

PAPER – 4 : TAXATION
SECTION A : INCOME TAX

Question No.1 is compulsory.

Candidates are also required to attempt any **three** questions from the rest.

Working notes should form part of the respective answers.

All questions pertaining to income-tax relate to Assessment Year 2020-21, unless stated otherwise in the questions.

Question 1

Given below are the details provided to you by Mr. Rayan, a resident individual aged 54 years, engaged in the manufacture of specified article, in respect of his income earned during the year 2019-20:

- (i) Net profit from business ₹ 75,21,000 (as per profit and loss account)
- (ii) On 1.4.2019, Mr. Rayan took Plant and machinery on hire purchase and put that to use on the same day. Cost of the asset was ₹ 12,00,000 which was to be payable in 24 equal monthly instalment of ₹ 50,000 each. Date of payment of first instalment was 31.7.2019. It is decided between the parties that, out of the monthly payment of instalments, Rayan will pay ₹ 45,000 through account payee cheque and balance ₹ 5,000 in cash. The instalments are paid on the last day of each month.
- (iii) During the year Mr. Rayan purchased one more plant and machinery for ₹ 55 lakhs for which he took loan from a scheduled bank. (Date of loan 1.4.2019 and rate of interest 11% p.a.). The asset was acquired on 1.5.2019 and put to use on 1.9.2019. Interest amount is debited to P/L A/c.
- (iv) On 1.4.2019, the production manager working in the factory of Mr. Rayan took voluntary retirement from the services. Mr. Rayan paid him ₹ 9,00,000 as compensation for his services under the Voluntary Retirement Scheme. This amount has been debited to the profit and loss account under salary head.
- (v) As per the agreement between Rayan and Mr. Das (Chief Executive Officer), apart from salary, Mr. Das will also be eligible for a share of profit @ 5% of net profit as per books of account. He was paid salary of ₹ 14,25,000 and bonus of ₹ 3,76,050 during the year, which is debited to the profit and loss account under the salary head.
- (vi) WDV (as per Income-tax Act) of different assets as on 1.4.2019:
 - Plant and machinery ₹ 9,00,000; Factory Building ₹ 5,45,000
 - Depreciation debited to profit and loss account ₹ 17,50,000

The Suggested Answers for Paper 4A: Income-tax are based on the provisions of income-tax law as amended by the Finance Act, 2019 and Finance (No.2) Act, 2019, which are relevant for January, 2021. The relevant assessment year is A.Y.2020-21.

- (vii) He received ₹ 14,850 as Income-tax refund out of which ₹ 4,850 is interest on refund. The entire amount is credited to profit and loss account.
- (viii) He paid ₹ 50,000 as life insurance premium taken on the life of his father who is dependent on him. The sum assured is ₹ 80,00,000 and the policy was taken on 1.4.2015.
- (ix) He also paid ₹ 45,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹ 5,00,000 and the policy was taken on 1.4.2015.
- (x) On 1.10.2019, he withdrew ₹ 2 crores in cash from two current accounts maintained by him with SGT Bank of India. There are no other withdrawals during the year.

You are required to compute the total income of Mr. Rayan and also the tax payable by him for the A.Y. 2020-21. **(14 Marks)**

Answer

Computation of total income of Mr. Rayan for A.Y. 2020-21

Particulars		₹	₹	₹
I	Income from business or profession			
	Net profit as per profit and loss account		75,21,000	
	Add: Items of expenditure not allowable while computing business income			
	(i) Depreciation as per books of accounts	17,50,000		
	(ii) Interest on loan taken for purchase of plant & machinery	2,52,083		
	[Interest from the date on which capital was borrowed till the date on which asset was first put to use not allowable as deduction. Accordingly, interest of ₹ 2,52,083 [$₹ 55,00,000 \times 11\% \times 5/12$] has to be added back, since the same is debited to the profit and loss account]			
	(iii) Bonus paid as share of profit is not allowable under section 36(1)(ii), as the same is debited to profit and loss account, it has to be added back	3,76,050		
	(iv) Compensation on voluntary retirement	7,20,000		
	[only 1/5 th of the compensation paid is allowable in the current year. The remaining are allowable in the four succeeding years in equal installments. Hence, 4/5 th of ₹ 9 lakh debited to profit			

and loss account has to be added back]		<u>30,98,133</u>	
		1,06,19,133	
Less: Items of income to be treated separately under the respective head of income			
Income-tax refund including interest on refund of ₹ 4,850		<u>14,850</u>	
		1,06,04,283	
Less : Allowable expenditure			
Depreciation on			
(i) Opening WDV			
- Factory Building ₹ 5,45,000 @10%	54,500		
- Plant & Machinery ₹ 9,00,000 @15%	1,35,000		
(ii) Plant & Machinery acquired on 1.4.2019 for ₹ 12,00,000			
- Normal depreciation @ 15%	1,80,000		
- Additional depreciation @20%	2,40,000		
[Since payment made in cash in a day to a person does not exceed ₹ 10,000, the actual cost incurred on plant & machinery by Mr. Rayan i.e., ₹ 12,00,000 ² , is eligible for depreciation.			
He is also eligible for additional depreciation, since Mr. Rayan is engaged in manufacturing business]			
(iii) Plant & Machinery acquired on 1.5.2019 for ₹ 57,52,083 [₹ 55,00,000 plus ₹ 2,52,083, being the amount of interest on loan taken for purchase of this plant and machinery from the date on which capital was borrowed till the date on which asset as first put to use shall be capitalized]			
Normal depreciation @15%	8,62,812		
Additional depreciation @20%	<u>11,50,417</u>		
Since plant & machinery put to use for 180 days or more, it is eligible for 100% of the rate of depreciation		<u>26,22,729</u>	
			79,81,554

² It is assumed that Mr. Rayan is following mercantile system of accounting.

