

PAPER – 4 : TAXATION
SECTION A : INCOME TAX LAW
Part - II

Question No.1 is compulsory.

*Candidates are also required to answer any **two** questions from the remaining **three** questions.*

Working notes should form part of the respective answers.

All questions relate to assessment year 2019-20, unless otherwise stated.

Question 1

From the following particulars of Shri Jagdish (aged 59 years) for the Assessment Year 2019-20, you are required to find out his taxable income and net tax liability :

- (i) Basic Salary @ ₹51,000 per month, Dearness allowance @ ₹10,000 per month (Part of salary for retirement benefits), House rent allowance ₹4,000 per month and rent paid for house in Mumbai is ₹7,000 per month.*
- (ii) He owns a commercial building at New Delhi, which is let out on 1/7/2018 at a monthly rent of ₹46,000. He paid municipal taxes of ₹27,000 and ₹25,000 for the financial year 2017-18 and 2018-19 on 31-3-2019 and 20-4-2019, respectively.*
- (iii) He deals in shares. During financial year 2018-19, he earned ₹1,70,000 from his share business and paid ₹30,000 as securities transaction tax.*
- (iv) He purchased 4000 unlisted shares of Shyam Limited on 16-1-2008 for ₹80,000. Company declared bonus in the ratio of 1:1 on 1st February, 2008. Shri Jagdish sold 3000 Bonus Shares on 28/12/2018 for ₹2,00,000 to his friend Mr. Mehul through unrecognized stock exchange. (Cost Inflation Index: 2007-08: 129, 2018-19: 280)*
- (v) He received dividend of ₹13,00,000 as dividend income from listed domestic company (on which dividend distribution tax is paid) Interest from saving bank account deposits with IDBI Bank ₹15,000 and lottery winnings (Net of TDS@30%) is ₹21,000.*

He paid the following amount out of his taxable income:

- (a) Deposits in Public Provident Fund ₹2,00,000.*
- (b) Medical insurance premium paid for health of his wife ₹19,000 and for health of dependent son ₹12,000 through cheque.*

(14 Marks)

The Suggested Answers for Paper 4A: Income-tax law are based on the provisions of income-tax law as amended by the Finance Act, 2018. The relevant assessment year is A.Y.2019-20.

Answer**Computation of Taxable Income of Mr. Jagdish for the A.Y.2019-20**

Particulars	₹	₹
Salaries		
Basic Salary = ₹ 51,000 x 12	6,12,000	
Dearness Allowance (DA) = ₹ 10,000 x 12	1,20,000	
House Rent Allowance (HRA) = ₹ 4,000 x 12	₹ 48,000	
Less: Least of the following exempt u/s 10(13A)	<u>₹ 10,800</u>	
	37,200	
(i) HRA actually received = ₹ 4,000 x 12 = ₹ 48,000		
(ii) Rent paid (-) 10% of salary [₹ 84,000 (i.e., ₹ 7,000 x 12) (-) ₹ 73,200 (10% of salary i.e., 10% of ₹ 7,32,000 (Basic Salary + DA)) = ₹ 10,800		
(iii) 50% of salary [50% of ₹ 7,32,000 (Basic Salary + DA)] = ₹ 3,66,000		
Gross Salary	7,69,200	
Less: Standard deduction u/s 16(ia)	<u>40,000</u>	
		7,29,200
Income from house property		
Gross Annual Value [₹ 46,000 x 9] ¹	4,14,000	
Less: Municipal tax paid during the P.Y. 2018-19	<u>27,000</u>	
Net Annual Value	3,87,000	
Less: Deduction u/s 24 [30% of Net Annual Value]	<u>1,16,100</u>	
		2,70,900
Profits and gains of business or profession		
Profits from share business	1,70,000	
Less: Securities transaction tax paid deductible u/s 36(1)(xv)	<u>30,000</u>	
		1,40,000

¹ In the absence of information relating to fair rent, the GAV in the above solution has been worked out on the assumption that the actual rent for 9 months exceeds the fair rent for the whole year. In the alternative, it is possible to assume that the fair rent is equal to actual rent. In such a case, GAV would be ₹ 5,52,000 i.e., ₹ 46,000 x 12, being fair rent for the whole year. The income from house property would be ₹ 3,67,500. The gross total income and total income would, accordingly, change to ₹ 17,81,700 and ₹ 15,96,700 respectively. The tax payable would be ₹ 2,10,970.

