

MOCK TEST PAPER
INTERMEDIATE (IPC) COURSE
PAPER – 4: TAXATION
SECTION – A: INCOME TAX
SOLUTIONS

Division A – Multiple Choice Questions

MCQ No.	Sub-part	Most Appropriate Answer	MCQ No.	Most Appropriate Answer
1.	(i)	(a)	2.	(b)
	(ii)	(c)	3.	(a)
	(iii)	(a)	4.	(b)
	(iv)	(c)		
	(v)	(a)		

Division B – Descriptive Questions

1. Computation of Total Income and tax payable by Mr. Raj for the A.Y.2020-21

Particulars	₹	₹
Income from Salaries		
Basic Salary (₹ 25,000 x 12)		3,00,000
Dearness Allowance (₹ 3,00,000 x 50%)		1,50,000
Employer's contribution to recognized provident fund:		
Actual contribution [20% of ₹ 3,00,000]	60,000	
Less: Exempt [12% of ₹ 3,75,000 (basic salary + 50% of dearness allowance, which forms part of retirement benefits)]	<u>45,000</u>	15,000
Interest credited in recognized provident fund account @15% p.a.	15,000	
Less: Exempt up to 9.5% p.a.	<u>9,500</u>	<u>5,500</u>
Gross Salary		4,70,500
Less: Standard deduction u/s 16(ia)		<u>50,000</u>
Net Salary		4,20,500
Income from house property		
Arrears of rent [Taxable under section 25A, even if Mr. Raj is no longer the owner of house property]	75,000	
Less: 30% of arrears of rent	<u>22,500</u>	52,500
Capital gain on sale of guest house:		
As the sale was made in the year 2018, the capital gain does not relate to assessment year 2020-21.		Nil
Capital Gain on jewellery [Long term, since the capital assets are held for more than 36 months]		
Full value of consideration	3,40,000	
Less: Indexed cost of acquisition [₹ 1,13,000 x 289/113]	<u>2,89,000</u>	51,000

Income from Other Sources		
Interest from savings bank account	10,000	
Interest on debentures	<u>12,040</u>	<u>22,040</u>
Gross total Income		5,46,040
Less: Deductions under Chapter VI-A		
Section 80C		
Own contribution to RPF	30,000	
LIC premium [It is assumed that premium does not exceed 10%/20% of sum assured, as the case may be]	15,370	
Deposit in Sukanya Samridhi Scheme [₹ 5,000 x 12]	<u>60,000</u>	1,05,370
Section 80CCD(1B)		
Contribution to Atal Pension Yojana, a notified pension scheme	14,352	
Section 80D - Mediciam Insurance for major dependent daughter	22,500	
Section 80G – Donation to PM National Relief Fund [100%]	11,000	
Section 80TTA – Interest on savings bank account (allowed in full upto ₹ 10,000)	<u>10,000</u>	<u>1,63,222</u>
Total Income		3,82,818
Total Income (rounded off)		3,82,820
Tax Liability		
Tax on Long-term Capital Gains @20% of ₹ 51,000	10,200	
Tax on balance income of ₹ 3,31,820	<u>4,091</u>	14,291
Less: Rebate under section 87A would be lower of ₹12,500 or tax liability, since the total income does not exceed ₹ 5,00,000		<u>12,500</u>
		1,791
Add: Health and Education cess @4%		<u>72</u>
Tax liability		1,863
Less: TDS on interest on debenture		<u>1,204</u>
Tax payable		<u>659</u>
Tax payable (Rounded off)		660

2. Miss Deepika is said to be resident if she satisfies any one of the following basic conditions:

(i) Has been in India during the previous year for a total period of 182 days or more

(or)

(ii) Has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days during the previous year.

Miss Deepika's stay in India during the P.Y.2019-20 is 142 days [30+31+30+31+20] which is less than 182 days. However, her stay in India during the P.Y.2019-20 exceeds 60 days. Since, she left India for the first time, her stay in India during the four previous years prior to P.Y.2019-20 would be more than 365 days. Hence, she is a resident for P.Y.2019-20.

Further, Miss Deepika would be “Resident and ordinarily resident” in India in during the previous year 2019-20, since her stay in India in the last seven previous years prior to P.Y.2019-20 is more than 730 days and she must be resident in the preceding ten years.

