PAPER 4: TAXATION

SECTION A: INCOME TAX LAW

PART I: STATUTORY UPDATE

The Income-tax law, as amended by the Finance Act, 2018, including significant notifications/ circulars issued upto 30th April, 2019 are applicable for November, 2019 examination. The relevant assessment year for November, 2019 examination is A.Y.2019-20. The July 2018 edition of the Study Material is based on the provisions of income-tax law as amended by the Finance Act, 2018 and significant notifications/circulars issued upto 30th April, 2018.

The significant notifications/circulars issued upto 30.4.2019 which are relevant for November, 2019 examination but not covered in the July 2018 edition of the Study Material, are given hereunder.

Chapter 3: Incomes which do not form part of Total Income

Computation of admissible deduction u/s 10AA of the Income-tax Act, 1961 [Circular No. 4/2018, Dated 14-8-2018]

As per the provisions of section 10AA(7), the profits derived from export of articles or things or services (including computer software) shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of such articles or things or services bears to the total turnover of the business carried on by the undertaking.

Further as per clause (i) to *Explanation 1* to section 10AA, "export turnover" means the consideration in respect of export by the undertaking, being the Unit of articles or things or services received in, or brought into, India by the assessee, but does not include freight, telecommunication charges or insurance attributable to the delivery of the articles or things outside India or expenses, if any, incurred in foreign exchange in rendering of services (including computer software) outside India.

The issue of whether freight, telecommunication charges and insurance expenses are to be excluded from both "export turnover"' and "total turnover' while working out deduction admissible under section 10AA on the ground that they are attributable to delivery of articles or things outside India has been highly contentious. Similarly, the issue whether charges for rendering services outside India are to be excluded both from "export turnover" and "total turnover" while computing deduction admissible under section 10AA on the ground that such charges are relatable towards expenses incurred in convertible foreign exchange in rendering services outside India has also been highly contentious.

The controversy has been finally settled by the Hon'ble Supreme Court vide its judgment dated 24.4.2018 in the case of Commissioner of Income Tax, Central-III Vs. M/s HCL Technologies Ltd. (CA No. 8489-8490 of 2013, NJRS Citation 2018-LL-0424-40), in relation to section 10A.

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The issue had been examined by CBDT and it is clarified, in line with the above decision of the Supreme Court, that freight, telecommunication charges and insurance expenses are to be excluded both from "export turnover" and "total turnover', while working out deduction admissible under section 10AA to the extent they are attributable to the delivery of articles or things outside India.

Similarly, expenses incurred in foreign exchange for rendering services outside India are to be excluded from both "export turnover" and "total turnover" while computing deduction admissible under section 10AA.

Note: *Though this CBDT Circular is issued in relation to erstwhile section 10A, the same is also relevant in the context of section 10AA. Accordingly, the reference to section 10A in the Circular and the relevant sub-section and Explanation number thereto have been modified and given with reference to section 10AA and the corresponding sub-sections, Explanation number and clause of Explanation.*

Chapter 4 Unit 1: Salaries

Notified limit for exemption in respect of gratuity increased, in case of employees not covered under the Payment of Gratuity Act, 1972 [Notification No. 16 /2019, dated 08.03.2019]

As per section 10(10)(iii), in case of an employee not covered under the Payment of Gratuity Act, 1972, any gratuity received by an employee on his retirement or his becoming incapacitated prior to such retirement or on termination of his employment or any gratuity received by his widow, children or dependents on his death is exempt from tax to the extent of least of the following limits:

(i) One-half month's salary for each year of completed service

(ii) Actual gratuity received

(iii) Specified limit (i.e., limit notified by the Central Government)

The Central Government, having regard to the maximum amount of any gratuity payable to employees, has specified ₹20 lakh as the limit for the purposes of section 10(10)(iii) in relation to the employees who retire or become incapacitated prior to such retirement or die on or after 29th March, 2018 or whose employment is terminated on or after the said date. In effect, the Central Government has, vide this notification, increased the specified limit from ₹10 lakhs to ₹20 lakh with effect from 29.03.2018.

Chapter 9: Advance Tax, Tax Deduction at Source and Introduction to Tax Collection at Source

No tax is required to be deducted at source on interest payable on "Power Finance Corporation Limited 54EC Capital Gains Bond" and "Indian Railway Finance Corporation Limited 54EC Capital Gains Bond" – [Notification No. 27 & 28/2018, dated 18-06-2018]

Section 193 (Interest on securities) provides that the person responsible for paying to a resident any income by way of interest on securities shall, at the time of credit of such income to the

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account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct income-tax @ 10%, being the rates in force on the amount of the interest payable.

As per clause (iib) of the proviso to section 193, no tax is required to be deducted at source from any interest payable on such debentures, issued by any institution or authority, or any public sector company, or any co-operative society (including a co-operative land mortgage bank or a co-operative land development bank), as the Central Government may, by notification in the Official Gazette, specify in this behalf.

Accordingly, the Central Government has, vide this notification, specified -

(i) "Power Finance Corporation Limited 54EC Capital Gains Bond" issued by Power Finance Corporation Limited {PFCL} and

(ii) "Indian Railway Finance Corporation Limited 54EC Capital Gains Bond" issued by Indian Railway Finance Corporation Limited {IRFCL}

The benefit of this exemption would, however, be admissible in the case of transfer of such bonds by endorsement or delivery, only if the transferee informs PFCL/IRFCL by registered post within a period of sixty days of such transfer.

