTA. - Interest on income-tax refund - Value of gold coins received from a family friend on the occasion of marriage anniversary (taxable under section 56(2)(x), as the 	<p>80,000</p> <p>-</p> <p>-</p> <p>-</p> <p>25,000</p> <p>15,000</p> <p>8,000</p> <p>-</p> <p>8,000</p>	<p>{1/2 M}</p> <p>-</p> <p>-</p> <p>-</p> <p>{1/2 M}</p> <p>{1/2 M}</p> <p>{1/2 M}</p> <p>{1/2 M}</p> <p>-</p> <p>{1/2 M}</p>	<p>2,20,700</p> <p>3,73,200</p> <p>48,000</p> <p>3,25,200</p> <p>47,800</p> <p>2,77,400</p> <p>-</p>	<p>{1/2 M}</p> <p>{1/2 M}</p> <p>{1/2 M}</p> <p>{1/2 M}</p>
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fair market value of such coins exceeds Rs. 50,000) {1/2 M}	55,000	63,000	
Gross Total Income		3,40,400	
Less: Deduction under Chapter VI-A Section 80D			
Medical expenses for father (Deduction not allowable since father, aged 55 years, is not a senior citizen)		Nil	{1/2 M}
Total Income		3,40,400	

Computation of tax liability of Mr. Murari for A.Y. 2019-20

Particulars	Rs.	Rs.	
Tax on total income of Rs. 3,40,400			
Upto Rs. 2,50,000	Nil		
Rs. 2,50,001 – Rs. 3,40,400 [i.e., Rs. 90,400@5%]	4,520	4,520	
Less: Rebate u/s 87A [Since his total income does not exceed Rs. 3,50,000]		2,500	
		2,020	
Add: Education cess@4%		80.80	
Tax liability		2100.8	
Tax liability (rounded off)		2,100	{2 M}

Working note:

Computation of depreciation allowable as per Income-tax Act, 1961

Particulars	Rs.		
On Motor Car			
Rs. 2,00,000 x 15% x 60%		18,000	
On Furniture and fittings			
Rs. 50,000 x 10%		5,000	
On Computer			
Rs. 62,000 x 40% [Actual cost of the computer is Rs. 62,000 (i.e., Rs. 80,000 – Rs. 18,000). Rs. 18,000 paid otherwise than by way of account payee cheque/bank draft or use of ECS is not includible in actual cost.]		24,800	
		47,800	
			{2 M}

Note - Mr. Murari would be liable to deduct tax at source under section 194-H on commission paid during the P.Y.2018-19, only if his gross receipts from profession during the P.Y.2017-18 exceeded the monetary limit specified in section 44AB i.e., Rs. 50 lakhs. The figure of gross receipts from profession during the P.Y.2017-18 is not given in the question. Since his gross receipts from profession for P.Y.2018-19 is only Rs. 8 lakhs, it is logical to assume that the gross receipts for P.Y.2017-18 were less than Rs. 50 lakhs. Accordingly, assuming that his gross receipts for P.Y.2017-18 also did not exceed the specified limit of Rs. 50 lakhs, Mr. Murari would not be liable to deduct tax at source under section 194-H for the P.Y.2018-19. Hence, no disallowance would be attracted under section 40(a)(ia) {4 M}

However, since the statement in item no. (7) under "Other Information" that commission is paid to Mr. Sridhar without deduction of tax at source may seem to indicate that Mr. Murari has the obligation to deduct tax at source under section 194-H, it is possible to take a view that his gross receipts in the P.Y.2017-18 exceeded Rs. 50 lakhs. Based on this view, Rs. 6,600, being 30% of Rs. 22,000 has to be disallowed for failure to deduct tax on commission paid to Mr. Sridhar.