II	Income from Other Sources		
	Interest on income-tax refund		<u>4,850</u>
	Gross Total Income		79,86,404
	Less: Deduction under Chapter VI-A		
	- Deduction under section 80C –		
	Life insurance premium of his father		
	[Not allowable as deduction, since not covered within the meaning of term “person” in case of an individual, though he is dependent on him]	NIL	
	Life insurance premium for married daughter	<u>45,000</u>	45,000
	[Allowable as deduction though she is not dependent, since child of an individual whether Dependent or not falls within the meaning of term “Person”. Accordingly, whole of the amount of ₹ 45,000 is allowable as it does not exceed 10% of the ₹ 5, 00,000, being the sum assured]		
	Total Income		<u>79,41,404</u>
	Total Income (rounded off)		79,41,400

Computation of tax liability of Mr. Rayan for A.Y. 2020-21

Particulars	₹	₹
Tax on total income of 79,41,400		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001- ₹ 79,41,400 [@30% of ₹ 69,41,400]	<u>20,82,420</u>	21,94,920
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000		<u>2,19,492</u>
		24,14,412
Add: Health and education cess@4%		<u>96,576</u>
Total tax liability		25,10,988
Less: TDS u/s 194N @ 2% on ₹1 crore, being the cash withdrawals exceeding ₹ 1 crore		<u>2,00,000</u>
Tax payable		<u>23,10,988</u>
Tax payable (rounded off)		23,10,990

Question 2

- (a) Discuss the taxability of the following items in the hands of different persons briefly explaining the applicable provisions of the Income-tax Act:
- (i) Mr. Jayesh, a non-resident is having a plot of land in Jodhpur. He sells this plot to another non-resident outside India. The consideration is received outside India in foreign currency.
 - (ii) Mr. Arpit is having a house property in India. The property is let out by him to a foreign company. The rent agreement is entered outside India. Monthly rent is also received outside India.
 - (iii) Government of Rajasthan has borrowed money from ABC Express Bank, a foreign bank. The interest payable to ABC Express Bank is remitted outside India.
 - (iv) Mr. Bhavesh, a citizen of India, is appointed by Reliable Industries Ltd. in their Dubai Branch. Mr. Bhavesh is a non-resident and receives salary outside India. **(4 Marks)**
- (b) Mr. Gupta and his wife Mrs. Gupta are partners in a partnership firm holding 25% share each. During the FY 2019-20, the firm paid ₹ 2,50,000 to each of them as remuneration. Apart from this, they provide you the following information in respect of FY 2019-20:
- (i) Salary received by Mr. Gupta from his employer ₹ 12,50,000.
 - (ii) Interest on fixed deposit earned by Mrs. Gupta ₹ 14,00,000. (The fixed deposit was opened by using her "Stridhan")
 - (iii) Income of their three minor children Neeta, Meeta and Seeta was ₹ 15,000; ₹ 10,000 and ₹ 2,000 respectively.

You are required to compute the gross total income of Mr. and Mrs. Gupta as per the provisions of Income-tax Act for the AY 2020-21. **(3 Marks)**

Answer**(a) (i) Sale of plot of land at Jodhpur**

As per section 9(1)(i), income accruing or arising in the hands of Mr. Jayesh, a non-resident, from transfer of a capital asset situated in India, namely, land in Jodhpur, would be deemed to accrue or arise in India.

Hence, capital gains arising from transfer of such land would be chargeable to tax in the hands of Jayesh, even though the land is transferred to another non-resident outside India and consideration is received in foreign currency.

(ii) Rental income from a house property situated in India

As per section 9(1)(i), rental income from a house property in India would be deemed to accrue or arise in India as the source of income, namely, the house property, is in India. Therefore, rental income from a house property in India is taxable in the hands of Mr. Arpit, even though the house has been let-out to a foreign company, the rent agreement is entered outside India and such income is received outside India.

Note (Alternate assumption): The question does not mention the residential status of Mr. Arpit. The above reasoning for arriving at the conclusion of taxability is based on the assumption that Mr. Arpit is a non-resident. However, if Mr. Arpit is a resident, the answer would be as follows –

The rental income from house property in India would be taxable in the hands of Mr. Arpit, since global income is taxable in the hands of a resident, irrespective of the fact that it is received outside India from a foreign company.

(iii) Interest on loan payable by Government of Rajasthan

Income by way interest payable by the Government is deemed to accrue or arise in India by virtue of section 9(1)(v)(a). Therefore, interest payable by the Government of Rajasthan would be taxable in the hands of ABC Express Bank, even though it is a foreign bank and the interest has been remitted outside India.

(iv) Salary income earned outside India

As per section 9(1)(ii), salary received outside India for services rendered outside India (in Dubai Branch) is not deemed to accrue or arise in India, since the services are rendered outside India. Hence, the salary income would not be taxable in the hands of Mr. Bhavesh, a non-resident, since the same is received outside India and is not deemed to accrue or arise in India.