No tax to be deducted at source under section 194A, in case of Senior Citizens if the aggregate amount of interest does not exceed ₹ 50,000 [Notification No. 6/2018, dated 6-12-2018]

Section 194A requires deduction of tax at source on interest other than interest on securities. However, section 194A(3) provides for exemption from this requirement where such interest credited or paid or likely to be credited or paid during the Financial Year does not exceed ₹10,000 and the payer is a banking company, co-operative society engaged in banking business or post office. In case of a senior citizen (being a resident), however, a higher threshold of ₹ 50,000 has been specified for non-deduction of tax at source in such cases.

Accordingly, as per the third proviso to section 194A(3), no tax is required to be deducted at source in the case of senior citizens where the amount of interest or the aggregate of the amount of interest credited or paid during the financial year by a banking company, co-operative society engaged in banking business or post office does not exceed ₹50,000. However, it has come to the notice of the CBDT, that, some tax deductors/banks are making tax deductions even when the amount of interest does not exceed ₹ 50,000.

Under Rule 31A(5) of the Income-tax Rules, 1962, the DGIT (Systems) is authorized to specify the procedures, formats and standards for the purposes of furnishing and verification of the statements or claim for refund and shall be responsible for the day-to-day administration in relation to furnishing and verification of the statements or claim for refund in the manner so specified.

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Accordingly, the Principal Director General of Income-tax (Systems) has, in exercise of the powers delegated by the CBDT under Rule 31A(5), clarified that no tax deduction at source under section 194A shall be made in the case of senior citizens where the amount of such income or the aggregate of the amounts of such income credited or paid during the financial year does not exceed ₹50,000.

Housing and Urban Development Corporation Ltd. (HUDCO), New Delhi notified for the purpose of section 194A(3)((iii)(f) [Notification No. 26/2019, dated 20.03.2019]

Section 194A(3)((iii)(f) provides that no tax is required to be deducted on interest income paid or credited to such other institution, association or body or class of institutions, associations, or bodies which is notified by the Central Government. Accordingly, the Central Government has, vide this notification, notified the Housing and Urban Development Corporation Ltd.(HUDCO), New Delhi for the purpose of the said section.

Consequent to such notification, no tax need to be deducted at source from interest other than interest on securities credited or paid to HUDCO.

Chapter 10: Provisions for filing return of income and self-assessment

Time limit for making an application for allotment of PAN in respect of certain persons [Notification No. 82/2018, dated 19-11-2018]

Section 139A(1) lists out the persons, who have not allotted PAN, to apply to the Assessing Officer for allotment of PAN within such time, as may be prescribed. The time limit for making such application is prescribed in Rule 114(3).

The Finance Act, 2018 has expanded the list of persons covered under section 139A(1) to include the persons mentioned in (iv) & (v) in column (2) of the table below, who have not been allotted a PAN, to apply to the Assessing Officer for allotment of PAN. Accordingly, Rule 114(3) has been amended *vide* this notification to provide the time limit (indicated in column (3) of the table below) for such persons to apply to the Assessing Officer for allotment of PAN.

The table below contains the list of persons mentioned in section 139A(1), who have not been allotted PAN, to apply for PAN and the time limit for making such application in each such case.

(1)	(2)	(3)
	Persons required to apply for PAN	**Time limit for making such application**
(i)	Every person, if his total income or the total income of any other person in respect of which he is assessable under the Act during any previous year exceeds the maximum amount which is not chargeable to income-tax	On or before the 31st May of the assessment year for which such income is assessable

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(ii)	Every person carrying on any business or profession whose total sales, turnover or gross receipts are or is likely to exceed ₹ 5 lakhs in any previous year	Before the end of that financial year (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	On or before 31st May of the immediately following financial year
(iv)	Every person who is a managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of any person referred in (iv) above or any person competent to act on behalf of such person referred in (iv) above	On or before 31st May of the immediately following financial year in which the person referred in (iv) enters into financial transaction specified therein.

Quoting of Aadhaar Number mandatory in returns filed on or after 1.4.2019 [Circular No. 6/2019 dated 31.03.2019]

As per section 139AA(1)(ii), with effect from 01.07.2017, every person who is eligible to obtain Aadhaar number has to quote Aadhaar number in the return of income.

The Apex Court in a series of judgments has upheld the validity of section 139AA. Consequently, with effect from 01.04.2019, the CBDT clarified that it is mandatory to quote Aadhaar number while filing the return of income unless specifically exempted as per any notification issued under section 139AA(3). Thus, returns being filed either electronically or manually on or after 1.4.2019 cannot be filed without quoting the Aadhaar number.

Time limit for intimation of Aadhar Number to Prescribed Authority [Notification No. 31/2019, dated 31.03.2019]

Section 139AA(2) provides that every person who has been allotted Permanent Account Number (PAN) as on 1st July, 2017, and who is eligible to obtain Aadhar Number, shall intimate his Aadhar Number to prescribed authority on or before a date as may be notified by the Central Government.

Accordingly, the Central Government has, vide this notification, notified that every person who has been allotted permanent account number as on 1st July, 2017, and who is eligible to obtain Aadhaar number, shall intimate his Aadhaar number to the Principal DGIT (Systems) or Principal Director of Income-tax (Systems) by 30th September, 2019.

This notification would, however, not be applicable to those persons or such class of persons or any State or part of any State who/which are/is specifically excluded under section 139AA(3).

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PART II: QUESTIONS AND ANSWERS

OBJECTIVE TYPE QUESTIONS

I. Mr. Ajay is found to be the owner of two gold chains of 50 gms each (market value of which is ₹ 1,45,000 each) during the financial year ending 31.3.2019 but he could offer satisfactory explanation for ₹ 50,000 spent on acquiring these gold chains. As per section 115BBE, Mr. Ajay would be liable to pay tax of –

(a) ₹ 1,87,200

(b) ₹ 2,26,200

(c) ₹ 1,49,760

(d) ₹ 1,80,960

II. Mr. Suhaan (aged 35 years), a non-resident earned dividend income of ₹ 12,50,000 from an Indian Company which is credited directly to its bank account in France and ₹ 15,000 as interest in Saving A/c from State Bank of India during the previous year 2018-19. Assuming that he has no other income, what will be amount of income chargeable to tax in his hands in India for A.Y. 2019-20?