Answer 2:

(a) (i) Deduction available to Mr. Darshan under Chapter VI -A for A.Y. 2019-20

Section	Particulars	Rs.	Rs.
80C	Deposit in public provident fund Life insurance premium paid Rs. 62,000 (deduction restricted to Rs. 30,000, being 10% of Rs. 3,00,000, which is the sum assured, since the policy was taken on or after 01.04.2012) Five year term deposit with bank	1,50,000 30,000 55,000	
		2,35,000	{1/2 M}
80CCD(1)	Restricted to Contribution to NPS of the Central Government, Rs. 1,45,000 [Rs. 1,95,000 - Rs. 50,000, being deduction under section 80CCD(1B)], restricted to 10% of salary [Rs. 1,95,000 x 10/15] [See Note 1]		1,50,000 {1/2 M}
			1,30,000 {1/2 M}
			2,80,000
80CCE	Aggregate deduction under section 80C and 80CCD(1), Rs. 2,80,000, but restricted to		1,50,000 {1/2 M}
80CCD(1B)	Rs. 50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government		50,000 {1/2 M}
80CCD(2)	Employer contribution to NPS, restricted to 10% of salary [See Note 2]		1,30,000 {1/2 M}
80D	(i) (a) Medical insurance premium for self and his wife, deduction would be equal to Rs. 47,000 (Rs. 27,000 + Rs. 20,000), being 1/4 th of lumpsum premium, since policies would be in force for four previous years. (b) Preventive health check up Rs. 6,000 for wife restricted to Rs. 3,000 (Rs. 50,000 - Rs. 47,000, since maximum allowable deduction is Rs. 50,000 in case assessee or one of the family member is senior citizen)	47,000 3,000	
		50,000	{1/2 M}
	(ii) Medical Expenditure for his father would be fully allowed as deduction, since no insurance policy is taken on his name	46,000	{1/2 M}
	Total of (i) and (ii)		96,000
80DD	Deduction of Rs. 1,25,000 in respect of expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is Rs. 90,000		1,25,000 {1/2 M}
80TTB	Interest on fixed deposits with bank of Rs. 75,000, deduction restricted to		50,000 {1/2 M}
Deduction under Chapter VI-A			6,01,000

Notes:

- (1) The deduction under section 80CCD(1B) would not be subject to overall limit of Rs. 1.50 lakh under section 80CCE. Therefore, it is more beneficial for Mr. Darshan to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of Rs. 1,45,000 can be claimed as deduction under

- section 80CCD(1), subject to a maximum limit of 10% of salary i.e. Rs. 1,30,000.
- (2) The entire employer’s contribution to notified pension scheme has to be first included under the head “Salaries” while computing gross total income and thereafter, deduction under section 80CCD(2) would be allowed, subject to a maximum of 10% of salary. Deduction under section 80CCD(2) is also not subject to the overall limit of Rs. 1,50,000 under section 80CCE.
- (ii) If the contribution towards NPS is Rs. 1,30,000, here again, it is beneficial for Mr. Darshan to first claim deduction of Rs. 50,000 under section 80CCD(1B) and the balance of Rs. 80,000 can be claimed under section 80CCD(1), since the deduction available under section 80CCD(1B) is over and above the aggregate limit of Rs. 1,50,000 under section 80CCE. In any case, the aggregate deduction of Rs. 2,30,000 [i.e., Rs. 1,50,000 under section 80C and Rs. 80,000 under section 80CCD(1)] cannot exceed the overall limit of Rs. 1,50,000 under section 80CCE. The total deduction under Chapter VIA would remain the same i.e., Rs. 6,01,000. }{2 M}

Answer:

(b) Computation of Gross Total Income of Mr. Mayur for the A.Y. 2019-20

Particulars	Rs.	Rs.	Rs.
Income from profession			4,50,000
Income of minor son Tejas			
Capital gains			
Full value of consideration	4,80,000	}{1/2 M}	
Less: Indexed Cost of Acquisition [Rs. 95,000 x 280/184]	1,44,565	3,35,435	}{1 M}
Income from Other Sources			
Dividend of Rs. 10,000 on equity shares [Exempt u/s 10(34)]	-		
Interest on company deposit [Rs. 3,10,000 x 14% x 4/12]	14,467	14,467	}{1 M}
		3,49,902	
Less: Exemption u/s 10(32) in respect of income of minor child		1,500	}{1/2 M}
			3,48,402 }{1 M}
Gross Total Income			7,98,402

Notes:

- (1) As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, interest income of Rs. 42,500 arising to handicapped son, Master Tanmay, would not be clubbed with the income of Mr. Mayur.
- (2) Income of the other minor child, Master Tejas, is includible in the hands of Mr. Mayur, assuming that Mr. Mayur’s income is higher than that of his wife. }{1 M}
- (3) In the above solution, the indexed cost of acquisition has been computed by taking into consideration the first year in which Master Tejas held the asset, i.e., F.Y.2011- 12, as per the definition given in clause (iii) of Explanation below section 48. However, as per the view expressed by Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42, in case the cost of

acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is considered, the indexed cost of acquisition would have to be calculated by considering the Cost Inflation Index of F.Y.2004-05. **The solution based on alternate view is given as under:**

OR

Computation of gross total income of Mr. Mayur for the A.Y. 2019-20

Particulars	Rs.	Rs.	Rs.
Income from profession			4,50,000 {1 M}
Income of minor son Tejas			
Capital gains			
Full value of consideration	4,80,000		
Less: Indexed Cost of Acquisition [Rs. 95,000 x 280/113]	2,35,398	2,44,602	{2 M}
Income from Other Sources			
Dividend on equity shares [Exempt u/s 10(34)]	-		
Interest on company deposit [Rs. 3,10,000 x 14% x 4/12]	14,467	14,467	{1 M}
		2,59,069	
Less: Exemption u/s 10(32) in respect of income of minor child		1,500	{1 M}
Gross Total Income			7,07,569

Answer:

- (c) (i) ABC Bank has to deduct tax at source@10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is Rs.20,250 [1,00,000 × 3 × 9% × 9/12], which exceeds the threshold limit of Rs. 10,000. Since ABC Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of **Rs. 20,250** exceeds the threshold limit of Rs. 10,000, tax has to be deducted@10% under section 194A. Tax to be deducted = Rs. 20,250 × 10% = **Rs. 2,025** {1 M}
- (ii) In this case, since the programme is produced by the production house ABC Ltd. as per the specifications given by Sky TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' under section 194C. Therefore, the payment of Rs. 70 lakhs made by Sky TV to the production house ABC Ltd. would be subject to tax deduction at source under section 194C. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 2% if the payment is made to a person other than an individual or HUF. Therefore, tax to be deducted = Rs. 70 lakhs × 2% = **Rs. 1,40,000** {1 M}

Answer 3 :

(a)

Computation of income from House Property of Mr. A

Net Annual Value	Rs.
	Nil
Less: 30% of NAV 24(a)	Nil
Less: Interest on capital borrowed u/s 24(b)	(2,00,000) {1/2 M}

Interest paid on borrowed capital
 = 20,00,000 @ 12 % = Rs.2,40,000
 Interest deduction restricted to Rs.2,00,000
 There is no prior period interest
 Loss under the head "House Property"

(2,00,000) } {1/2 M}
 Nil

**Computation of income from House Property of Mr. B
 Ground floor (self occupied)**

Net Annual Value
 Less: 30% of NAV u/s 24(a)
 Less: Interest on capital borrowed u/s 24(b)

Nil
 Nil
 (69,000) } {1/2 M}

Working Note:

Prior period interest
From 01.07.2017 to 31.03.2018
 = 12,00,000 x 10% x 9 / 12 = 90,000
 90,000 allowed in 5 equal instalments
 = 90,000 / 5 = Rs. 18,000 per annum
 = 18,000 / 2 = Rs.9,000
 Current period interest
From 01.04.2018 to 31.03.2019
 = 12,00,000 x 10% x 1/2 = Rs.60,000
 Total Interest = Rs.60,000 + Rs. 9,000 =
 Rs.69,000

Loss from House Property

(69,000)

First floor (Let out)

Gross Annual Value

4,50,000 } {1/2 M}

Working Note:

(a) Fair Rent (6,00,000 x 9/12)
 (b) Municipal Valuation (3,00,000 x 9/12)
 (c) Higher of (a) or (b)
 (d) Expected Rent
 (e) Rent Received/Receivable (15,000 x 6)
 GAV = Higher of (d) or (e)

Rs.
 4,50,000 }
 2,25,000 } {1 M}
 4,50,000 }
 4,50,000 }
 90,000 }
 4,50,000 } {1 M}

Less: Municipal taxes

(4,000)

Net Annual Value

4,46,000

Less: 30% of NAV u/s 24(a)

(1,33,800)

Less: Interest on capital borrowed u/s 24(b)

(69,000)

Working Note:

Prior period interest
From 01.07.2017 to 31.03.2018
 = 12,00,000 x 10% x 9 / 12 = 90,000
 90,000 allowed in 5 equal instalments
 = 90,000 / 5 = Rs. 18,000 per annum
 = 18,000 / 2 = Rs. 9,000 } {1 M}

Current period interest

From 01.04.2018 to 31.03.2019

= 12,00,000 x 10% x 1/2 = Rs.60,000

Total Interest = Rs.60,000 + Rs. 9,000 = Rs.69,000

Income from House Property

Income under the head "Income from House Property" of Mr. B
(Both ground floor and first floor)

Tax Liability

{1 M}

2,43,200

1,74,200

{1 M}

Nil

Answer:

(b)

(Rs.)

Computation of income under the head Salary in C Ltd.

Basic Pay (12,000 x 10)	1,20,000.00
Dearness Allowance (3,000 x 10)	30,000.00
Commission	6,000.00
Rent free accommodation {Sec 17(2)(i), Rule 3(1)}	21,150.00}{1 M}
Best suggestion award (Gift) (12,000 – 5,000)	7,000.00}{1/2 M}
Lunch Facility	Nil}{1/2 M}
Gratuity {Sec 10(10)}	1,18,653.85}{1 M}
Uncommuted Pension {Sec 17(1)(ii)} {3,000 x 50% x 2}	3,000.00}{1/2 M}
Commutated Pension {Sec 10(10A)}	75,000.00}{1/2 M}
Refund of employer's contribution (including interest) In T Ltd.	2,50,000.00
Basic Pay (8,000 x 2)	16,000.00
House Rent Allowance {Sec 10(13A) Rule 2A}	600.00
Motor Car (2,400 x 2)	4,800.00}{1 M}
Gross Salary	6,52,203.85
Less: Standard Deduction u/s 16(ia)	(40,000.00)
Income under the head Salary	6,12,203.85
Income under the head Other Sources {interest on employee's contribution to unrecognised provident fund}	1,00,000.00
Gross Total Income	7,12,203.85}{1 M}
Less: Deduction u/s 80C to 80U	Nil
Total Income {Rounded u/s 288A}	7,12,200.00
Computation of Tax Liability	
Tax on Rs. 7,12,200 at slab rate	54,940.00
Add: HEC @ 4%	2,197.60
Tax Liability	57,137.60
Rounded off u/s 288B	57,140.00}{1 M}

Working Note:

Rs.

15% of rent free accommodation salary or rent paid whichever is less

Rent free accommodation salary

= Basic Pay + Dearness Allowance + Commission

= 1,20,000 + 15,000 + 6,000 = 1,41,000

15% of rent free accommodation salary

21,150

Rent paid = 5,000 x 10

50,000

Perquisite value of rent free accommodation

21,150

Working Note:

Least of the following is exempt:

1. Rs. 3,35,000
 2. Rs. 10,00,000
 3. $15/26 \times 25 \times 15,000 = \text{Rs. } 2,16,346.15$
- Received = Rs. 3,35,000.00
 Exempt = (Rs. 2,16,346.15)
 Taxable = Rs. 1,18,653.85

Working Note:

Received	=	Rs. 2,25,000
Exempt = $1/3 \times 4,50,000$	=	(1,50,000)
Taxable	=	75,000

Working Note:

Least of the following is exempt:

1. Rs. 4,000 – Rs. 1,600 = Rs. 2,400
 2. 40% of retirement benefit salary = Rs. 6,400
 (Retirement benefit salary = Rs. 16,000)
 3. Rs. 3,000
- Received = Rs. 3,000
 Exempt = (Rs. 2,400)
 Taxable = Rs. 600

Answer 4:

(a)

Computation of income under the head House Property	Rs.
Gross Annual Value ($90,000/90\% \times 12$)	12,00,000.00
Less: Municipal Tax	(1,00,000.00)
Net Annual Value	11,00,000.00
Less: 30% of NAV u/s 24(a)	(3,30,000.00)
Less: Interest on capital borrowed u/s 24(b)	(2,00,000.00)
Income from house property	5,70,000.00
Income under the head Business/Profession ($9,00,000/90\%$)	10,00,000.00
Gross Total Income	15,70,000.00 {1 M}
Less: Deduction u/s 80C to 80U	Nil
Total Income	15,70,000.00