Particulars	₹	₹
Capital Gains		
Full value of consideration	2,00,000	
Less: Cost of acquisition of bonus shares allotted on or after 1.4.2001	<u>Nil</u>	
Long-term capital gains (since bonus shares are held for a period of more than 24 months)		2,00,000
Income from Other Sources		
Dividend received from domestic company	13,00,000	
Less: Exempt under section 10(34)	<u>10,00,000</u>	
Dividend in excess of ₹ 10 lakh chargeable to tax u/s 115BBDA@10%	3,00,000	
Interest from saving bank account deposits with IDBI Bank	15,000	
Lottery winnings [21,000 x 100/70]	<u>30,000</u>	
		<u>3,45,000</u>
Gross Total Income		16,85,100
Less: Deduction under Chapter VI-A		
Section 80C		
Deposits in PPF ₹ 2,00,000		
Restricted to ₹ 1,50,000, being the maximum allowable deduction	1,50,000	
Section 80D		
Medical insurance premium for wife and dependent son ₹ 31,000, restricted to	25,000	
Section 80TTA		
Interest on saving bank account deposit	<u>10,000</u>	<u>1,85,000</u>
Total Income		<u>15,00,100</u>

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

Particulars	₹	₹
Tax on total income of ₹ 15,00,100		
Tax on long-term capital gains of ₹ 2,00,000@20% u/s 112	40,000	
Tax on lottery income of ₹ 30,000 @30% u/s 115BB	9,000	
Tax on dividend income of ₹ 3,00,000@10% u/s 115BBDA	30,000	

Tax on other income of ₹ 9,70,100 [₹ 15,00,100 – ₹ 2,00,000, capital gains – ₹ 30,000, lottery income – ₹ 3,00,000, dividend income]		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [i.e., ₹ 2,50,000@5%]	12,500	
₹ 5,00,001 – ₹ 9,70,100 [i.e., ₹ 4,70,100@20%]	<u>94,020</u>	1,85,520
Add: Health and education cess@4%		<u>7,421</u>
Tax liability		1,92,941
Less: Tax deducted at source ²		
TDS on lottery income		<u>9,000</u>
Tax Payable		<u>1,83,941</u>
Tax Payable (rounded off)		1,83,940

Question 2

(a) The following are the incomes of Shri Subhash Chandra, a citizen of India, for the previous year 2018-19 :

- (i) Income from business in India ₹ 2,00,000. The business is controlled from London and ₹ 60,000 were remitted to London.
- (ii) Profits from business earned in Japan ₹ 70,000 of which ₹ 20,000 were received in India. This business is controlled from India.
- (iii) Untaxed income of ₹ 1,30,000 for the year 2016-17 of a business in England which was brought in India on 3rd March, 2019.
- (iv) Royalty of ₹ 4,00,000 received from Shri Ramesh, a resident, for technical service provided to run a business outside India.
- (v) Agricultural income of ₹ 90,000 in Bhutan.
- (vi) Income of ₹ 73,000 from house property in Dubai, which was deposited in bank at Dubai.

Compute Gross Total Income of Shri Subhash Chandra for the A.Y. 2019-20, if he is -

- (1) A Resident and Ordinarily Resident; and
- (2) A Resident but Not Ordinarily Resident

(7 Marks)

² It is presumed that commercial building is let out to an individual/HUF whose turnover does not exceed limit specified in section 44AB during the immediately preceding F.Y. Hence, TDS u/s 194-I is not attracted. Also, TDS u/s 194-IB is not attracted since monthly rent does not exceed ₹ 50,000.

- (b) Examine the TDS implications in the following cases along-with reasons thereof:
- Ms. Varsha received a sum of ₹ 95,000 on 31st December 2018 towards maturity proceeds of LIC taken on 1st October 2013 for which sum assured was ₹ 80,000. and annual premium was ₹ 10,000.
 - Mr. Deepak transferred a residential house property to Mr. Karan for ₹ 45 lacs. The stamp duty value of such property is ₹ 55 lacs.
 - XYZ Private Limited pays the following amounts to Mr. Narayan during previous year 2018-19 :
 - ₹ 22,000 towards fee for professional services
 - ₹ 18,000 towards royalty.
 - Payment of ₹ 1,75,000 made to Mr. Vaibhav for purchase of calendar according to specifications of M/s. ABC Limited. However, no material was supplied for such calendar by ABC Limited to Mr. Vaibhav.
 - Talent Private Limited pays ₹ 12,000 to Ms. Sudha, its director, towards sitting fee which is not taxable u/s 192.
 - Radha Limited is engaged for Shyam Limited only in the business of operation of call centre. On 18-03-2019, the total amount credited by Shyam Limited in the ledger account of Radha Limited is ₹ 70,000 regarding service charges of call centre. The amount is paid through cheque on 28/03/2019 by Shyam Limited. **(7 Marks)**

Answer**(a) Computation of Gross Total Income of Shri Subhash Chandra for the A.Y. 2019-20**

	Particulars	Resident and Ordinarily Resident [ROR] (₹)	Resident but Not Ordinarily Resident [RNOR] (₹)
(i)	<u>Income from business in India, controlled from London</u> [Taxable both in the hands ROR and RNOR, since income accrues/arises from business in India, irrespective of the fact that business is controlled from London]	2,00,000	2,00,000
(ii)	<u>Profits earned from business in Japan</u> [Profits from business in Japan is taxable in the hands of ROR, since global income is taxable in the hands of ROR. Moreover, entire profit of ₹ 70,000 would be taxable in the hands of RNOR, even if only ₹ 20,000 is received in India, since the business in Japan is controlled from India]	70,000	70,000