(a) ₹ 2,55,000

(b) ₹ 2,65,000

(c) ₹ 15,000

(d) ₹ 5,000

III. XYZ Ltd. has two units, one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The unit in SEZ was set up and started manufacturing from 12.3.2012 and unit in DTA from 15.6.2015. Total turnover of XYZ Ltd. and Unit in DTA is ₹ 8,50,00,000 and 3,25,00,000, respectively. Export sales of unit in SEZ and DTA is ₹ 2,50,00,000 and ₹ 1,25,00,000, respectively and net profit of Unit in SEZ and DTA is ₹ 80,00,000 and ₹ 45,00,000, respectively. XYZ Ltd. would be eligible for deduction under section 10AA for -

(a) ₹ 38,09,524

(b) ₹ 19,04,762

(c) ₹ 23,52,941

(d) ₹ 11,76,471

IV. Mr. Jagat is an employee in accounts department of Bharat Ltd., a cellular company operating in the regions of eastern India. It is engaged in manufacturing of cellular devices. During F.Y. 2018-19, following transactions were undertaken by Mr. Jagat:

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(i) He attended a seminar on "Perquisite Valuation". Seminar fees of ₹ 12,500 was paid by Bharat Ltd.

(ii) Tuition fees of Mr. Himanshu (son of Mr. Jagat) was reimbursed by Bharat Ltd. Amount of fees is ₹ 25,000.

(iii) Ms. Sapna (daughter of Mr. Jagat) studies in DPS Public School (owned and maintained by Bharat Ltd.). Tuition fees paid for Ms. Sapna was ₹ 750 per month. Cost of education in similar institution is ₹ 5,250 per month.

Compute the amount which is chargeable to tax under the head "Salaries" in hands of Mr. Jagat for A.Y. 2019-20.

(a) ₹ 25,000

(b) ₹ 37,500

(c) ₹ 66,500

(d) ₹ 79,000

V. Mr. Jha, an employee of FX Ltd, attained 60 years of age on 15.05.2018. He is resident in India during F.Y. 2018-19 and earned salary income of ₹5 lacs (computed). During the year, he earned ₹ 7 lacs from winning of lotteries. Compute his advance tax liability for A.Y. 2019-20:

(a) ₹ 2,20,000 + Cess ₹ 8,800 = ₹2,28,800, being the tax payable on total income of ₹12 lacs

(b) ₹ 2,10,000 + Cess ₹ 8,400 = ₹2,18,400, being the tax payable on lottery income of ₹7 lacs

(c) ₹ 10,000 + Cess ₹400 = ₹ 20,400, being the tax payable on salary income, since tax would have been deducted at source from lottery income.

(d) Nil

VI. APM Ltd. is a pioneer company in textile industry. At the end of F.Y. 2018-19, it decided to distribute deposit certificates (without interest) to its shareholders (preference as well as equity shareholders). Total value of accumulated profits of APM Ltd. was ₹ 25 lakhs. Mr. A is an equity shareholder of APM Ltd. holding 10% of share capital. During F.Y. 2018-19, Mr. A received deposit certificates (without interest) valuing ₹ 5,00,000 from APM Ltd. Comment upon taxability of receipt of deposit certificates in the hands of Mr. A.

(a) Deposit Receipts (without interest) are taxable to the extent of ₹2,50,000 under Income from other sources.

(b) Deposit Receipts (without interest) are fully taxable under Income from other sources.

(c) Deposit Receipts (without interest) are exempt since DDT is payable by the company.

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(d) Deposit Receipts (without interest) are fully taxable and shall be included in Gross total income. But such receipt shall be allowed as deduction under Chapter-VI A.

VII. Mr. Hari is 65 years old residing in Agra. During F.Y. 2013-14, he purchased a house property in Kamla Nagar for ₹ 25 lacs. This house property was self-occupied by him till F.Y. 2015-16. In F.Y. 2016-17, he shifted to Delhi and the house property in Kamla Nagar was let out to Mr. Kishore. His income from house property was ₹ 5 lacs per annum (computed). During F.Y. 2018-19, Mr. Hari earned long-term capital gain of ₹ 2.50 lacs, casual income of ₹ 10 lacs, agricultural income of ₹ 3 lacs and profits from business of ₹ 4 lacs. During the same year, he transferred house property situated in Kamla Nagar to Mrs. Neelam (his son's wife) without any consideration. Subsequently, income from house property was received by Mrs. Neelam for F.Y. 2018-19. Compute gross total income of Mr. Hari for A.Y. 2019-20:

(a) ₹ 16.50 lacs

(b) ₹ 21.50 lacs

(c) ₹ 19.50 lacs

(d) ₹ 24.50 lacs

VIII. The details of income/loss of Mr. Kumar for A.Y. 2019-20 are as follows:

Particulars	Amt. (in ₹)
Income from Salary (Computed)	5,20,000
Loss from self-occupied house property	95,000
Loss from let-out house property	2,25,000
Loss from specified business u/s 35AD	2,80,000
Loss from medical business	1,20,000
Long term capital gain	1,60,000
Income from other sources	80,000

Compute gross total income of Mr. Kumar for A.Y. 2019-20:

(a) ₹ 4,40,000

(b) ₹ 3,20,000

(c) ₹ 1,60,000

(d) ₹ 4,80,000

IX. Mr. Pawan is engaged in the business of roasting and grinding coffee beans. During F.Y. 2018-19, his total income is ₹ 4.5 lacs. Mr. Pawan filed its return of income for