Computation of Tax Liability

Tax on Rs. 15,70,000 at slab rate	2,83,500.00
Add: HEC @ 4%	11,340.00
Tax Liability	2,94,840.00
Less: TDS u/s 194I	(1,20,000.00)
Less: TDS u/s 194J	(1,00,000.00)
Tax Payable	74,840.00 {1 M}

Interest under section 234C shall be computed in the manner given below:

	Tax Payable	Tax Paid	Shortfall
15.06.2018	11,226 (74,840 x 15%)	Nil	11,226

Rounded off Rule 119A = 11,200

Interest u/s 234C = 11,200 x 1% x 3 = 336

15.09.2018	33,678 (74,840 x 45%)	Nil	33,678
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Rounded off Rule 119A = 33,600

Interest u/s 234C = 33,600 x 1% x 3 = 1,008

15.12.2018	56,130 (74,840 x 75%)	Nil	56,130
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Rounded off Rule 119A = 56,100

Interest u/s 234C = 56,100 x 1% x 3 = 1,683

15.03.2019	74,840 (74,840 x 100%)	Nil	74,840
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Rounded off Rule 119A = 74,800

Interest u/s 234C = 74,800 x 1% x 1 = 748

Total interest payable u/s 234C			3,775 }{1 M}
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Interest under section 234B shall be computed from 01.04.2019 to 10.05.2019 and is as given below:

Tax Liability – TDS shall be considered to be tax payable i.e. 74,840

74,840 = 74,800 x 1% x 2 =

1,496

(Rounded off Rule 119A = 74,800)

Total interest payable (3,775 + 1,496)

5,271

Rounded off u/s 288B

5,270 }{1 M}

Answer:

(b) Section 64(1A) provides that all income accruing or arising to a minor child has to be included in the income of that parent, whose total income is greater. However, the income of a minor child suffering from any disability of the nature specified in section 80U shall not be included in the income of the parents but shall be assessed in the hands of the child. Thus, the total income of Mr. X has to be assessed in his hands and cannot be included in the total income of either his father or his mother. }{3 M}

Answer:

(c)

Income under the head Other Sources

Royalty received in connection with a patent right

Rs.
8,00,000.00 }{1/2 M}

Gross Total Income

8,00,000.00

Less: Deduction u/s 80C

LIC premium (allowed 10% of sum assured)

(10,000.00) }{1/2 M}

Repayment of housing loan to Indian Bank

(50,000.00) }{1/2 M}

Less: Deduction u/s 80CCC

LIC Pension Fund

(20,000.00) }{1/2 M}

Less: Deduction u/s 80D

Premium of medi-claim policy by cheque in the name of his major married independent son.

Nil }{1/2 M}

Less: Deduction u/s 80G

Donation to Delhi University

(10,000.00) }{1/2 M}

Family planning

(10,000.00) }{1/2 M}

Working Note:

Donation to Government for promoting family planning 10,000}{1/2 M}
 AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (Except section 80G)
 = 8,00,000 – 10,000 – 50,000 – 20,000 – 30,000 – 3,00,000
 = 3,90,000
 Qualifying amount = 10% of AGTI or donation whichever is less
 = 39,000 or 10,000
 100% of qualifying amount = Rs.10,000

Less: Deduction u/s 80GGC
 Donation to a political party (30,000.00)}{1/2 M}
 Less: Deduction u/s 80RRB (3,00,000.00)}{1/2 M}
 Total Income 3,70,000.00

Computation of Tax Liability

Tax on Rs.3,70,000 at slab rate 6,000.00
 Add: HEC @ 4% 240.00
 Tax Liability 6,240.00 }{2 M}

SECTION B - INDIRECT TAXES (40 MARKS)

QUESTIONS

- (i) Working Notes should form part of the answers. However, in answers to Question in Division A, working notes are not required.
- (ii) Wherever necessary, suitable assumptions may be made by the candidates, and disclosed by way of note.
- (iii) All questions should be answered on the basis of the position of GST law as amended up to 31st October, 2018.
- (iv) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. Further, GST compensation cess should be ignored in all the questions, wherever applicable.