(b) Computation of Gross Total Income of Mr. Gupta and Mrs. Gupta for A.Y. 2020-21

Particulars	Mr. Gupta		Mrs. Gupta	
	₹	₹	₹	₹
Salary	12,50,000		-	
Less: Standard deduction under section 16(ia)	<u>50,000</u>			
		12,00,000		
Interest on Fixed Deposit earned by Mrs. Gupta	-			14,00,000
Total income (before including remuneration from firm and minor's income)		12,00,000		14,00,000

Remuneration from firm (assumed that the same is fully deductible in the hands of the firm)		2,50,000	
Remuneration of ₹ 2,50,000 received by Mr. Gupta has to be included in the total income of Mrs. Gupta, since both of them have substantial interest in the concern (i.e., each having 25% share in the firm, in the present case), and her total income of ₹14 lakh exceeds the total income of her spouse excluding this income (i.e., ₹ 12 lakh). It is assumed that such remuneration is fully deductible in the hands of the firm.		<u>2,50,000</u>	5,00,000
Total Income (before including minor's income)			19,00,000
Income of three minor children to be included in Mrs. Gupta's income ³ , since her total income before including minor's income is higher than that of her husband.	-		
- Neeta		15,000	
- Meeta		10,000	
- Seeta		<u>2,000</u>	
		27,000	
Less: Exemption of ₹ 1,500 u/s 10(32) in respect of the income each child so included.		<u>4,500</u>	22,500
Gross Total Income	12,00,000		19,22,500

Question 3

- (a) Mr. Tarun, a resident individual, furnishes the following particulars of his income and other details for the previous year 2019-20:

	₹
Income from Salary (Computed)	25,00,000

³ It is assumed that the income of the minor children are not on account of their skills.

<i>Business loss before providing current year depreciation (Business discontinued on 31.5.2019)</i>	1,20,000
<i>Current year depreciation</i>	80,000
<i>Interest from Fixed Deposit</i>	12,14,000
<i>Interest on Loan in respect of self-occupied property</i>	2,15,000
<i>Income from specified business (Not eligible for deduction under section 35AD)</i>	20,000

Brought forward losses (Pertaining to A Y 2019-20)

<i>Unabsorbed depreciation</i>	58,000
<i>Loss from specified business (eligible for deduction under section 35AD)</i>	24,000

You are required to compute his total income for the AY 2020-21 in such a way that his tax liability is minimised. **(4 Marks)**

- (b) Briefly explain the provisions of section 234F of the Income-tax Act, 1961 with regard to default in furnishing return of Income. **(3 Marks)**

Answer

(a) **Computation of total income of Mr. Tarun for A.Y.2020-21**

Particulars	₹	₹
Income from Salary (Computed)	25,00,000	
<i>Less: Loss from self-occupied house property (on account of interest deduction upto ₹ 2,00,000) [Loss from house property can be set-off against salary income as per section 71(1)]</i>	<u>2,00,000</u>	23,00,000
Profits and gains from business and profession		
Income from specified business [not eligible for deduction u/s 35AD]	20,000	Nil
<i>Less: Set-off of brought forward loss from specified business [eligible for deduction u/s 35AD] allowable as per section 73A [Brought forward loss from specified business eligible for deduction u/s 35AD can be set-off against income from any specified business, whether or not the same is eligible for deduction u/s 35AD]</i>	<u>(20,000)</u>	
Income from Other Sources		
Interest from fixed deposit	12,14,000	
Less: Current year business loss set-off [Inter-head set-off is permissible by virtue of section 71(1). Hence, current year		

business loss can be set-off against interest income from fixed deposit]	<u>1,20,000</u>	
	10,94,000	
Less: Current year depreciation	<u>80,000</u>	
	10,14,000	
Less: Unabsorbed depreciation under section 32(2) [Can be set-off against any head of income other than Salaries]	<u>58,000</u>	<u>9,56,000</u>
Gross Total Income/Total Income		<u>32,56,000</u>

(b) Fee for default in furnishing return of income [Section 234F]

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

- ₹ 5,000, if the return is furnished on or before 31st December of the assessment year;
- ₹ 10,000 in any other case (after 31st December but before the end of the assessment year)

However, if the total income of the person does not exceed ₹ 5 lakhs, the fees payable shall not exceed ₹ 1,000.

Question 4

- (a) *M/s. Bhandari & Batra, a partnership firm consisting of two partners, reports a net profit of ₹ 7,00,000 before deduction of the following items:*

- *Salary of ₹ 20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership)*
- *Depreciation on plant and machinery under section 32 ₹ 1,50,000*
- *Interest on capital 15% per annum (as per the deed of partnership).*
The amount of capital eligible for interest is ₹ 5,00,000
- *Carry forward loss of P.Y. 2018-19- ₹ 50,000*

Compute (for A.Y. 2020-21):

- (i) *Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.*
- (ii) *Amount of salary that can be paid to working partners as per section 40(b).*

(4 Marks)

- (b) *Compute the tax liability of Ms. Payal for A.Y. 2020-21, a female resident aged 40 years where her total income is ₹ 5,00,50,000, assuming that there is no income in the nature of capital gains.*

(3 Marks)

Answer

(a)

(i)	Computation of book profit of the firm under section 40(b)		
	Particulars	Amount (₹)	Amount (₹)
	Net Profit (before deduction of depreciation, salary and interest)		7,00,000
	Less: Depreciation under section 32	1,50,000	
	Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (₹ 5,00,000 × 12%)	<u>60,000</u>	<u>2,10,000</u>
	Book profit		4,90,000
<p>“Book profit” means the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit. Hence, brought forward loss of ₹ 50,000 of P.Y.2018-19 is not allowed to be set off for computation of “book profit”.</p>			
(ii)	Salary actually paid to working partners = ₹ 20,000 × 2 × 12 = ₹ 4,80,000		
	As per the provisions of section 40(b)(v), the maximum allowable working partners' salary for the A.Y. 2020-21 in this case would be:		
	Particulars	₹	
	On the first ₹ 3,00,000 of book profit [(₹ 1,50,000 or 90% of ₹ 3,00,000) whichever is more]	2,70,000	
	On the balance of book profit [60% of (₹ 4,90,000 – ₹ 3,00,000)]	1,14,000	
	Maximum allowable working partners' salary	<u>3,84,000</u>	