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A.Y. 2019-20 on 3rd March, 2020. Compute fee payable for default in furnishing in return of income for PQ & Associates for A.Y. 2019-20:

(a) ₹ 5,000

(b) Not exceeding ₹ 1,000

(c) ₹ 10,000

(d) No fees payable as total income is below ₹ 5,00,000

X. Mr. Rana is a resident of India residing in Meerut. During F.Y. 2010-11 he purchased an agricultural land situated in Bahadurpur for ₹ 10 lacs. This land is situated in an area which has aerial distance of 3 km from the local limits of Municipality of Bahadurpur. Total population of this area is 80,000 as per the last preceding census. During F.Y. 2018-19, Mr. Rana sold this land to Mr. Jeet for ₹ 25 lacs on 29.1.2019. Mr. Rana invested ₹ 5 lakhs in bonds of NHAI on 31.7.2019. Cost inflation index for F.Y. 2010-11 and F.Y. 2018-19 is 167 and 280 respectively. Compute the amount of capital gain taxable in the hands of Mr. Rana for A.Y. 2019-20:

(a) ₹ 3,23,353

(b) ₹ 8,23,353

(c) ₹ 10,00,000

(d) None of the above

DESCRIPTIVE QUESTIONS

1. Mr. Sunil Patni, aged 45 years, furnishes the following details of his total income for the A.Y. 2019-20:

Income from Salaries (computed)	26,56,000
Income from House Property (computed)	16,90,000
Interest income from FDRs	7,34,000

He has not claimed any deduction under Chapter VI-A. You are required to compute tax liability of Mr. Sunil Patni as per the provisions of Income Tax Act, 1961.

2. Mr. Rajesh Sharma (aged 62 years), an Indian citizen, travelled frequently out of India for his business trip as well as for his outings. He left India from Delhi airport on 29th May 2018 as stamped in the passport and returned on 27th April 2019. He has been in India for less than 365 days during the 4 years immediately preceding the previous year. Determine his residential status and his total income for the assessment year 2019-20 from the following information:

(1) Short term capital gain on the sale of shares of Tilt India Ltd., a listed Indian company, amounting to ₹ 58,000. The sale proceeds were credited to his bank account in Singapore.

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(2) Dividend amounting to ₹ 48,000 received from Treat Ltd., a Singapore based company, which was transferred to his bank account in Singapore. He had borrowed money from Mr. Abhay, a non-resident Indian, for the above-mentioned investment on 2nd April, 2018. Interest on the borrowed money for the previous year 2018-19 amounted to ₹ 5,800.

(3) Interest on fixed deposit with Punjab National Bank, Delhi amounting to ₹ 9,500 was credited to his saving bank account.

3. Examine with brief reasons, whether the following are chargeable to income-tax and the amount liable to tax with reference to the provisions of the Income-tax Act, 1961:

(i) Allowance of ₹ 18,000 p.m. received by an employee, Mr. Uttam Prakash, working in a transport system granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer.

(ii) During the previous year 2018-19, Mrs. Aadhya, a resident in India, received a sum of ₹ 9,63,000 as dividend from Indian companies and ₹ 4,34,000 as dividend from units of equity oriented mutual fund.

4. Ms. Suhaani, a resident individual, aged 33 years, is an assistant manager of Daily Needs Ltd. She is getting a salary of ₹ 48,000 per month. During the previous year 2018-19, she received the following amounts from her employer.

(i) Dearness allowance (10% of basic pay which forms part of salary for retirement benefits).

(ii) Bonus for the previous year 2017-18 amounting to ₹ 52,000 was received on 30th November, 2018.

(iii) Fixed Medical allowance of ₹ 48,000 for meeting medical expenditure.

(iv) She was also reimbursed the medical bill of her father dependent on her amounting to ₹ 4,900.

(v) Ms. Suhaani was provided;

- a laptop both for official and personal use. Laptop was acquired by the company on 1st June, 2016 at ₹ 35,000.
- a domestic servant at a monthly salary of ₹ 5,000 which was reimbursed by her employer.

(vi) Daily Needs Ltd. allotted 700 equity shares in the month of October 2018 @ ₹ 170 per share against the fair market value of ₹ 280 per share on the date of exercise of option by Ms. Suhaani. The fair market value was computed in accordance with the method prescribed under the Act.

(vii) Professional tax ₹ 2,200 (out of which ₹ 1,400 was paid by the employer).

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Compute the Income under the head "Salaries" of Ms. Suhaani for the assessment year 2019-20.

5. Mr. Vihaan is a resident but not ordinarily resident in India during the Assessment Year 2019-20. He furnishes the following information regarding his income/expenditure pertaining to his house properties for the previous year 2018-19:

   - He owns two houses, one in Singapore and the other in Pune.
   - The house in Singapore is let out there at a rent of SGD 4,000 p.m. The entire rent is received in India. He paid Property tax of SGD 1250 and Sewerage Tax SGD 750 there. (1SGD=INR 51)
   - The house in Pune is self-occupied. He had taken a loan of ₹ 25,00,000 to construct the house on 1st June, 2014 @12%. The construction was completed on 31st May, 2016 and he occupied the house on 1st June, 2016.

     The entire loan is outstanding as on 31st March, 2019. Property tax paid in respect of the second house is ₹ 2,800.

   Compute the income chargeable under the head "Income from House property" in the hands of Mr. Vihaan for the Assessment Year 2019-20.

6. Mr. Chirag, set up a manufacturing unit of Baking Soda in notified backward area of the State of Andhra Pradesh on 18th May, 2018. The following machineries (falling under 15% block) purchased by him during the previous year 2018-19.