DIVISION A - MULTIPLE CHOICE QUESTIONS

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

Total Marks: 12 Marks

- 1. **Ans. c** } {2 M Each}
- 2. **Ans. a** }
- 3. **Ans. d** }
- 4. **Ans. b** }
- 5. **Ans. d** }
- 6. **Ans. d** } {1 M Each}
- 7. **Ans. d** }
- 8. **Ans. d** }
- 9. **Ans. c** }
- 10. **Ans. d** }

DIVISION B - DESCRIPTIVE QUESTIONS

Question No. 1 is compulsory.
 Attempt any two questions out of remaining three questions.

Total Marks: 28 Marks

Answer 1:

Computation of GST liability of M/s. **Shri Durga Corporation Pvt. Ltd. for the month of February, 2020**

Particulars	Value of Supply	CGST (Rs.)	SGST (Rs.)	IGST (Rs.)
Intra -State sale of taxable goods [Note-1]	4,00,000 {1 M}	36,000	36,000	
Goods purchased from unregistered dealer on 20th February, 2020 [Note-2]	Nil {1 M}	Nil	Nil	
Services rendered by way of labour contracts for repairing a single residential unit otherwise than as a part of residential complex [Note-3]	1,00,000 {1 M}	9,000	9,000	
Goods transport services received from GTA [Note-4]	2,00,000			Nil
Total GST liability for the month of February, 2020		45,000 {1 M}	45,000 {1 M}	Nil
Less: Input tax credit available [Note-5] (Rs. 2,00,000 x 12%)		24,000 {1 M}		
Net GST liability for the month of February, 2020		21,000	45,000	Nil

Notes:

- Section 12 of CGST Act, 2017 read with Notification No. 66/2017 CT dated 15.11.2017 provides that the time of supply for all suppliers of goods (excluding composition suppliers) is the time of issue of invoice, without any turnover limit. Thus, liability to pay tax on the advance received in January, 2020 will also arise in the month of February, when the invoice for the supply is issued.
- All intra-State and inter-State procurements made by a registered person from unregistered person have been exempted from reverse charge liability, without any upper limit for daily procurements.
- Services by way of pure labour contracts of construction, erection, commissioning, or installation of original works pertaining to a single residential unit otherwise than as a part of a residential complex are exempt vide Notification No. 12/2017 CT(R) dated 28.06.2017. Labour contracts **for repairing** are thus, taxable.
- As per Notification No. 13/2017 CT(R) dated 28.06.2017, GST is payable by the recipient on reverse charge basis on the receipt of services of transportation of goods by road from a goods transport agency (GTA) provided such GTA has **not** paid GST @ 12%. Since in the given case, services have been received from a GTA who has paid GST @ 12%, reverse charge provisions will not be applicable.
- Input tax credit is available for the services received from GTA. The input tax credit of IGST can be used against IGST, CGST and SGST in the respective order vide section 49(5) of CGST Act, 2017.

{2 M}

Answer 2:

(a) No tax credit shall be allowed in the beginning because unregistered supplier is not eligible for ITC.

As per section 18(1) (a), ITC shall be allowed at the time of registration but only for inputs lying in stock and amount of ITC shall be 48,00,000 x 50%

(Since 50% of the goods have been sold)

CGST @ 10%

SGST @ 10%

No ITC for capital Goods already held in stock.

24,00,000 } **{1 M}**

2,40,000 } **{1 M}**
2,40,000 }

ITC for plant and machinery purchased on 01-01-2020

Transaction Value	6,00,000	} {1 M}
CGST @ 10%	60,000	
SGST @ 10%	60,000	

At the time of sale of plant and machinery, tax credit to be reversed as per section 18(6) rule 44 shall be

Remaining life of the plant = 58 months

Tax credit to be reversed

CGST

60,000 /60 x 58 =

58,000

SGST

60,000 /60 x 58 =

58,000

Output tax considering it to be supply as per section 7,

Transaction Value

5,70,000

CGST @ 12%

68,400

SGST @ 12%

68,400

Amount to be reversed shall be higher i.e. 68,400 + 68,400

Net CGST Payable

CGST

68,400

Less: ITC CGST

(68,400)

CGST Payable

Nil

Excess ITC

2,31,600

Net SGST Payable

SGST

68,400

Less: ITC SGST

(68,400)