(iii)	Untaxed income for the year 2016-17 of a business in England which was brought in India during the P.Y. 2018-19 [Not taxable either in the hands of ROR or RNOR, since such income is not related to the P.Y. 2018-19.]	Nil	Nil
(iv)	Royalty received from a resident for technical service provided to run a business outside India [Taxable in the hands of ROR, since global income is taxable in the hands of ROR. Not taxable in the hands RNOR, since royalty income is not deemed to accrue or arise in India as such income is paid by a resident for technical services used to run a business outside India.]	4,00,000	Nil
(v)	Agricultural Income in Bhutan³ [Since agricultural income accrues/arises outside India, it is taxable only in the hands of ROR. No exemption is available in respect of agricultural income earned outside India]	90,000	Nil
(vi)	Income from house property in Dubai, which was deposited in a bank at Dubai Since income accrues/arises outside India and is also received outside India, it is taxable only in the hands of ROR 73,000 Less: Deduction u/s 24@30% <u>21,900</u> [See Note below for alternative treatment]	51,100	Nil
Gross Total Income		8,11,100	2,70,000

Note – In the above solution, income of ₹ 73,000 from house property in Dubai is presumed to be the rent received, since the said amount is stated to be the amount deposited in bank. Accordingly, deduction@30% of the said amount has been provided to compute the “Income from house property”, where Shri Subhash Chandra is a ROR.

³ Presumed that the same was received in Bhutan

However, since the words “Income from house property” appears to indicate that the same is the income computed under that head of income, it is possible to consider the said amount of ₹ 73,000 as income computed under the head “Income from house property” after providing deduction @ 30% under section 24(a). In such a case, the gross total income of Shri Subhash Chandra, if he were a ROR, would be ₹ 8,33,000.

(b) TDS implications

- (i) **On payment of LIC maturity proceeds** - The annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of ₹ 95,000 would not be exempt u/s 10(10D) in the hands of Ms. Varsha. However, tax deduction provisions u/s 194-DA are not attracted since the maturity proceeds are less than ₹ 1 lakh.
- (ii) **On payment of sale consideration for purchase of residential house property** - Since the sale consideration of house property is less than ₹ 50 lakhs, Mr. Karan is not required to deduct tax at source u/s 194-IA, irrespective of the fact that the stamp duty value is more than the sale consideration as well as the threshold limit of ₹ 50 lakhs.
- (iii) **On payment of fee for professional services and royalty** – Under section 194J, the threshold limit of ₹ 30,000 is specified separately for, *inter alia*, fees for professional services and royalty. Therefore, XYZ Private Limited is not required to deduct tax at source under section 194J either on fee of ₹ 22,000 for professional services or on royalty of ₹ 18,000 paid to Mr. Narayan, since the payment under each category does not exceed the independent threshold ₹ 30,000 specified thereunder.
- (iv) **On payment for purchase of calendar according to specifications** - As per section 194C, the definition of “work” does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer.
Therefore, M/s ABC Limited is not required to deduct tax at source in respect of payment of ₹ 1,75,000 to Mr. Vaibhav, for purchase of calendar according to its specifications, since it did not supply the material for such calendar. Hence, the contract is a contract for ‘sale’ and not a works contract.
- (v) **On payment of sitting fees to the director** - Talent Private Limited is required to deduct tax at source @ 10% on sitting fees of ₹ 12,000 paid to its director, since the threshold limit of ₹ 30,000 u/s 194J is not applicable in respect of fees paid to a director of a company.
- (vi) **On payment of call centre service charges** - Since Radha Limited is engaged only in the business of operation of call centre, Shyam Limited is required deduct tax at source @ 2% on the amount of ₹ 70,000 u/s 194J on 18.3.2019 i.e., at the time of credit of call centre service charges to the account of Radha Limited, since the said date is earlier than the payment date i.e., 28.3.2019.

Question 3

- (a) Mr. Madhvan is a finance manager in Star Private Limited. He gets a salary of ₹ 30,000 per month. He owns two houses, one of which has been let out to his employer and which is in turn provided to him as rent free accommodation. Following details (annual) are furnished in respect of two house properties for the Financial Year 2018-19.

	House 1	House 2
Fair rent	75,000	1,95,000
Actual rent	65,000	2,85,000
Municipal Valuation	74,000	1,90,000
Municipal taxes paid	18,000	70,000
Repairs	15,000	35,000
Insurance premium on building	12,000	17,000
Ground rent	7,000	9,000
Nature of occupation	Let-out to Star Private Limited	Let-out to Ms. Puja

₹ 17,000 were paid as interest on loan taken by mortgaging House 1 for construction of House 2.

During the previous year 2018-19, Mr. Madhvan purchased a rural agricultural land for ₹ 2,50,000. Stamp valuation of such property is ₹ 3,00,000.