Computation of business income and agricultural income of Miss Deepika for A.Y. 2020-21

Particulars		Income	Business Income ₹	Agricultural Income ₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Kanyakumari (Apportioned between business and agricultural income in the ratio of 35:65 as per Rule 7A of Income-tax Rules, 1962)	1,50,000	52,500	97,500
(ii)	Income from sale of coffee grown and cured in Kodagu, Karnataka (Apportioned between business and agricultural income in the ratio of 25:75, as per Rule 7B(1) of the Income-tax Rules, 1962)	2,00,000	50,000	1,50,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded in Colombo and received in Chennai [See Note 1 below]	5,00,000	5,00,000	-
(iv)	Income from sale of tea grown and manufactured in West Bengal (Apportioned between business and agricultural income in the ratio of 40:60 as per Rule 8 of the Income-tax Rules, 1962)	12,00,000	4,80,000	7,20,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out on land [See Note 2 below]	<u>2,00,000</u>	<u>-</u>	<u>2,00,000</u>
		22,50,000	10,82,500	11,67,500

Notes:

- (1) Since Ms Deepika is resident and ordinarily resident in India for A.Y. 2020-21, her global income is taxable in India. Entire income from sale of coffee grown, cured, roasted and grounded in Colombo is taxable as business income since such income is earned from sale of coffee grown, cured, roasted and grounded outside India i.e., in Colombo.
- (2) As per *Explanation 3* to section 2(1A), income derived from sapling or seedlings grown in a nursery would be deemed to be agricultural income, whether or not the basic operations were carried out on land. Hence, income of ₹ 2,00,000 from sapling and seedling grown in a nursery at Cochin is agricultural income.

3. Computation of income chargeable under the head “Capital Gains” for A.Y.2020-21

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration ₹ 600 lakhs		
Value adopted by Stamp Valuation Authority ₹ 650 lakhs		
Gross Sale consideration		650.00
[Where the actual sale consideration is less than the value adopted]		

<p>by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 105% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.</p>		
<p>In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through any other prescribed electronics mode on or before the date of agreement.</p>		
<p>In this case, since advance of ₹ 20 lakh is received in cash on the date of agreement, stamp duty value on the date of registration has to be considered. Since stamp duty value on the date of registration exceeds 105% of the actual consideration, such stamp duty value on the date of registration would be taken as full value of consideration]</p>		
<p>Less: Brokerage@1% of sale consideration (1% of ₹ 600 lakhs)</p>		<p><u>6.00</u></p>
<p>Net Sale consideration</p>		<p>644.00</p>
<p>Less: Indexed cost of acquisition</p>		
<p>- Cost of vacant land, ₹ 80 lakhs, <i>plus</i> registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 289/113]</p>	<p>225.06</p>	
<p>- Construction cost of residential building (₹ 100 lakhs × 289/122)</p>	<p><u>236.89</u></p>	<p><u>461.95</u></p>
<p>Long-term capital gains before exemption</p>		<p>182.05</p>
<p>Less: Exemption under section 54</p>		<p>80.00</p>
<p>Since the amount of capital gain does not exceed ₹ 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of two residential house property in India one year before or two years after the date of transfer of original asset, at the option of the assessee.</p> <p>However, in the present case, the exemption would be available only in respect of the residential house acquired at Delhi and not in respect of the residential house in London since the residential house property should be purchased or constructed in India</p>		
<p>Less: Exemption under section 54EC</p>		<p>50.00</p>
<p>Amount deposited in capital gains bonds of NHAI within six months from the date of transfer (i.e., on or before 09.08.2020) would qualify for exemption, to the maximum extent of ₹ 50 lakhs.</p> <p>Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 60 lakhs, even if the both the investments are made on or before 09.08.2020 (i.e., within six months from the date of transfer).</p>		
<p>Long term capital gains chargeable to tax</p>		<p>52.05</p>

Note: Since the residential house property was held by Mr. Yusuf for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain.

4. Computation of Taxable Income of Mr. Rajesh for the A.Y. 2020-21

Particulars	₹	₹
Salaries		
Isha's salary (₹ 25,000 x 12) [See Note 1]	3,00,000	
Less: Standard deduction under section 16(ia) upto ₹50,000	<u>50,000</u>	
	2,50,000	
Less: Loss from house property set off against salary income as per section 71(3A) [See Note 2]	<u>2,00,000</u>	50,000
Capital Gains		
Short term capital gain	1,40,000	
Less: Loss from tea business (₹ 96,000 x 40%) [See Note 3 & 4]	<u>38,400</u>	1,01,600
Income from Other Sources		
Dividend income [See Note 5]		<u>1,00,000</u>
Taxable Income		2,51,600