(b)

Computation of tax liability of Ms. Payal for the A.Y.2020-21

		₹	₹
(A)	Tax payable including surcharge on total income of ₹ 5,00,50,000		
	₹ 2,50,000 – ₹ 5,00,000 @5%	12,500	
	₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000	
	₹ 10,00,000 – ₹ 5,00,50,000 @30%	<u>1,47,15,000</u>	
		<u>1,48,27,500</u>	

	Add: Surcharge @ 37% (since total income exceeds ₹ 5 crore)	<u>54,86,175</u>	2,03,13,675
(B)	Tax payable on total income of ₹ 5 crore [(₹ 12,500 plus ₹ 1,00,000 plus ₹ 1,47,00,000) plus surcharge @25%]		1,85,15,625
(C)	Excess tax payable (A)-(B)		17,98,050
(D)	Marginal Relief (₹ 17,98,050 – ₹ 50,000, being the amount of income in excess of ₹ 5,00,00,000)		17,48,050
(E)	Tax payable before cess (A – D)		1,85,65,625
	Add: Health and education cess @4%		7,42,625
	Tax payable		1,93,08,250

Alternative Presentation**Computation of tax liability of Ms. Payal for the A.Y.2020-21**

		₹	₹
(A)	<u>Tax payable including surcharge on total income of ₹ 5,00,50,000</u>		
	₹ 2,50,000 – ₹ 5,00,000 @5%	12,500	
	₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000	
	₹ 10,00,000 – ₹ 5,00,50,000 @30%	<u>1,47,15,000</u>	
		1,48,27,500	
	Add: Surcharge @ 37% (since total income exceeds ₹ 5 crore)	<u>54,86,175</u>	2,03,13,675
(B)	<u>Tax payable on total income of ₹ 5 crore</u> [(₹ 12,500 plus ₹ 1,00,000 plus ₹ 1,47,00,000) plus surcharge @25%]		1,85,15,625
(C)	Total income less ₹ 5 crore		50,000
(D)	Tax payable on total income of ₹ 5 crore <i>plus</i> excess of total income over ₹ 5 crore (B + C)		1,85,65,625
(E)	Tax payable: Lower of A and D		1,85,65,625
	Add: Health and education cess @4%		7,42,625
	Tax payable		1,93,08,250
(F)	Marginal Relief (A -D)		17,48,050

Question 5

- (a) Briefly discuss the provisions of tax deducted at source under the Income-tax Act in respect of the following payments:
- Mr. Raju (a resident individual aged 54 years) has maintained two fixed deposits in two different branches of BFG Bank of India (working on core banking solution). During the year 2019-20, the bank paid ₹ 32,000 and ₹ 17,000 as interest on these fixed deposits.
 - Mr. Avinash, pays ₹ 55,00,000 during FY 2019-20 to Mr. Harsh, for supply of labour, for carrying out the construction work of his factory. During the PY 2018-19, Mr. Avinash was not liable for tax audit under section 44AB. **(4 Marks)**

OR

Compute the quantum of depreciation available u/s 32 of the Income-tax Act, 1961 in respect of the following items of Plant and Machinery purchased by Gupta Textile Ltd., which has set up a manufacturing unit in Notified Backward Area of Andhra Pradesh to manufacture textile fabrics during the year 2019-20. Also compute the WDV of the block of assets as at the year end.

Particulars	Amount (₹ in Crore)
New Machinery installed on 01-05-2019	84
Items purchased after 30th November, 2019:	
Lorries for transporting goods to sales depots	3
Fork-lift-trucks, used inside factory	4
New imported machinery	12

The new imported machinery arrived at Chennai port on 30-03-2020 and was installed on 03-04-2020. All others items were installed and put to use during the year ended 31-03-2020. **(4 Marks)**

- (b) (1) Prabhu Dayal Prem Narain, HUF purchased a house property in the year 1945 for ₹ 30,000. On 30.09.2019, the HUF was totally partitioned and the aforesaid house property was given to Mr. Prem Narain, a member of the family. Fair Market value of the house as on 30.09.2019 was ₹ 18,00,000. FMV of the house as on 1.4.2001 was ₹ 2,00,000. What will be the tax implications in the hands of Mr. Prem Narain and the HUF?
- (2) One equity share of a company listed on recognised stock exchange is acquired on 01.01.2017 at ₹ 100. Its fair market value is ₹ 200 on 31.01.2018 and it is sold on 01.04.2019 at ₹ 150. Assuming all conditions required by section 112A are fulfilled, compute the amount of capital gain/loss on sale of this share u/s 112A. **(3 Marks)**

Answer

- (a) (i) BFG Bank has to deduct tax at source @10% under section 194A, since the aggregate interest on fixed deposit with the two branches of the bank is ₹ 49,000, which exceeds the threshold limit of ₹ 40,000.

Since BFG Bank has adopted core banking solution (CBS), the aggregate interest paid by both branches has to be considered.