SGST Payable

Nil

Excess ITC

2,31,600

Answer:

(b) Suspension of registration Rule 21A

- (1) Where a registered person has applied for cancellation of registration, the registration shall be deemed to be suspended from the date of submission of the application or the date from which the cancellation is sought, whichever is later, pending the completion of proceedings for cancellation of registration. } {1 M}
- (2) Where the proper officer has reasons to believe on his own that the registration of a person is liable to be cancelled, he may, after affording the said person a reasonable opportunity of being heard, suspend the registration of such person with effect from a date to be determined by him, pending the completion of the proceedings for cancellation of registration. } {1 M}
- (3) A registered person, whose registration has been suspended, shall not make any taxable supply during the period of suspension and shall not be required to furnish any return under section 39. } {1 M}
- (4) The suspension of registration shall be deemed to be revoked upon completion of the proceedings by the proper officer and such revocation shall be effective from the date on which the suspension had come into effect. } {1 M}

Answer 3:

(a) Computation of input tax credit (ITC) available with Cloud Seven Private Limited for the month of February, 2020

Particulars	Rs.	
Trucks used for the transport of raw material [Note-1]	1,20,000	} {1/2 M}
Foods and beverages for consumption of employees working in the factory [Note-2]	Nil	} {1/2 M}

Inputs are to be received in five lots, out of which third lot was received during the month [Note-3]	Nil	{1/2 M}
Membership of a club availed for employees working in the factory [Note-4]	Nil	{1/2 M}
Capital goods (out of five items, invoice for one item was missing and GST paid on that item was Rs. 50,000) [Note-5]	3,50,000	{1/2 M}
Raw material to be received in March, 2020 [Note-6]	Nil	{1/2 M}
Total ITC	4,70,000	

Notes:-

1. ITC on motor vehicles is disallowed in terms of section 17(5) of the CGST Act, 2017, except when they are used *inter alia*, for transportation of goods.
2. ITC on food or beverages is specifically disallowed unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply- [Section 17(5)].
3. When inputs are received in installments, ITC can be availed only on receipt of last installment- [Section 16(2)].
4. Membership of a club is specifically disallowed under section 17(5) of the CGST Act, 2017.
5. ITC cannot be taken on missing invoice. The registered person should have the invoice in its possession to claim ITC [Section 16(2) of CGST Act, 2017] .
6. Input tax credit is available only upon the receipt of goods in terms of section 16(2) of CGST Act, 2017.

{1/2 M
x 6 =
3M}

Answer:

- (b) As per section 22 of the CGST Act, 2017, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods, if his aggregate turnover in a financial year exceeds Rs. 40 lakh.
- As per section 2(6) of the CGST Act, 2017, aggregate turnover includes the aggregate value of:
- (i) all taxable supplies,
 - (ii) all exempt supplies,
 - (iii) exports of goods and/or services and
 - (iv) all inter-State supplies of persons having the same PAN.

{1/2 M}

The above is computed on all India basis. Further, the aggregate turnover excludes central tax, State tax, Union territory tax, integrated tax and cess. Moreover, the value of inward supplies on which tax is payable under reverse charge is not taken into account for calculation of 'aggregate turnover'. Further, the explanation to section 22 provides that the expression "aggregate turnover" shall include all supplies made by the taxable person, whether on his own account or made on behalf of all his principals.

Section 9 of the CGST Act, 2017 provides that CGST is not leviable on five petroleum products i.e. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel. As per section 2(47) of the CGST Act, 2017, exempt supply includes non-taxable supply. Thus, supply of high speed diesel in Delhi, being a nontaxable supply, is an exempt supply and is, therefore, includible while computing the aggregate turnover.

{1/2 M}

In the backdrop of the above-mentioned discussion, the aggregate turnover for the month of April, 2019 is computed as under:

S. No.	Particulars	Amount (in Rs.)
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(i)	Supply of machine oils in Delhi	2,00,000	} {2 M}
(ii)	Add: Supply of high speed diesel in Delhi	4,00,000	
(iii)	Add: Supply made to Fortis Lubricants - an agent of Pure Oils in Delhi	3,75,000	
(iv)	Add: Supply made by Pure Oils from its branch located in Punjab	1,80,000	
Aggregate Turnover		11,55,000	

Since the aggregate turnover does not exceed Rs. 40 lakh, Pure Oils is not liable to be registered.