The following losses can be carried forward for subsequent assessment years:

- | | |
|---|----------|
| (i) Loss from house property to be carried forward and set-off against income from house property | ₹ 20,000 |
| (ii) Long-term capital loss of A.Y. 2015-16 can be carried forward and set-off against long-term capital gains | ₹ 86,000 |
| (iii) Loss from speculative business to be carried forward and set-off against income from speculative business | ₹ 50,000 |

Notes:

- As per section 64(1)(ii), all the income which arises directly or indirectly, to the spouse of any individual by way of salary, commission, fees or any other form of remuneration from a concern in which such individual has a substantial interest shall be included in the total income of such individual. However, where spouse possesses technical or professional qualification and the income is solely attributable to the application of such knowledge and experience, clubbing provisions will not apply. Since, Mrs. Isha is not adequately qualified for the post and Mr. Rajesh has substantial interest in Shine Ltd by holding 21% of the shares of the Shine Ltd., the salary income of Mrs. Isha to be included in Mr. Rajesh's income.
- As per section 71(3A), loss from house property can be set off against any other head of income to the extent of ₹ 2,00,000 only.
- 60% of the losses from tea business is treated as agricultural income and therefore exempt. Loss from an exempt source cannot be set off against profits from a taxable source.
- As per section 71(2A), business loss cannot be set off against salary income. Hence, 40% of the losses from tea business i.e., ₹ 38,400 set off against short term capital gains.
- Dividend received from Shaiba Ltd, an Indian Company upto ₹ 10,00,000 is exempt under section 10(34). ₹ 1,00,000, being dividend received in excess of ₹ 10 lakh would be taxable @ 10% as per section 115BBDA. Set off of losses is not permissible against such income.
- Loss from Card games can neither be set off against any other income, nor can it be carried forward.

- (7) Loss of ₹50,000 from speculative business can be set-off only against the income from the speculative business. Hence, such loss has to be carried forward.
- (8) As per section 74(1), brought forward Long-term capital loss can be set-off only against long-term capital gain. Such loss can be carried forward for eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since, 8 assessment years has not expired, such loss can be carried forward to A.Y. 2021-22 for set-off against long-term capital gains.

5. (a) **Computation of advance tax liability in the hands of Mr. Karan opting for presumptive taxation scheme under section 44AD**

Particulars	₹
As per section 211(1)(b), an eligible assessee, opting for computation of profits or gains of business on presumptive basis in respect of an eligible business referred to in section 44AD, shall be required to pay advance tax of the whole amount on or before 15th March of the financial year. Thus, Mr. Karan is required to pay advance tax for F.Y.2019-20 on or before 15 th March, 2020.	
However, any amount paid by way of advance tax on or before 31 st March shall also be treated as advance tax paid during that financial year on or before 15 th March.	
The advance tax liability is computed as follows –	
Total Income being 8% of ₹1,75,00,000, since Mr. Karan is an eligible assessee opting for presumptive taxation scheme under section 44AD (Total income comprises of only income under the head “Profits and gains of business or profession”, since Mr. Karan is not having any other income during the previous year)	14,00,000
Tax liability	
Upto ₹ 2,50,000	Nil
₹ 2,50,001 to ₹ 5,00,000@5%	12,500
₹ 5,00,001 to ₹ 10,00,000@20%	1,00,000
Above ₹ 10,00,000@30%	<u>1,20,000</u>
Add: Health and Education cess @4%	9,300
Total Tax Payable	2,41,800
Accordingly, Mr. Karan is required pay ₹ 2,41,800 as minimum amount of advance tax by 31 st March 2020.	

- (b) (i) As per section 139(4), a belated return for any previous year may be furnished at any time -
- before the end of the relevant assessment year; or
 - before the completion of the assessment,
- whichever is earlier.
- For assessment year 2020-21, the belated return has to be furnished before 31st March 2021 or before completion of assessment, whichever is earlier.
- (ii) As per section 139(5), if any person, having furnished a return within the due date or a belated return, discovers any omission or any wrong statement therein, he may furnish a revised return at any time –

- (a) before the end of the relevant assessment year or
 - (b) before the completion of assessment,
- whichever is earlier.

Since Mr. Varun has filed his return after 31.7.2020, being the due date under section 139(1) in his case, but before 31.3.2021/completion of assessment, the said return is a belated return under section 139(4).

Thus, in the present case, Mr. Varun can file a revised return, since he has found an omission in the belated return filed by him for A.Y.2020-21 and assessment is yet to be completed and assessment year has not elapsed as of October, 2020.