- (ii) If the payment is made on or after 1.9.2019, Mr. Avinash has to deduct tax at source @5% u/s 194M, although he is not liable to deduct TDS under section 194C, since the payment to contractor, Mr. Harsh, exceeds ₹50 lakh.

Note – The question does not mention the date of payment. TDS provisions u/s 194M have been introduced w.e.f. 1.9.2019. Therefore, if payment is made before that date, TDS u/s 194M would not be attracted.

OR

- (a) **Computation of depreciation allowance under section 32 for the A.Y. 2020-21**

Particulars	Normal Depreciation [u/s 32(1)(ii)]	Additional Depreciation [u/s 32(1)(ia)]
	(₹ in crores)	
(A) Plant and Machinery (15% block) (Put to use for 180 days or more) - New machinery installed on 01.05.2019 – ₹84 crores Normal Depreciation @15% & additional depreciation @35% [Since Gupta Textile Ltd. has set up manufacturing unit in Notified backward area of Andhra Pradesh, it is eligible for higher additional depreciation @35%]	12.600	29.40
(B) Plant and Machinery (15% block) (Put to use for less than 180 days – hence, depreciation is restricted to 7.5%, being 50% of 15%) - Lorries for transporting goods to sales depots Being vehicles/road transport vehicles, not eligible for additional depreciation] – ₹3 crores - Fork-lift trucks, used inside a factory ₹4 crores eligible for both normal depreciation and additional depreciation		

- New imported machinery ₹12 crores [New imported machinery was not installed during the P.Y. 2019-20. Hence, it would not be eligible for normal and additional depreciation for A.Y. 2020-21.]		
Normal Depreciation @ 7.5% of ₹7 crores	0.525	-
Additional depreciation @17.50% of ₹4 crores	-	0.70
Total depreciation and additional depreciation	13.125	30.10
Depreciation allowable u/s 32 = ₹ 43.225 crores		

Computation of Written down Value (WDV) of block Plant & Machinery (15%) as on 31-03-2020

Particulars	(₹ in crores)	
WDV as on 01.04.2019 (The company was started during the year as given in question)		Nil
Add: Plant and Machinery acquired during the year		
- New Machinery installed on 01.05.2019	84.00	
- Lorries for transporting goods to sales depots	3.00	
- Fork-lift trucks, used inside factory	4.00	
- New imported machinery	<u>12.00</u>	<u>103.00</u>
		103.00
Less: Asset sold during the year		<u>Nil</u>
WDV as on 31.3.2020 (before charging depreciation)		103.00
Less: Depreciation for the P.Y.2019-20		
- Normal depreciation		13.125
- Additional depreciation		<u>30.10</u>
WDV (after charging depreciation)		<u>59.775</u>

(b) (1) Tax implications in the hands of HUF

As per section 47, any distribution of capital assets on the total or partial partition of a HUF would not be regarded as transfer for the purpose of capital gains tax.

In this case, Prabhu Dayal Prem Narain, HUF transferred the asset to Mr. Prem Narain, a member of HUF on total partition of the HUF. Hence, the transaction would not be regarded as transfer.

Tax implications in the hands of Mr. Prem Narain

If an immovable property is received by any person without consideration, the stamp duty value of such property would be taxed as the income of the recipient under section 56(2)(x), if it exceeds ₹ 50,000. However, it would not be taxable as income if the transfer is way of a transfer, *inter alia*, on total or partial partition of a HUF.

In the give case, since Mr. Prem Narain received the house property on total partition of the HUF, it would not be taxable in his hand.

(2) Computation of long term capital gains/loss under section 112A

Particulars		Amount (₹)
Full value of consideration		150
Less: Cost of acquisition		
Higher of		
- Cost of acquisition	₹100	
- Lower of fair market value as on 31.1.2018 i.e., ₹ 200 and sale consideration i.e., ₹ 150	₹150	
		<u>150</u>
Long term capital gain		<u>Nil</u>

PAPER – 4 : TAXATION
SECTION B: INDIRECT TAXES

Question No. 6 is compulsory.

Attempt any **three** questions from the rest.

“Working notes should form part of the respective answers.”

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

“All questions should be answered on the basis of the position of GST law as amended upto 30th April, 2020.”

Question 6

Girish Trading Private Limited, a body corporate registered in the State of West Bengal, pays GST under the regular scheme. It is not eligible for any threshold exemption. The Company has provided the following information regarding its outward taxable supplies for the month of May, 2020:

Intra-State supply of goods : ₹ 50,00,000

Inter-State supply of goods: ₹ 22,00,000

Following are the details of inward taxable supplies received during the month of May, 2020:

Intra-State purchase of goods from Registered Supplier : ₹ 6,10,000

Inter-State purchase of goods from Registered Supplier : ₹ 16,00,000

Additional Information:

- (i) The Company has no brought forward ITC credit for the month of May, 2020.*
- (ii) Girish Trading Private Limited had additionally collected ₹ 1,000 as penalty for delay in payment by one of his customers (Not included in value of outward supplies mentioned above)*
- (iii) The Company has paid ₹ 12,000 (Intra-State supply) as rent for hiring of a motor vehicle for the business use by one of its directors for the month of March, 2020 (Not included in value of inward supplies mentioned above). Invoice for the same dated 7th April, 2020 was received in the month of April, 2020.*
- (iv) The Company had placed an order for receiving goods (Intra-State supply) worth ₹ 1,10,000 latest by 30th May, 2020. However, due to vehicle breakdown, the goods were delivered only on 1st June, 2020. Invoice was received on 31st May, 2020 (Included in value of inward supplies mentioned above).*

Note:

- (1) Applicable rate of CGST, SGST and IGST is 9%, 9% and 18% respectively.*

(2) Amount of inward and outward supplies stated above are exclusive of taxes.