Determine the taxable income of Mr. Madhvan for the assessment year 2019-20. All workings should form part of your answer. **(8 Marks)**

- (b) Mr. Roy owned a residential house in Noida. It was acquired on 09.09.2009 for ₹ 30,00,000. He sold it for ₹ 1,57,00,000 on 07.01.2016.

Mr. Roy utilized the sale proceeds of the above property to acquire a residential house in Panchkula for ₹ 2,05,00,000 on 20.07.2016. The said house property was sold on 31.10.2018 and he purchased another residential house in Delhi for ₹ 2,57,00,000 on 02.03.2019. The property at Panchkula was sold for ₹ 3,25,00,000.

Calculate capital gains chargeable to tax for the assessment year 2016-17 and 2019-20. All workings should form part of your answer: Cost inflation index for various financial years are as under:

2009-10	-	148
2015-16	-	254
2016-17	-	264
2018-19	-	280

(6 Marks)

Answer**(a) Computation of taxable income of Mr. Madhvan for A.Y. 2019-20**

Particulars	₹	₹	₹
Salaries			
Basic Salary = ₹ 30,000 x 12		3,60,000	
Rent free accommodation		54,000	
[Lower of lease rental paid or payable by the employer (or) 15% of salary i.e., lower of ₹ 65,000 or ₹ 54,000, being 15% of ₹ 3,60,000]			
Gross Salary		4,14,000	
Less: Standard deduction u/s 16(ia)			
[Actual salary or ₹ 40,000, whichever is less]		40,000	
Net Salary			3,74,000
Income from house property	House 1	House 2	
Municipal value (A)	74,000	1,90,000	
Fair rent (B)	75,000	1,95,000	
Higher of (A) and (B) = (C)	75,000	1,95,000	
Actual rent received	65,000	2,85,000	
Gross Annual Value	75,000	2,85,000	
[Higher of (C) and Actual rent]			
Less: Municipal tax paid	18,000	70,000	
Net Annual Value (NAV)	57,000	2,15,000	
Less: Deductions u/s 24			
30% of NAV	17,100	64,500	
Interest on loan	Nil	17,000	
	39,900	1,33,500	
Income from house property			1,73,400
[₹ 39,900 + ₹ 1,33,500]			
Income from Other Sources			
Purchase of rural agricultural land for a consideration less than stamp duty value [Not taxable under section 56(2)(x), since rural agricultural land is not a capital asset]			
			Nil
Total Income			5,47,400
Note - Expenditure on repairs, insurance premium on building and ground rent are not allowable under the head "Income from house property."			

(b) Computation of capital gains chargeable to tax for A.Y. 2016-17

Particulars	₹
Full value of consideration received on sale of residential house in Noida	1,57,00,000
Less: Indexed cost of acquisition [$\text{₹ } 30,00,000 \times 254/148$]	<u>51,48,649</u>
Long-term capital gain	1,05,51,351
Less: Exemption under section 54	
Purchase of new residential house property at Panchkula for ₹ 2,05,00,000 on 20.7.2016 i.e., within two years from the date of transfer of residential house in Noida; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gain	<u>1,05,51,351</u>
Taxable long term capital gain	<u>Nil</u>

Computation of capital gains chargeable to tax for A.Y. 2019-20

Particulars	₹
Full value of consideration received on sale of residential house at Panchkula	3,25,00,000
Less: Indexed cost of acquisition [As per section 54, if the new residential house purchased (i.e., on 20.7.2016, in this case) is transferred within 3 years of its purchase (i.e., on 31.10.2018, in this case), and the cost of acquisition of the new house (i.e., ₹ 2,05,00,000) is higher than the long-term capital gain (i.e., ₹ 1,05,51,351,) then, the cost of acquisition of such new residential house shall be reduced by long term capital gain exempted earlier, while computing capital gains on sale of the new residential house] [$\text{₹ } 99,48,649 (\text{₹ } 2,05,00,000 - \text{₹ } 1,05,51,351) \times 280/264$]	<u>1,05,51,597</u>
Long-term capital gain [Since the residential house is held for more than 24 months]	2,19,48,403
Less: Exemption under section 54	
Purchase of new residential house property in Delhi for ₹ 2,57,00,000 on 2.3.2019 i.e., within two years from 31.10.2018, being the date of transfer of residential house at Panchkula; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gains	<u>2,19,48,403</u>
Taxable long term capital gain	<u>Nil</u>

Question 4

- (a) Ms. Geeta, a resident individual, provides the following details of her income/losses for the year ended 31.03.2019:

	Particulars	Amount (₹)
(i)	Income from salary (computed)	41,20,000
(ii)	Rent received from house property situated in Delhi	5,00,000
(iii)	Interest on loan taken for purchase of above property. Loan was taken from a friend	7,50,000
(iv)	Rent received from house property situated in Jaipur	3,20,000
(v)	Interest on loan taken for house property in Mumbai, which is self-occupied. Loan was taken from PNB on 01.01.1999 for purchase of this property.	1,57,000
(vi)	Interest on loan taken for repair of house properties situated in Mumbai and Delhi. Loan was taken on 01.04.17 and was utilized in 50:50 ratio for house properties situated in Mumbai and Delhi, respectively.	1,50,000
(vii)	Long-term capital gains on sale of equity shares computed in accordance with section 112A	8,95,000
(viii)	Interest on fixed deposit	73,000
(ix)	Loss from textile business	7,50,000
(x)	Speculation profit	2,30,000
(xi)	Lottery income	75,000
(xii)	Loss incurred by the firm in which she is a partner	1,60,000
(xiii)	Salary received as a partner from partnership firm. The same was allowed to firm	50,000
(xiv)	Brought forward short-term capital loss on sale of gold	2,75,000
(xv)	Brought forward loss on sale of equity shares of the nature specified u/s 111A	25,000
(xvi)	Life insurance premium paid for her son who is 30 years of age and is working in USA	15,000

Compute total income of Ms. Geeta for the assessment year 2019-20 and the amount of loss that can be carried forward.

For the above solution, you may assume principal repayment of loan as under:

- (1) Loan taken for purchase of house property in Delhi - ₹ 2,50,000

- (2) Loan taken for purchase of house property in Mumbai - ₹ 50,000
 (3) Loan taken for repair of house properties in Delhi and Mumbai - ₹ 75,000

Working notes should form part of your answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of note. (10 Marks)

- (b) Discuss the provisions of section 139A(1) which provides the persons who are compulsorily required to apply for allotment of Permanent Account Number (PAN) with the Assessing Officer. (4 Marks)

OR

- (i) What is the fee for default in furnishing return of income u/s 234F? (2 Marks)
 (ii) To whom the provisions of section 139AA relating to quoting of Aadhar Number do not apply? (2 Marks)

Answer

- (a) Computation of total income of Ms. Geeta for the A.Y.2019-20

Particulars	₹	₹	₹
Income from salary (computed)			41,20,000
Income from house property			
(i) House property at Delhi (Let out)			
Rent received (taken as Annual Value in the absence of information relating to Fair Rent and Municipal Value)	5,00,000		
Less: Deduction u/s 24			
(a) 30% of Annual Value 1,50,000 [30% of ₹ 5 lakh]			
(b) Interest on loan for purchase of property 7,50,000			
for repairs of property [₹ 1,50,000/2] 75,000			
	9,75,000	(4,75,000)	
(ii) House property at Jaipur (Let out)			
Rent received (taken as Annual Value in the absence of information relating to Fair Rent and Municipal Value)	3,20,000		
Less: Deduction u/s 24			
30% of Annual Value = 30% of ₹ 3,20,000 96,000			
		2,24,000	

(iii) House property at Mumbai (Self-occupied)			
Annual value of self-occupied property	Nil		
Less: Deduction u/s 24(b)			
Interest on loan for purchase and repairs (to be restricted to ₹ 30,000, since loan for purchase was taken prior to 1.4.1999)	30,000	<u>(30,000)</u>	
Loss from house property [(i) + (ii) + (iii)]		<u>(2,81,000)</u>	
As per section 71(3A), loss from house property to be set-off against salary income to the extent of			<u>(2,00,000)</u>
			39,20,000
Profits and gains of business or profession			
Speculation profit (assumed as business income)		2,30,000	
Salary received as partner of firm is taxable in her hands since the entire salary was allowed as deduction in the hands of the firm		<u>50,000</u>	
		2,80,000	
Set-off of loss from textile business to the extent of		<u>(2,80,000)</u>	Nil
Note – Share of loss of ₹ 1,60,000 incurred by the firm in which she is partner cannot be set-off against salary received as partner of firm or any other income, since loss from an exempt source cannot be set-off against profit from a taxable source.			
Capital Gains			
Long-term capital gains on sale of equity shares computed in accordance with section 112A		8,95,000	
Less: Set-off of brought forward short-term capital loss as per section 74⁴			
B/f Short-term capital loss on sale of gold	2,75,000		
B/f Short-term capital loss u/s 111A	<u>25,000</u>		
		<u>3,00,000</u>	
		5,95,000	
Less: Set-off of balance loss of textile business⁵ [₹ 7,50,000 – ₹ 2,80,000 – ₹ 73000]		<u>(3,97,000)</u>	1,98,000

⁴ As per section 74, B/f short-term capital loss can be set-off against long-term capital gain taxable u/s 112A. It is assumed that the eight year period for set-off of losses has not expired.