		Amount (₹ lakhs)
(i)	Machinery X, Machinery Y and Machinery Z from Sahaj Limited on credit (installed and usage started on 18th July, 2018, 25th July 2018 and 1st August 2018, respectively). Payment is made on 15th April 2019 to Sahaj Limited by net banking.	58
(ii)	Machinery L from Swayam Limited (installed on 8th August, 2018). The Invoice was paid through a cash payment on the same day.	35
(iii)	Machinery M (a second-hand machine) from Sunshine Limited on 18th December, 2018 (The payment for the purchase invoice was made through NEFT on 5th January, 2019)	15

Compute the depreciation allowance under section 32 of the Income-tax Act, 1961 for the assessment year 2019-20.

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7. Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2004. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2006-07.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.08.2018 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by cash payment. The stamp duty value on the date of agreement was ₹ 835 lakhs. The sale deed was executed and registered on 14-1-2019 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 870 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following investments:

(i) Acquired a residential house at Delhi for ₹ 130 lakhs on 31.5.2019.

(ii) Acquired a residential house at UK for ₹ 290 lakhs on 23.3.2019.

(iii) Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹ 47 lakhs on 29-3-2019 and for ₹ 50 lakhs on 12-5-2019.

Compute the income chargeable under the head 'Capital Gains'. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2004-05 – 113; F.Y. 2006-07 – 122; F.Y. 2018-19 - 280.

8. Mr. Raghav is a chartered accountant and his income from profession for the year 2018-19 is ₹ 15,00,000. He provides you with the following information for the year 2018-19.

Particulars	₹
Income of minor son Rahul from company deposit	1,75,000
Income of minor daughter Riya (professional dancer) from her dance performances	20,00,000
Interest from Canara bank received by Riya on fixed deposit made in 2015 out of income earned from her dance performances	20,000
Gift received by Riya from friends of Mr. Raghav on winning National award	45,000
Loss from house property (computed)	2,50,000
Short term capital loss	6,00,000

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Long term capital gain under section 112	4,00,000
Short term capital loss under section 111A	10,00,000

Mr. Raghav income before considering clubbing provisions is higher than that of his wife.

Compute the Total Income of Mr. Raghav for Assessment Year 2019-20 and the losses to be carried forward assuming that he files his income tax returns every year before due date.

9. Mr. Arihant, a resident individual aged 40 years, has Gross Total Income of ₹ 7,50,000 comprising of income from Salary and income from house property for the assessment year 2019-20. He provides the following information:

Paid ₹ 70,000 towards premium for life insurance policy of his handicapped son (section 80U disability). Sum assured ₹ 4,00,000; and date of issue of policy 1-8-2017.

Deposited ₹ 90,000 in tax saver deposit in the name of his major son in Punjab National Bank of India.

Paid ₹ 78,000 towards medical insurance for the term of 3 years as a lumpsum payment for himself and his spouse. Also, incurred ₹ 54,000 on medical expenditure of his father, a resident aged 68 years. No medical insurance policy is taken in the name of his father. His father earned ₹ 4,50,000 interest from fixed deposit.

Contributed ₹ 25,000 to The Clean Ganga Fund, set up by the Central Government.

Compute the Total Income and deduction under Chapter VI-A for the Assessment year 2019-20.

10. You are required to compute the total income of the Ms. Radhika, a resident individual, aged 37 years and the tax payable for the assessment year 2019-20. She furnishes the following particulars relating to the year ended 31-3-2019:

(i)	Winnings from a TV Game show (Net)	77,000
(ii)	Gift received from Father's brother	85,000
(iii)	Gift received from Archita, her close friend	80,000
(iv)	Interest on capital received from TVA & Co., a partnership firm in which she is a partner (@15% p.a.)	4,50,000
(v)	Rent received for a vacant plot of land (Net)	3,03,300
(vi)	Amount received from Lime Pvt. Ltd., for a house at Delhi for which she had been in negotiation for enhanced rent three years back. This has not been taxed in any earlier year. The house was, however, sold off in March, 2018.	2,85,000

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(vii)	Amount received under Keyman Insurance Policy	4,35,000
(viii)	Amount forfeited by her for the vacant plot, since the buyer could not finalize the deal as per agreement.	3,10,000
(ix)	Donation given in cash to a charitable trust registered u/s 12AA	22,000
(x)	She owns agricultural lands at Dhaka, Bangladesh. She has derived agricultural income therefrom	5,20,000
(xi)	Public Provident Fund paid in the name of her minor daughter	1,25,000
(xii)	Interest credited in the said PPF account during the year	50,900
(xiii)	Share of profits received from TVA & Co., a partnership firm	1,50,000

Computation should be made under proper heads of income.

11. Mr. Chandra Prakash, a resident individual aged 54, is planning to pay self-assessment tax and furnish his return of income on 15.12.2019. He furnishes the following details of his income, the amount of tax deducted at source and advance tax paid for the previous year 2018-19 as under:

    (i) Retail Toy business, whose turnover is ₹ 185 lakhs [received ₹ 90 lakhs by Account payee cheque, ₹ 50 lakhs through ECS and balance in cash]. He opts for presumptive taxation scheme under section 44AD.

    (ii) Income from other sources ₹ 3,05,000.

    (iii) Tax deducted at source ₹ 55,000.

    (iv) Advance tax paid ₹ 1,45,000 on 14-3-2019.

    Calculate the interest payable under section 234B of the income-tax Act, 1961.

12. Examine with reference to the relevant provisions of Income-tax Act, 1961 whether the following losses/deductions can be carried forward/claimed by Mr. Sharma. These losses/deductions are in respect of the financial year 2018-19.