SECTION B - INDIRECT TAXES (50 MARKS)

SUGGESTED ANSWERS

Division A - Multiple Choice Questions Answer

1. (I) (a)
(II) (a)
(III) (a)
2. (a)
3. (a)
4. (d)
5. (d)
6. (a)

Division B - Descriptive Answer

1. **Computation of GST payable on outward supplies**

S.No.	Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)	Total (₹)
(i)	Intra-State supply of goods for ₹ 10,00,000	90,000	<u>90,000</u>		1,80,000
(ii)	Inter-State supply of goods for ₹ 8,00,000			1,44,000	1,44,000
	Total GST payable				3,24,000

Computation of total ITC

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Opening ITC	57,000	60,000	1,40,000
Add: ITC on Intra-State purchases of goods valuing ₹3,00,000	27,000	27,000	Nil
Add: ITC on Inter-State purchases of goods valuing ₹ 2,50,000	Nil	Nil	45,000
Total ITC	84,000	87,000	1,85,000

Computation of minimum GST payable from cash ledger

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)	Total GST (₹)
GST payable	90,000	90,000	1,44,000	3,24,000
Less: ITC [First ITC of IGST should be utilized in full - first against IGST liability and then against CGST and SGST liabilities in a manner to minimize cash outflow]	(38,000) IGST	(3,000) IGST	(1,44,000) IGST	1,85,000 IGST
	(52,000) CGST	(87,000) SGST		1,39,000
Minimum GST payable in cash	Nil	Nil	Nil	Nil
ITC balance to be carried forward next month	32,000	Nil	Nil	32,000

Note: The above computation is one of the many ways to set off the ITC of IGST (₹ 41,000-after set off against IGST liability) against CGST and SGST liability to compute minimum GST payable in cash. To illustrate, IGST of ₹ 10,000 can be set off against SGST payable and IGST of ₹ 31,000 can be set off against CGST payable. In this situation also, the net GST payable will be nil but the ITC of CGST and SGST to be carried forward will be ₹ 25,000 and ₹ 7,000 (totalling to ₹ 32,000) respectively. However, if the entire ITC of ₹ 41,000 is set off against CGST payable, then SGST of ₹ 3,000 will be payable in cash thus, increasing the cash outflow. Therefore, such a set off would not be advisable for computing the minimum GST payable.

2. (a) **Computation of value of taxable supply made by Shri Krishna Pvt. Ltd. to Shri Balram Pvt. Ltd.**

Particulars	Amount (₹)
Price of the goods	1,00,000
Municipal tax [Includible in the value as per section 15(2)(a)]	2,000
Inspection charges [Any amount charged for anything done by the supplier in respect of the supply of goods at the time of/before delivery of goods is includible in the value as per section 15(2)(c)]	15,000
Subsidy received from Shri Ram Trust [Since the subsidy is received from a non-Government body and directly linked to the supply, the same is includible in the value in terms of section 15(2)(e)]	50,000
Late fees for delayed payment [Not includible since the same is waived off]	Nil
Weighment charges paid to Radhe Pvt. Ltd. on behalf of Shri Krishna Pvt. Ltd. [Any amount that the supplier is liable to pay in relation to the supply but has been incurred by the recipient and not included in the price actually paid or payable for the goods, is includible in the value of supply in terms of section 15(2)(b)]	<u>2,000</u>
Value of taxable supply	1,69,000

(b) The time of supply of services, if the invoice is not issued in time, is the date of payment or the date of provision of service, whichever is earlier [Section 13(2)(b)]. In this case, the service is provided on 5th September but not invoiced within the prescribed time limit. Therefore, 5th September, the date of provision of service, being earlier than the date of payment, will be the time of supply.

3. (a) As per section 22 of the CGST Act, 2017 read with *Notification No. 10/2019 CT dated 07.03.2019*, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra-State taxable supplies of goods is as under:-

- (a) ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.
- (b) ₹ 20 lakh for the States of States of Arunachal Pradesh, Meghalaya, Puducherry, Sikkim, Telangana and Uttarakhand.

- (c) ₹ 40 lakh for rest of India. However, the higher threshold limit of ₹ 40 lakh is not available to persons engaged in making supplies of ice cream and other edible ice, whether or not containing cocoa, Pan masalas and Tobacco and manufactured tobacco substitutes.

The threshold limit for a person making exclusive taxable supply of services or supply of both goods and services is as under:-

- (a) ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.
(b) ₹ 20 lakh for the rest of India.