⁵ Permitted as per section 71(2)

Particulars	₹	₹
Income from Other Sources		
Interest on fixed deposit	73,000	
Less: Set off balance loss of textile business to the extent of	<u>(73,000)</u>	
	Nil	
Lottery income (assumed as Gross Income)	<u>75,000</u>	<u>75,000</u>
Gross Total Income		41,93,000
Less: Deduction under Chapter VI-A		
Under section 80C		
Life insurance premium paid		
Life insurance premium paid to insure the life of her son allowable as deduction even if he is major, resides abroad and is not dependent on her	15,000	
Repayment of housing loan		
₹ 2,50,000, for house property in Delhi, not allowable since loan is taken from a friend	Nil	
₹ 50,000 for house property in Mumbai, allowable since loan is taken from a bank for purchase of property	50,000	
₹ 75,000, for house properties in Mumbai and Delhi, not allowable since loan is taken for repairs of properties	Nil	
		<u>65,000</u>
Total Income		41,28,000

Loss to be carried forward to A.Y.2020-21:

Particulars	₹
Loss from house property (₹ 2,81,000 - ₹ 2,00,000)	81,000
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. As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. Such loss can be carried forward for a maximum of eight assessment years.	

(b) [First Alternative]

Persons who are mandatorily required to apply for PAN as per section 139A(1)	
(i)	Every person whose total income or the total income of any other person in respect of which he is assessable under the Income-tax Act, 1961 during any previous year exceeds the basic exemption limit

(ii)	Every person carrying on business or profession whose total sales, turnover or gross receipts are or is likely to exceed ₹ 5 lakh in any previous year
(iii)	Every person, being a resident, other than an individual, which enters into a financial transaction of an amount aggregating to ₹ 2,50,000 or more in a financial year
(iv)	Every person who is the managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of the person referred to in (iii) above or any person competent to act on behalf of the person referred to in (iii) above.

(b) [Second Alternative]**(i) Fee for default in furnishing return of income u/s 234F**

Where a person, who is required to furnish a return of income under section 139, fails to do so within the prescribed time limit under section 139(1), he shall pay, by way of fee, a sum of –

Fee	Circumstances
₹ 5,000	If the return is furnished on or before the 31 st December of the assessment year;
₹ 10,000	In any other case
Note - However, if the total income of the person does not exceed ₹ 5 lakhs, the fees payable shall not exceed ₹ 1,000	

(ii) Persons to whom provisions of section 139AA relating to quoting of Aadhar Number does not apply

The provisions of section 139AA relating to quoting of Aadhar Number would not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

- (i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;
- (ii) a non-resident as per Income-tax Act, 1961;
- (iii) of the age of 80 years or more at any time during the previous year;
- (iv) not a citizen of India.

PAPER – 4 : TAXATION
SECTION B: INDIRECT TAXES

Question No. 5 is compulsory.

*Candidates are also required to answer any **three** questions from the remaining **four** questions.*

All questions should be answered on the basis of position of GST law as amended upto 31st October, 2018.

Working notes should form part of the answer.

Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of note.

Question 5

Mr. Himanshu, a registered supplier of chemicals, pays GST under regular scheme. He is not eligible for any threshold exemption. He has made the following outward taxable supplies for the month of September 2018:

<i>Intra-State supply of goods</i>	<i>₹ 25,00,000</i>
<i>Inter-State supply of goods</i>	<i>₹ 5,00,000</i>

He has also made the following inward supply :

<i>Intra-State purchase of goods from registered dealer</i>	<i>₹ 14,00,000</i>
<i>Intra-State purchase of goods from unregistered dealer</i>	<i>₹ 2,00,000</i>
<i>Inter-State purchase of goods from registered dealer</i>	<i>₹ 4,00,000</i>

Balance of ITC at the beginning of September 2018 :

<i>CGST</i>	<i>₹ 95,000</i>
<i>SGST</i>	<i>₹ 60,000</i>
<i>IGST</i>	<i>₹ 50,000</i>

Additional Information :

- He purchased a car (Intra-State supply) used for business purpose at a price of ₹ 6,72,000/- (including CGST of ₹ 36,000 & SGST of ₹ 36,000) on September 15, 2018. He capitalized the full value including GST in the books on the same date to claim depreciation.*
- Out of Inter-State purchase from registered dealer, goods worth ₹ 1,00,000 were received on October 3, 2018 due to road traffic jams.*

Note:

- (i) Rate of CGST, SGST and IGST to be 9%, 9% and 18% respectively.*

- (ii) Both inward and outward supplies given above are exclusive of taxes, wherever applicable.
- (iii) All the conditions necessary for availing the ITC have been fulfilled except mentioned above.