    (i) Loss from the business carried on by him as a proprietor: ₹ 9,80,000 (computed)

    (ii) Unabsorbed Depreciation: ₹ 3,25,000 (computed)

    (iii) Loss from House property: ₹ 50,000 (computed)

    The due date for filing the return for Mr. Sharma was 31st July, 2019 under section 139(1). However, he filed the return on 25.9.2019.

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SUGGESTED ANSWERS

OBJECTIVE TYPE QUESTIONS

I. (a)

II. (d)

III. (b)

IV. (d)

V. (d)

VI. (c)

VII. (b)

VIII. (a)

IX. (b)

X. (d)

DESCRIPTIVE QUESTIONS

1. Computation of tax liability of Mr. Sunil Patni for the A.Y. 2019-20

Particulars	₹	₹
Income from Salaries (computed)		26,56,000
Income from house property (computed)		16,90,000
Interest income from FDR's		7,34,000
Total Income		**50,80,000**
Tax Liability		
(A) Tax payable including surcharge on total income of ₹ 50,80,000		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @ 5%	12,500	
₹ 5,00,001 – ₹ 10,00,000 @ 20%	1,00,000	
₹ 10,00,001 – ₹ 50,80,000 @30%	12,24,000	
	13,36,500	
Add: Surcharge @ 10%, since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore.	1,33,650	14,70,150
(B) Tax Payable on total income of ₹ 50 lakhs (₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000, being 30% of ₹ 40,00,000)		13,12,500

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(C) Excess tax payable (A)-(B)		1,57,650
(D) Marginal Relief (₹ 1,57,650 – ₹ 80,000, being the amount of income in excess of ₹ 50,00,000)		77,650
Tax payable (A)-(D) [₹ 14,70,150 – ₹ 77,650]		13,92,500
Add: Health & Education cess@4%		55,700
Tax Liability		**14,48,200**

2. Determination of residential status

An individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

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

(ii) He 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 in the previous year.

If the individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Mr. Rajesh Sharma, an Indian citizen, has not satisfied either of the basic conditions for being a resident, since he was in India for only 59 days during the previous year 2018-19. Hence, he is non-resident in India for A.Y.2019-20.

Computation of total income of Mr. Rajesh Sharma for A.Y.2019-20

Particulars		Amount (₹)
(1)	Short-term capital gain on sale of shares of an Indian listed company is chargeable to tax in the hands of Mr. Rajesh Sharma, since it has accrued and arisen in India even though the sale proceeds were credited to bank account in Singapore.	58,000
(2)	Dividend of ₹ 48,000 received from Singapore based company transferred to his bank account in Singapore is not taxable in the hands of the non-resident since the income has neither accrued or arisen in India nor has it been received in India. Since dividend is not taxable in India, interest paid for investment is not allowable as deduction.	Nil
(3)	Interest on fixed deposit with Punjab National Bank, Delhi credited to his savings bank account is taxable in the hands of Mr. Rajesh Sharma as Income from other sources, since it has	

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	accrued and arisen in India and is also received in India. He would not be eligible for deduction under section 80TTB, since he is a non-resident.	9,500
Total Income		**67,500**

3.

	Chargeability	Amount liable to tax (₹)	Reason
(i)	**Partly taxable**	96,000	Any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt provided he is not in receipt of any daily allowance. The exemption is 70% of such allowance (i.e., ₹ 12,600 per month being, 70% of ₹ 18,000, in the present case) or ₹ 10,000 per month, whichever is less. Hence, ₹ 1,20,000 (i.e., ₹ 10,000 x 12) is exempt. Balance ₹ 96,000 (₹ 2,16,000 – ₹ 1,20,000) is taxable in the hands of Mr. Uttam Prakash.
(ii)	**Not Taxable**	-	As per section 10(34), dividend received upto ₹ 10 lakhs from Indian companies on which dividend distribution tax is paid by the company, is exempt in the hands of shareholder. As per section 10(35), income received from units of mutual fund is exempt. Hence, ₹ 9,63,000, being the dividend from Indian companies and ₹ 4,34,000, being the dividend from units of equity oriented mutual fund is not taxable in the hands of Mrs. Aadhya.

4. Computation of Income under the head "Salaries" in the hands of Ms. Suhaani for the A.Y. 2019-20

Particulars	₹
Basic Salary [₹ 48,000 x 12]	5,76,000
Dearness allowance [10% of basic salary]	57,600
Bonus [Taxable in the P.Y. 2018-19, since it is taxable on receipt basis]	52,000

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Fixed Medical Allowance [Taxable]	48,000
Reimbursement of Medical expenditure incurred for her father [Fully taxable from A.Y. 2019-20, even though father is included in the meaning of "family" on account of standard deduction being introduced in lieu of reimbursement of medical expenditure].	4,900
Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both]	Nil
Reimbursement of salary of domestic servant [₹ 5,000 x 12] [Fully taxable, since perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	60,000
Value of equity shares allotted [700 equity shares x ₹ 110 (₹ 280, being the fair market value – ₹ 170, being the amount recovered)]	77,000
Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	1,400
Gross Salary	**8,76,900**
Less: Deduction under section 16	
Professional tax paid	2,200
Standard Deduction (Lower of ₹ 40,000 or amount of salary)	40,000
Taxable Salary	**8,34,700**

5. Computation of income from house property of Mr. Vihaan for A.Y. 2019-20

Particulars	₹	₹
1. Income from let-out property in Singapore [See Note 1 below]		
[1]Gross Annual Value (SGD 4,000 p.m. x 12 months x ₹ 51)		24,48,000
Less: Municipal taxes paid during the year [SGD 2,000 (SGD 1,250 + SGD 750) x ₹ 51][2]		1,02,000
Net Annual Value (NAV)		23,46,000
Less: Deductions under section 24		
(a) 30% of NAV	7,03,800	