Compute the net GST liability (CGST, SGST, IGST) of Girish Trading Private Limited for the month of May 2020. **(8 Marks)**

Answer

Computation of net GST liability of Girish Trading Private Limited for May, 2020

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Output tax			
Intra -State supply of goods	4,50,000 [₹ 50,00,000 ×9%]	4,50,000 [₹ 50,00,000 ×9%]	
Inter -State supply of goods			3,96,000 [₹ 22,00,000 ×18%]
Penalty ¹ on delayed payment [Includible in value in terms of section 15 of the CGST Act, 2017. It has been assumed that penalty collected is inclusive of GST.]			153 [₹ 1,000 x 18/118]
Total Output Tax (A)	4,50,000	4,50,000	3,96,153
Input tax			
Intra -State purchase of goods ₹ 5,00,000 (6,10,000-1,10,000) [ITC on goods worth ₹ 1,10,000 is not available as such goods are not received in the month of May.]	45,000 [₹ 5,00,000 ×9%]	45,000 [₹ 5,00,000 ×9%]	
Inter -State purchase of goods			2,88,000 [₹ 16,00,000 ×18%]
Rent paid for hiring of a motor vehicle [ITC on renting or hiring of motor vehicles is blocked in terms of	-	-	

¹ It has been assumed that penalty collected is in respect of inter-State sale. However, it is also possible to assume that penalty collected is in respect of intra-State sale.

section 17 of the CGST Act, 2017.]			
Total ITC (B)	45,000	45,000	2,88,000
Net GST liability (A)-(B)	4,05,000	4,05,000	1,08,153

Question 7

- (a) *M/s P, a registered supplier of Rajasthan, has received the following amounts in respect of the activities undertaken by her during the month of April, 2020.*

S. No.	Particulars	Amount (in ₹)
1	Amount received for warehousing of jaggery.	50,000
2	Commission received as business facilitator for the services provided to the urban branch of a nationalized bank with respect to savings bank accounts	20,000
3	Amount received for services by way of labour contracts for repairing a single residential unit otherwise than as a part of residential complex	10,000
4	Amount received for acting as brand ambassador for corporate client	75,000
5	Amount received for service provided to the Indian Olympic Association as team manager of national team.	80,000

All the transactions stated above are Intra-State transactions and all amounts are exclusive of GST.

You are required to compute gross value of taxable supply on which GST is to be paid by M/s P for the month of April, 2020 by giving necessary explanations for treatment of various items.

(5 Marks)

- (b) *Vansh Traders, a registered supplier, is providing restaurant services in Manipur. It has turnover of ₹55 lakh in the preceding financial year 2019-20. It has started providing intra-State event management services in the current financial year 2020-21 and discontinued rendering restaurant services.*
- (i) *With reference to the provisions of the CGST Act, 2017, examine whether Vansh Traders can opt for the composition scheme under section 10 of the CGST Act, 2017 in the current financial year ?*
- (ii) *Is Vansh Traders eligible to avail benefit of concessional payment of tax under Notification No. 2/2019 CT (R) dated 07-03-2019?*

(4 Marks)

Answer**(a) Computation of value of taxable supply on which GST is to be paid by M/s P**

Particulars	Amount (₹)
Amount received for warehousing of jaggery [Specifically exempt from GST.]	Nil
Commission received as business facilitator [Services provided by a business facilitator to a banking company with respect to accounts only in its rural area branch are exempt from GST. In the given case since services are being provided to urban branch of the bank, they are taxable. However, the tax payable thereon is to be paid by the recipient of services i.e. banking company, under reverse charge. Hence, M/s P will not be liable to pay GST on commission received for said services.]	Nil
Amount received for services by way of labour contracts [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 from GST. Since such services are being provided for repairing the residential unit, they are not eligible for exemption.]	10,000
Amount received for acting as brand ambassador for corporate client [Liable to tax as it is not specifically exempt.]	75,000
Amount received for service provided as team manager [Exempt, since services provided by a team manager to Indian Olympic Association (viz. a recognized sports body) are exempt.]	<u>Nil</u>
Total value of taxable supply on which GST is to be paid by M/s P	85,000

- (b) (i) & (ii) A registered person who is exclusively engaged in providing services other than restaurant services is not eligible for the composition scheme under sub-sections (1) and (2) of section 10 of the CGST Act, 2017. Such person is eligible for the benefit of concessional payment of tax under composition scheme under sub-section (2A) of section 10 of the CGST Act, 2017/ *Notification No. 2/2019 CT (R) dated 07.03.2019* provided his aggregate turnover in the preceding financial year does not exceed ₹ 50 lakh.

Since Vansh Traders is engaged exclusively in supply of services other than restaurant services (viz. event management services) in the current financial year 2020-21, it is not eligible for composition scheme under sub-sections (1) and (2) of section 10 in said FY.

Further, since its aggregate turnover in the preceding financial year 2019-20 exceeds ₹ 50 lakh, it cannot opt for the composition scheme under sub-section (2A) of section 10/ Notification No. 2/2019 CT (R) dated 07.03.2019 also in the current financial year 2020-21.

Question 8

- (a) Happy Trader, a sole proprietorship firm, started a business of dealing in supply of both exempted as well as taxable goods in Assam.