Compute the net CGST, SGST and IGST payable in cash by Mr. Himanshu for the month of September, 2018. **(8 Marks)**

Answer

Computation of net GST payable in cash of Mr. Himanshu for September, 2018

Particulars	Value (₹)	CGST (₹)	SGST (₹)	IGST (₹)
Total tax liability				
Intra-State outward supplies of goods	25,00,000	2,25,000	2,25,000	
Inter-State outward supplies of goods	5,00,000			90,000
Total tax liability (A)		2,25,000	2,25,000	90,000
Input Tax Credit (ITC)				
Brought forward ITC		95,000	60,000	50,000
Intra-State purchase of goods from registered dealer [Note-1]	14,00,000	1,26,000	1,26,000	
Inter-State purchase of goods from registered dealer [Note-1 and Note 4]	3,00,000	-	-	54,000
Intra-State purchase of goods from unregistered dealer [Note-2]	2,00,000	-	-	-
Purchase of car used for business purpose [Note-3]	-	-	-	-
Total ITC (B)		2,21,000	1,86,000	1,04,000
Net GST liability = (A)-(B)		4,000	39,000	(14,000)
Less: Set off from IGST credit [Note-5]		4,000	10,000	
Net GST payable in cash		Nil	29,000	Nil

Notes:

- Every registered person is entitled to take credit of input tax charged on any inward supply of goods used/intended to be used in the course/furtherance of his business.
- Intra-State supplies received by a registered person from any unregistered supplier, are exempt from the whole of the tax leviable thereon under reverse charge till 30.09.2019. Since no tax has been paid, so no credit is available.

3. Input tax paid on capital goods cannot be availed as ITC if depreciation has been claimed on such tax component. Moreover, ITC on motor vehicle (car) is blocked under section 17(5) of CGST Act, 2017.
4. A registered person is entitled to avail input tax in respect of any supply of goods to him only if he has actually received the said goods. Since goods worth ₹ 1,00,000 have not been received by Mr. Himanshu in the month of September 2018, credit in respect of same cannot be claimed in the said month.
5. Input tax credit of IGST has been used to pay IGST, CGST and SGST in that order.

Question 6

- (a) *M/s. Apna Bank Limited, a Scheduled Commercial Bank has furnished the following details for the month of August, 2018:*

Particulars	Amount ₹ in Crores (Excluding GST)
Extended Housing Loan to its customers	100
Processing fees collected from its customers on sanction of loan	20
Commission collected from its customers on bank guarantee	30
Interest income on credit card issued by the bank	40
Interest received on housing loan extended by the bank	25
Minimum balance charges collected from current account and saving account holder	01

Compute the value of taxable supply. Give reasons with suitable assumptions. (6 Marks)

- (b) *Decide with reason whether the following independent services are exempt under CGST Act, 2017:*
- (i) *Gokul Residents' Welfare Association received ₹ 9,000 per month as contribution from each member for sourcing of goods and services from third persons for common use of its members.*
 - (ii) *Mr. Vikalp, a performing artist, has received ₹ 1,58,000 from performance of classical dance and ₹ 90,000 from acting in TV Serial during the month of June 2018.* **(4 Marks)**

Answer

- (a) **Computation of value of taxable supply of M/s. Apna Bank Limited for the month of August, 2018**

Particulars	Amount in crores (₹)
Housing loan extended to customers	Nil

[Since money does not constitute goods, extending housing loan is not a supply.]	
Processing fee collected on sanction of loan [Interest does not include processing fee on sanction of the loan. Hence, the same is taxable.]	20
Commission collected on bank guarantee [Any commission collected over and above interest on loan, advance or deposit are not exempt.]	30
Interest income on credit card issued by the bank [Services by way of extending loans in so far as the consideration is represented by way of interest are exempt from tax. However, interest involved in credit card services is not exempt.]	40
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	91

- (b) (i) Service by an unincorporated body or a registered non-profit entity, to its own members by way of share of contribution up to an amount of ₹ 7,500 per month per member for sourcing of goods/services from a third person for the common use of its members in a housing society or residential complex, is exempt.

In the given case, monthly contribution per month per member received by Gokul Residents' Welfare Association exceeds ₹ 7,500.

Therefore, exemption will be available up to ₹ 7,500 and GST would be payable on the amount in excess of ₹ 7,500 (viz. ₹ 1,500 in this case).

- (ii) Services by an artist by way of a performance in folk or classical art forms of music, dance, or theatre, if the consideration charged for such performance is not more than ₹ 1,50,000 are exempt from GST.

In the given case, since the consideration received by the performing artist - Mr. Vikalp for performance of classical dance is more than ₹ 1,50,000, said services are not exempt.

Further, consideration received for acting in TV serial is also not exempt since said performance is not in folk/classical art forms of theatre.