[1] In the absence of information related to municipal value, fair rent and standard rent, the rent receivable has been taken as the GAV

[2] Both property tax and sewerage tax qualify for deduction from gross annual value

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(b) Interest on housing loan	-	7,03,800
		16,42,200
2. **Income from self-occupied property in Pune**		
Annual Value [Nil, since the property is self-occupied]		NIL
[No deduction is allowable in respect of municipal taxes paid in respect of self-occupied property]		
Less: Deduction in respect of interest on housing loan **[See Note 2 below]**		2,00,000
		(2,00,000)
Income from house property [₹ 16,42,200 – ₹ 2,00,000]		**14,42,200**

Notes:

(1) Since Mr. Vihaan is a resident but not ordinarily resident in India for A.Y. 2019-20, income which is, *inter alia,* received in India shall be taxable in India, even if such income has accrued or arisen outside India by virtue of the provisions of section 5(1). Accordingly, rent received from house property in Singapore would be taxable in India since such income is received by him in India.

(2) **Interest on housing loan for construction of self-occupied property allowable as deduction under section 24**

Interest for the current year (₹ 25,00,000 x 12%)	₹ 3,00,000
Pre-construction interest	
For the period 01.06.2014 to 31.03.2016 (₹ 25,00,000 x 12% x 22/12) = ₹ 5,50,000	
₹ 5,50,000 allowed in 5 equal installments (₹ 5,50,000/5)	₹ 1,10,000
	₹ 4,10,000
In case of self-occupied property, interest deduction to be restricted to	₹ 2,00,000

6. Computation of depreciation under section 32 for A.Y. 2019-20

Particulars	₹	₹
Machinery X, Machinery Y and Machinery Z acquired from Sahaj Ltd. (Since payment is made to Sahaj Ltd by way of use of ECS and the machineries were put to use for more than 180 days during the previous year, depreciation is allowable @15%)		58,00,000
Machinery L acquired from Swayam Ltd. in cash and		NIL

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installed on 8.8.2018 [Since payment of ₹ 35 lakhs is made otherwise than by account payee cheque/bank draft or use of ECS, the said amount will not be included in actual cost and hence, depreciation not allowable]		
Second hand Machinery M from Sunshine Ltd on 18.12.2018 assuming it is installed and put to use in P.Y. 2018-19. [Since payment is made to Sunshine Ltd by way of use of ECS]		15,00,000
Actual Cost		**73,00,000**
Depreciation for P.Y.2018-19		
Depreciation@15% on Machineries X, Y and Z on ₹ 58 lakhs	8,70,000	
Depreciation@7.5% (50% of 15%) on ₹ 15 lakhs for Machinery M since it is put to use for less than 180 days	1,12,500	
	9,82,500	
Additional Depreciation@35% on ₹ 58 lakhs, since the machinery is acquired and installed for a manufacturing unit set up in a notified backward area in the state of Andhra Pradesh	20,30,000	
Additional depreciation is not allowable on second hand machinery	-	
Depreciation under section 32 for A.Y. 2019-20	**30,12,500**	

7. Computation of income chargeable under the head "Capital Gains" for A.Y.2019-20

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration ₹ 810 lakhs		
Value adopted by Stamp Valuation Authority ₹ 870 lakhs		
Gross Sale consideration		870.00
[Where the actual sale consideration declared by the assessee on the date is less than the value adopted 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.		

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However, 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 received by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. In this case, since advance of ₹ 80 lakh is received by cash, stamp duty value on the date of agreement cannot be adopted as the full value of consideration. Stamp duty value on the date of registration would be considered for determining the full value of consideration, since such value exceeds 105% of ₹ 810 lakhs]		
Less: Brokerage@1% of sale consideration (1% of ₹ 810 lakhs)		8.10
Net Sale consideration		861.90
Less: Indexed cost of acquisition		
- Cost of vacant land, ₹ 80 lakhs, *plus* registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 280/113]	218.05	
- Construction cost of residential building (₹ 100 lakhs x 280/122)	229.51	447.56
Long-term capital gains[3] before exemption		**414.34**
Less: **Exemption under section 54**		130.00
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 one residential house property in India one year before or two years after the date of transfer of original asset. Therefore, 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 UK		
Less: **Exemption under section 54EC**		50.00
Amount deposited in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.7.2019), of long-term capital asset, being land or building or both, would qualify for exemption, to the		

[3] Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain

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maximum extent of ₹ 50 lakhs, whether such investment is made in the current financial year or subsequent financial year. Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 97 lakhs, even if the both the investments are made on or before 13.7.2019 (i.e., within six months after the date of transfer).		
Long term capital gains chargeable to tax		**234.34**

Note: Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head "Income from other sources", in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.

8. Computation of Total Income of Mr. Raghav for A.Y. 2019-20

Particulars	₹	₹	₹
Profits and gains from business and profession			
Income from chartered accountancy profession		15,00,000	
Less: Loss from house property (can be set-off to the extent of ₹ 2,00,000, as per section 71(3A).		2,00,000	13,00,000
Capital gains			
Long term capital gain under section 112		4,00,000	
Less: Short term capital loss set off against long-term capital gain as per section 74		(4,00,000)	Nil
Income from other sources			
Income of minor son Rahul			
Income from company deposit includible in the hands of Mr. Raghav as per section 64(1A)	1,75,000		
Less: Exemption in respect of income of minor child u/s 10(32)	1,500	1,73,500	
Income of minor daughter Riya			
- Income of ₹ 20,00,000 of minor daughter Riya (professional dancer) **not** includible in the	Nil		