In the light of the afore-mentioned provisions, the answer to the independent cases is as under:-

- (i) Happy Ltd. being exclusively engaged in supply of pan masala is not eligible for higher threshold limit of ₹40 lakh. The applicable threshold limit for registration in this case is ₹20 lakh. Thus, Happy Ltd. is liable to get registered under GST.
- (ii) Though Akki Ltd. is dealing in Assam, it is not entitled for higher threshold limit for registration as the same is applicable only in case of exclusive supply of goods while it is exclusively engaged in providing services. Thus, the applicable threshold limit for registration in this case is ₹ 20 lakh and hence, Akki Ltd. is liable to get registered under GST.
- (iii) Since Aaru Ltd. is engaged in supply of both taxable goods and services, the applicable threshold limit for registration in this case is ₹ 20 lakh. Thus, Aaru Ltd. is liable to get registered under GST as its turnover is more than the threshold limit.
- (b) As per the provisions of CGST Act, 2017 read with relevant rules, the deposit in electronic cash ledger can be made through any of the following modes, namely:-
- (i) Internet Banking through authorised banks;
- (ii) Credit card or Debit card through the authorised bank;
- (iii) National Electronic Fund Transfer or Real Time Gross Settlement from any bank; or
- (iv) Over the Counter payment through authorised banks for deposits up to ten thousand rupees per challan per tax period, by cash, cheque or demand draft.

Thus, offline mode is also permitted under GST subject to specified conditions.

- (a) Manual or physical Challans are not allowed under the GST regime. It is mandatory to generate Challans online on the GST Portal.

- (b) Challan is valid for a period of 15 days.

4. (a) Computation of value of taxable supply of M/s. Nanco Bank Limited for the month of August, 20XX

Particulars	Amount in crores (₹)
Housing loan extended to customers [Since money does not constitute goods, extending housing loan is not a supply.]	Nil
Processing fee collected on sanction of loan [Interest does not include processing fee on sanction of the loan. Hence, the same is taxable.]	20
Interest received on housing loan [Services by way of extending loans in so far as the consideration is represented by way of interest are exempt from tax.]	Nil

Minimum balance charges collected from current account and saving account holder [Any charges collected over and above interest on loan, advance or deposit are not exempt.]	01
Value of taxable supply	21

- (b) Section 37 of the CGST Act, 2017 stipulates that GSTR-1 for a particular month is required to be filed on or before the 10th day of the immediately succeeding month, i.e. on a monthly basis.

However, presently, as a measure of easing the compliance requirement for small tax payers, GSTR-1 has been allowed to be filed quarterly by small tax payers with aggregate annual turnover up to ₹ 1.5 crore in the preceding financial year or the current financial year. Tax payers with annual aggregate turnover above ₹ 1.5 crore will however continue to file GSTR- 1 on a monthly basis.

In view of the same, M/s Guruji Enterprises can file its GSTR-1 on quarterly basis as its aggregate turnover does not exceed ₹ 1.5 crore in the preceding financial year.

Further, GSTR-1 needs to be filed even if there is no business activity in a tax period. Thus, in the present case, even if no supply has been made by M/s Guruji Enterprises, a nil return is required to be filed for the relevant tax period.

5. (a) Recipient of supply of goods or services or both, means —

- (i) where a consideration is payable for the supply of goods or services or both, the person who is liable to pay that consideration;
- (ii) where no consideration is payable for the supply of goods, the person to whom the goods are delivered or made available, or to whom possession or use of the goods is given or made available; and
- (iii) where no consideration is payable for the supply of a service, the person to whom the service is rendered,

and

- (i) any reference to a person to whom a supply is made shall be construed as a reference to the recipient of the supply, and
- (ii) shall include an agent acting as such on behalf of the recipient in relation to the goods or services or both supplied.

(b) Credit note is required to be issued by the Supplier:-

- (i) If taxable value charged in the tax invoice is found to exceed the taxable value in respect of supply of goods and/or services, or
- (ii) If tax charged in the tax invoice is found to exceed the tax payable in respect of supply of goods and/or services, or
- (iii) if goods supplied are returned by the recipient, or
- (iv) if goods and/or services supplied are found to be deficient.

Debit note is required to be issued by the Supplier:-

- (i) if taxable value charged in the tax invoice is found to be less than the taxable value in respect of supply of goods and/or services or
- (ii) if tax charged in the tax invoice is found to be less than the tax payable in respect of supply of goods and/or services.