Question 7

(a) *Examine the following independent cases of supply of goods and services and determine the time of issue of invoice under each of the cases as per the provisions of CGST Act, 2017:*

(i) *Sakthi Enterprises, Kolkata entered into a contract with Suraj Enterprises, Surat for supply of goods on 31st October, 2018. The goods were removed from the factory at Kolkata on 11th October, 2018. As per the agreement, the goods were to be delivered by 31st October, 2018. Suraj Enterprises has received the goods on 14th October, 2018.*

(ii) *Trust and Fun Ltd, an event management company, has provided its services for an event at Kapoor Film Agencies, Mumbai on 5th June, 2018. Payment for the event was made on 19th June, 2018.* **(4 Marks)**

(b) *M/s. Daksha Enterprises has made a cash deposit of ₹ 10,000 under minor head 'tax' of major head 'SGST'. It has a liability of ₹ 2,000 for minor head "Interest" under the major head "SGST".*

State whether M/s. Daksha Enterprises can utilise the amount available for payment of interest. **(2 Marks)**

(c) *State with brief reason, whether following suppliers of taxable goods are required to register under the GST Law :*

(i) *Mr. Raghav is engaged in wholesale cum retail trading of medicines in the State of Assam. His aggregate turnover during the financial year is ₹ 9,00,000 which consists of ₹ 8,00,000 as Intra-State supply and ₹ 1,00,000 as Inter-State supply.*

(ii) *Mr. S.N Gupta of Rajasthan is engaged in trading of taxable goods on his own account and also acting as an agent of Mr. Rishi of Delhi. His turnover in the financial year 2017-18 is of ₹ 12 lakhs on his own account and ₹ 9 lakhs on behalf of principal. Both turnovers are Intra-State supply.* **(4 Marks)**

Answer

(a) (i) A registered person supplying taxable goods shall issue a tax invoice, before or at the time of removal of goods for supply to the recipient, where the supply involves movement of goods.

Therefore, in the given case, invoice has to be issued on or before, 11th October 2018 (the time of removal of goods).

(ii) A registered person [other than an insurer/banking company/financial institution, including an NBFC] supplying taxable services shall issue a tax invoice before or after the provision of service, but within a period of 30 days from the date of supply of service.

Thus, in the given case, invoice has to be issued within 30 days of 5th June 2018 (date of supply of service), i.e. on or before, 5th July 2018.

- (b) The cash available in any minor head of a major head cannot be utilised for any other minor head of the same major head.

Therefore, in the given case, amount of ₹ 10,000 available under minor head 'tax' of major head 'SGST' cannot be utilised for payment of liability of ₹2,000 under minor head 'interest' of the same major head.

- (c) (i) Person making any inter-State taxable supply of goods is required to obtain registration compulsorily under GST laws irrespective of the quantum of aggregate turnover.

Thus, in the given case Mr. Raghav is required to obtain registration compulsorily under GST laws even though his aggregate turnover does not exceed the threshold limit of ₹ 10 lakh [since Assam is a Special Category State] in the financial year.

- (ii) Persons who make taxable supply of goods on behalf of other taxable persons whether as an agent or otherwise are required to obtain registration compulsorily under GST laws irrespective of the quantum of aggregate turnover.

Aggregate turnover includes all supplies made by the taxable person, whether on his own account or made on behalf of all his principals.

Since Mr. S.N Gupta is also acting as an agent of Mr. Rishi of Delhi, he is required to obtain registration compulsorily under GST laws.

Question 8

- (a) Enumerate the persons who are not eligible to opt for Composition Scheme under section 10(2) of the CGST Act, 2017. **(5 Marks)**

Answer either 8(b) or 8(c) but not both

- (b) List out the situations in which a Credit note/Debit note may be issued under the CGST Act, 2017. **(5 Marks)**

- (c) Answer the following questions with respect to casual taxable person under the CGST Act, 2017 :

- (i) Who is a casual taxable person?
- (ii) Can a casual taxable person opt for the composition scheme?
- (iii) When is the casual taxable person liable to get registered?
- (iv) What is the validity period of the registration certificate issued to a casual taxable person?
- (v) Can the validity of registration certificate issued to a casual taxable person be extended? If yes, what will be the period of extension. **(5 Marks)**

Answer

- (a) A registered person shall not be eligible to opt for composition scheme if:-

- (i) he is engaged in supply of services other than supplies referred to in clause (b) of paragraph 6 of Schedule II.

- (ii) he is engaged in supply of goods not leviable to tax
- (iii) he is engaged in inter-State outward supplies of goods
- (iv) he is engaged in supply of goods through an electronic commerce operator
- (v) he is a manufacturer of notified goods, namely, manufacturer of ice cream, pan masala and tobacco.

(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

(c) (i) Casual taxable person means a person who occasionally undertakes transactions involving supply of goods and/or services in the course or furtherance of business, whether as principal, agent or in any other capacity, in a State/UT where he has no fixed place of business.

(ii) No, a casual taxable person cannot opt for the composition scheme.

(iii) A casual taxable person (CTP) is liable to obtain registration compulsorily under GST laws, at least 5 days prior to commencement of business.

However, threshold limit of ₹ 20 lakh (₹ 10 lakh in case of Special Category States other than Jammu & Kashmir) is available in case of CTP making taxable supplies of specified handicraft goods.

(iv) The registration certificate issued to a casual taxable person will be valid for:

- (a) the period specified in the registration application, or
 - (b) 90 days from the effective date of registration
- whichever is earlier.

(v) Yes, the validity of registration certificate issued to a casual taxable person can be extended.

It can be extended by a further period not exceeding 90 days.