If Pure Oils made supply of machine oils amounting to Rs. 2,50,000 from its branch in Manipur in addition to the above supply, then threshold limit of registration will be reduced to Rs. 10 lakh as Manipur is one of the specified Special Category States. Aggregate Turnover in that case would be Rs. 11,55,000 + Rs. 2,50,000 = Rs. 14,05,000.

So, if Pure Oils supplies machine oils amounting to Rs. 2,50,000 from its branch in Manipur, then it is liable to be registered.

Answer 4:

(a) Notification No. 12/2017 CT (R) dated 28.06.2017 exempts services by an artist by way of a performance in folk or classical art forms of (i) music, or (ii) dance, or (iii) theatre, if the consideration charged for such performance is not more than Rs. 1,50,000. However, exemption will not apply to service provided by such artist as a brand ambassador. } {2 M}

In view of the aforesaid provisions, services provided by Kesar Maharaj are exempt from GST as consideration for the classical dance performance has not exceeded Rs. 1,50,000. Therefore, his GST liability is nil.

(i) If Kesar Maharaj is a brand ambassador of a food product and aforesaid performance is for the promotion of such food product, he will be liable to pay GST as aforesaid exemption is not applicable to service provided by an artist as a brand ambassador. His CGST and SGST liability would, therefore, be Rs. 13,365 (Rs. 1,48,500 × 9%) and Rs. 13,365 (Rs. 1,48,500 × 9%) respectively. } {1 M}

(ii) If Kesar Maharaj gives a contemporary Bollywood style dance performance, such performance will not be eligible for aforesaid exemption. The reason for the same is that although the consideration charged does not exceed Rs.1,50,000, said performance is not in folk or classical art forms of dance. Hence, GST would be payable on the same. His CGST and SGST liability would, therefore, be Rs. 13,365 (Rs. 1,48,500 × 9%) and Rs. 13,365 (Rs.1,48,500 × 9%) respectively. } {1 M}

(iii) If the consideration charged for the classical dance performance by Kesar Maharaj is Rs. 1,60,000, he will be liable to pay GST on the same as although the performance is by way of classical art form of dance, consideration charged for such performance has exceeded Rs. 1,50,000. His CGST and SGST liability would, therefore, be Rs.14,400 (Rs.1,60,000 × 9%) and Rs. 14,400 (Rs. 1,60,000 × 9%) respectively. } {1 M}

Answer:

(b) **(Note: Any two points may be mentioned)**
 GST is a win-win situation for the entire country. It brings benefits to all the stakeholders of industry, Government and the consumer. It will lower the cost of goods and services, give a boost to the economy and make the products and services globally competitive.
 The significant benefits of GST are discussed hereunder: } {1 M}

- **Creation of unified national market:** GST aims to make India a common market with common tax rates and procedures and remove the economic barriers thus paving the way for an integrated economy at the national level.
- **Mitigation of ill effects of cascading:** By subsuming most of the Central and State taxes into a single tax and by allowing a set-off of prior-stage taxes for the transactions across the entire value chain, it would mitigate the ill effects of cascading, improve competitiveness and improve liquidity of the businesses.
- **Elimination of multiple taxes and double taxation:** GST has subsumed majority of existing indirect tax levies both at Central and State level into one tax i.e., GST which is leviable uniformly on goods and services. This will make doing business easier and will also tackle the highly-disputed issues relating to double taxation of a transaction as both goods and services.
- **Boost to 'Make in India' initiative:** GST will give a major boost to the 'Make in India' initiative of the Government of India by making goods and services produced in India competitive in the national as well as international market.
- **Buoyancy to the Government Revenue:** GST is expected to bring buoyancy to the Government Revenue by widening the tax base and improving the taxpayer compliance.

{1 M Each
for only
two
point}

Answer:

- (c) There are following **six parameters** to characterize any transaction as supply.
1. There should be supply of goods / services i.e. supply of anything other than goods or services does not attract GST.
 2. Supply should be made for a consideration.
 3. Supply should be made in the course or furtherance of business.
 4. Supply should be made by a taxable person.
 5. Supply should be a taxable supply.
 6. Supply should be made within the taxable territory.

{1/2 Each}