Happy Trader has furnished the following details relating to the sales made for the month of April, 2020. All amounts are exclusive of GST.

Particulars	Amount(₹)
Intra-State sale of goods chargeable with GST@ 12%	15,00,000
Intra-State sale of non-taxable goods	5,00,000
Intra-State sale of alcoholic liquor for human consumption	2,00,000
Intra-State sale of Tobacco	3,00,000

With reference to the above and provisions of CGST Act, 2017,

- (i) Compute the aggregate turnover.
- (ii) Examine whether Happy Trader is liable to be registered under the Act, with reasons for the same.
- (iii) What is the threshold limit for taking registration in this case? **(5 Marks)**
- (b) Yash & Co. a manufacturer and supplier of plastic goods, is registered under GST in the state of Maharashtra. Yash & Co. sold plastic goods to a retail seller in Punjab, at a value of ₹ 43,000 (excluding GST leviable @ 18%). Now, it wants to send the consignment of such plastic goods to the retail seller in Punjab.

You are required to examine and advise Yash & Co., whether e-way bill is mandatorily required to be generated in respect of such movement of goods under GST laws?

(4 Marks)

Answer

- (a) (i) **Computation of aggregate turnover of Happy Trader**

Particulars	(₹)
Intra-State sale of goods chargeable with GST @ 12% [Aggregate turnover includes value of all outward taxable supplies.]	15,00,000
Intra-State sale of non-taxable goods	5,00,000

[Non-taxable supply, being an exempt supply is included in aggregate turnover.]	
Intra-State sale of alcoholic liquor for human consumption [Sale of alcoholic liquor for human consumption, being a non-taxable supply, is an exempt supply and is therefore, included in aggregate turnover.]	2,00,000
Intra-State sale of tobacco [Aggregate turnover includes value of all outward taxable supplies.]	3,00,000
Aggregate turnover	25,00,000

- (ii) & (iii) Every person engaged in making a taxable supply is required to obtain registration if his aggregate turnover exceeds ₹ 20 lakh in a financial year.

An enhanced threshold limit for registration of ₹ 40 lakh is available to persons engaged exclusively in intra-State supply of goods in specified States.

However, it is not applicable in case such person is engaged in supply of tobacco.

In view of the same, the applicable threshold limit of registration for Happy Traders is ₹ 20 lakh. Thus, it is liable to be registered under the CGST Act as its aggregate turnover exceeds the said threshold limit.

- (b) E-way bill is mandatorily required to be generated whenever there is a movement of goods of consignment value exceeding ₹ 50,000, *inter alia*, in relation to a supply.

Consignment value of goods, *inter alia*, includes the central tax, State/Union territory tax, integrated tax and cess charged, if any. The consignment value of goods, in the given case, will be ₹ 50,740 [₹ 43,000 + (₹ 43,000 × 18%)].

Thus, in the given case, since the movement of goods is in relation to supply of goods and the consignment value exceeds ₹ 50,000, e-way bill is mandatorily required to be generated in respect of movement of goods from Maharashtra to Punjab.

Question 9

- (a) *Laxmi Traders a supplier of electric goods, is registered under GST in the state of Karnataka. Laxmi Traders receives 200 invoices for inward supply of goods and services, involving GST of ₹ 8,00,000, from various suppliers during the month of November, 2019.*

Compute the input tax credit (ITC) that can be claimed by Laxmi Traders in his GSTR-3B for the month of November, 2019 to be filed by 20th December, 2019 in the following independent situations assuming that GST of ₹ 8,00,000 is otherwise eligible for input tax credit:

Situation 1st: *Out of 200 invoices, 160 invoices involving GST of ₹ 7,00,000 have been uploaded by the suppliers in their respective GSTR-1 filed on the prescribed due date thereof.*

Situation 2nd: Out of 200 invoices, 140 invoices involving GST of ₹ 5,00,000 have been uploaded by the suppliers in their respective GSTR-1 filed on the prescribed due date thereof. **(5 Marks)**

(b) Answer the following individual independent cases with reference to the provisions of filing of various returns under the CGST Act, 2017 and the rules made thereunder:

(i) While preparing the annual return for the FY 2019-20 in the month of September 2020, Mr. Rahul realized that while filing his GSTR-3B for the month of March, 2020, he has erroneously mentioned taxable turnover as ₹ 10,51,000 instead of ₹ 15,10,000.

He now wants to know whether the error can be rectified. State your views on the same, with reasons. **(2 Marks)**

(ii) Mr. Vivek, whose aggregate turnover for the FY 2018-19 is ₹ 1.5 crore has forgotten to file his annual return under section 44(1) of the CGST Act, 2017, before the due date for the said year. He wants to know whether he would be subject to any penal consequences under the provisions of the CGST Act, 2017. State your views on the same with reasons. **(2 Marks)**

Answer

(a) Computation of ITC that can be claimed by Laxmi Traders

Situation 1st

Invoices	Amount of ITC involved in the invoices (₹)	Amount of ITC that can be availed (₹)
160 invoices uploaded in GSTR-1	7 lakh	7 lakh [Refer Note 1]
40 invoices not uploaded in GSTR-1	1 lakh	0.7 lakh [Refer Note 2]
Total ITC that can be claimed	8 lakh	7.7 lakh

Situation 2nd

Invoices	Amount of ITC involved in the invoices (₹)	Amount of ITC that can be availed (₹)
140 invoices uploaded in GSTR-1	5 lakh	5 lakh [Refer Note 1]
60 invoices not uploaded in GSTR-1	3 lakh	0.5 lakh [Refer Note 2]
Total ITC that can be claimed	8 lakh	5.5 lakh

Notes:

- (1) Full ITC can be availed on the invoices uploaded by the suppliers in their GSTR-1s.
- (2) ITC on invoices not uploaded by the suppliers in their GSTR-1s is restricted to 10% of eligible ITC available on invoices uploaded in GSTR-1s.

Note: The question requires the application of the provisions of rule 36(4) of the CGST Rules, 2017 where there has been a change in position of law with effect from 01.01.2020 thereby reducing the percentage of ITC that can be availed on invoices not uploaded by the suppliers in their GSTR-1s from 20% to 10%. It may be noted that in November, 2019 [period covered in the question], the percentage of ITC that can be availed on invoices not uploaded by the suppliers in their GSTR-1s was 20%.

- (b) (i) Omission or incorrect particulars discovered in the returns filed can be rectified in the return to be filed for the tax period during which such omission or incorrect particulars are noticed, upto:
- (i) due date of filing of return for the month of September following the end of the financial year [i.e., 20th October of next financial year]
 - or
 - (ii) actual date of filing of the relevant annual return, whichever is earlier.
- Since in the given case, Mr. Rahul noticed the error while preparing the annual return for FY 2019-20 in the month of September 2020, he can rectify the error so noticed.
- (ii) Mr. Vivek is liable to following penalty for not filing annual return under section 44(1) of the CGST Act, 2017 upto the due date:
- (a) ₹ 100 for every day during which such failure continues,
 - or
 - (b) 0.25% of the turnover of the registered person in the State/Union Territory (i.e. ₹ 37,500),
- whichever is lower.²

Note : It may be noted that filing of GSTR-9 has been made voluntary in respect of financial year 2018-19 for the registered persons whose turnover is less than ₹ 2 crores and who have not furnished the said annual return before due date. Here, the annual return is deemed to be furnished on the due date if it has not been furnished before the due date.

² It has been most logically assumed that Mr. Vivek has not filed the annual return till the due date for the same.

Question 10

- (a) *Explain the statutory provisions for cancellation or suspension of registration under sub-Section 2 of section 29 of the CGST Act, 2017:* **(5 Marks)**

OR

Explain the following terms regarding e-way bill under the relevant CGST Rules:

- (i) *Consolidated e-way bill in case of road transport.* **(3 Marks)**
- (ii) *Acceptance/rejection of e-way bill.* **(2 Marks)**
- (b) (i) *Explain with reasons whether transfer of title and /or possession is necessary for a transaction to constitute supply of goods under the laws of GST.* **(2 Marks)**
- (ii) *Explain the provisions relating to the transactions where tax invoice is not required to be issued under the CGST Act, 2017.* **(2 Marks)**

Answer

- (a) The proper officer may cancel the registration of a person from such date, including any retrospective date, as he may deem fit, in the following cases—
- (i) A registered person has contravened any of the following prescribed provisions of the GST law:
 - (a) he does not conduct any business from the declared place of business
 - (b) he issues invoice/bill without supply of goods/services in violation of the provisions of GST law
 - (c) he violates the provisions of anti-profiteering.
 - (d) he violates the provision relating to furnishing of bank details.
 - (ii) A person who opted for composition levy has not furnished returns for 3 consecutive tax periods.
 - (iii) A registered person has not filed returns for continuous period of 6 months.
 - (iv) Voluntarily registered person has not commenced the business within 6 months from the date of registration.
 - (v) Registration was obtained by means of fraud, wilful misstatement or suppression of facts.

Proper officer shall not cancel the registration without giving the person an opportunity of being heard.

During pendency of the proceedings relating to cancellation of registration, the proper officer may suspend the registration for prescribed period and in prescribed manner.

Alternative**(i) Consolidated e-way bill in case of road transport**

Consolidated e-way bill (EWB) is a single document containing the details of multiple e-way bills (even with different validity periods) in respect of multiple consignments of various consignors and consignees being transported in a single vehicle/conveyance generated by the transporter to carry a single document instead of carrying separate documents for each consignment in the conveyance

(ii) Acceptance/rejection of e-way bill

The details of the e-way bill generated shall be made available to:

supplier (if registered), where the information in Part A of e-way bill is furnished by recipient/transporter, or

recipient (if registered), where the information in Part A of e-way bill is furnished by supplier/transporter,

who shall communicate his acceptance or rejection of the consignment covered by the e-way bill.

If such person does not communicate the acceptance/rejection within 72 hours from the time of the details being made available to him on the common portal or the time of delivery of goods, whichever is earlier, it will be deemed that he has accepted the details.

- (b) (i)** In terms of Schedule II of the CGST Act, 2017, for a supply to constitute the supply of goods, either the title in the goods is to be transferred immediately or the title in goods is to be transferred under an agreement which stipulates that property in goods shall pass at a future date upon payment of full consideration as agreed.

Therefore, transfer in title irrespective of the transfer of possession is necessary in such cases.

- (ii)** The tax invoice is not required to be issued under the CGST Act, 2017 in the case of supply of goods and/or services of value less than ₹ 200 to an unregistered recipient who does not require such invoice.

Further, the tax invoice is also not required to be issued under the CGST Act, 2017 in the case of:-

- (a) supply of liquid gas where the quantity at the time of removal from the place of business of the supplier is not known,
- (b) transportation of goods for job work,
- (c) transportation of goods for reasons other than by way of supply, or
- (d) such other supplies as may be notified by the Board.