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hands of parent, since such income is earned on account of her special skills			
- Interest received on deposit with Canara Bank made out of amount earned on account of her special talent is includible as per section 64(1A), since interest income arises out of deposit made and not on account of her special skills	20,000		
- Gift of ₹ 45,000 received by her from friends of Mr. Raghav is not taxable under section 56(2)(x), since the aggregate amount from non-relatives does not exceed ₹ 50,000	Nil		
Less: Exemption in respect of income of minor child u/s 10(32)	1,500	18,500	1,92,000
Total Income			**14,92,000**

Losses to be carried forward to A.Y.2020-21

Particulars	₹
Loss from house property [₹ 2.50,000 – ₹ 2,00,000]	50,000
Short term capital loss under section 111A	10,00,000
Short term capital loss (other than above) [₹ 6,00,000 – ₹ 4,00,000]	2,00,000

Note – *Short-term capital loss under section 111A can also be set-off against long-term capital gains under section 112. In such a case, the losses to be carried forward to A.Y.2020-21 would be as under –*

Particulars	*₹*
Loss from house property [₹ 2.50,000 – ₹ 2,00,000]	50,000
Short term capital loss under section 111A [₹ 10,00,000 – ₹ 4,00,000]	6,00,000
Short term capital loss (other than above)	6,00,000

9. Computation of Total Income of Mr. Arihant for A.Y. 2019-20

Particulars	₹	₹	₹
Gross Total Income			7,50,000
Less: **Deduction under Chapter VI-A**			
Under section 80C	60,000		
- Life insurance premium of ₹ 70,000 (restricted to ₹ 60,000 i.e., 15% of ₹ 4,00,000, being the sum assured, since the policy has			

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been taken on or after 01.04.2013, in respect of his handicapped son suffering from disability u/s 80U)			
- Tax saver deposit of ₹ 90,000 in the name of his major son does not qualify for deduction under section 80C, since such deposit has to be made in the name of the assessee himself to qualify for deduction u/s 80C	Nil	60,000	
Under section 80D			
- Medical insurance premium for self and his wife, pertaining to the previous year 2018-19 is ₹ 26,000, being 1/3rd of ₹ 78,000, the lumpsum premium, since the policy would be in force for three previous years. The said deduction would be restricted to	25,000		
- Deduction in respect of medical expenditure of ₹ 54,000 for his father, being a senior citizen would be allowable, since no insurance policy is taken in his name, to the extent of	50,000	75,000	
Under section 80G			
- Contribution by a resident towards the Clean Ganga Fund, set up by the Central Government would be eligible for 100% deduction without any qualifying limit.		25,000	1,60,000
Total Income			**5,90,000**

10. Computation of total income of Ms. Radhika for A.Y. 2019-20

Particulars	₹	₹
Income from house property		
Arrears of rent [Taxable, even if Ms. Radhika is no longer the owner of house property]	2,85,000	
Less: 30% of arrears of rent	85,500	1,99,500
Profits and gains of business or profession		
Interest on capital @12%, being the maximum allowable interest [₹ 4,50,000/15% x 12%] assuming interest@12% is authorized by the partnership deed and has been allowed as deduction while computing the income of the firm	3,60,000	
Share of profit from TVA & Co., a firm [Exempt]	-	

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Amount received under Keyman Insurance Policy	4,35,000	7,95,000
Income from other sources		
Winning from a TV Game show (Gross) [₹ 77,000 x 100/(100-30)]	1,10,000	
Gift received from father's brother would be exempt, since father's brother falls within the definition of relative	-	
Gift received from her close friend would be taxable, since it exceeds ₹ 50,000	80,000	
Rent received for a vacant plot of land [₹ 3,03,300/90 x 100]	3,37,000	
Amount forfeited on cancellation of agreement for transfer of vacant plot	3,10,000	
Agricultural income from agricultural land at Dhaka, Bangladesh [not exempt, since such income is derived from land outside India]	5,20,000	
Interest credited in PPF account [Exempt]	-	13,57,000
Gross Total Income		**23,51,500**
***Less:* Deductions under Chapter VI-A**		
Section 80C		
PPF subscription in the name of minor daughter	1,25,000	
Section 80G		
Donation of ₹ 22,000 to a charitable trust registered u/s 12AA is not allowable as deduction since the same is made in cash in excess of ₹ 2,000	-	
		1,25,000
Total Income		**22,26,500**

Computation of tax liability of Ms. Radhika for A.Y. 2019-20

Particulars	₹	₹
Tax on winnings of ₹ 1,10,000 from TV game show @30%		33,000
Tax on balance income of ₹ 21,16,500		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000@5%	12,500	
₹ 5,00,001 - ₹ 10,00,000@20%	1,00,000	
₹ 10,00,001 - ₹ 21,16,500@30%	3,34,950	4,47,450
		4,80,450

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Add: Health and Education cess@4%			19,218
Tax liability			**4,99,668**
Less: TDS			
Under section 194-I	33,700		
Under section 194B	33,000		66,700
Tax payable			**4,32,968**
Tax payable (rounded off)			**4,32,970**

11. Computation of interest payable under section 234B by Mr. Chandra Prakash

Particulars	₹
Tax on total income of ₹ 15,05,000 [Business income of ₹ 12,00,000 **(See Note below)** + Income from other sources of ₹ 3,05,000]	2,64,000
Add: Health and Education cess @4%	10,560
Tax on total income	**2,74,560**
Less: Tax deducted at source	55,000
Assessed Tax	**2,19,560**
90% of assessed tax	1,97,604
Advance tax paid on 14-3-2019	1,45,000
Interest under section 234B is leviable since advance tax of ₹1,45,000 paid is less than ₹1,97,604, being 90% of assessed tax	
Number of months from 1st April, 2019 to 15th December, 2019, being the date of payment of self-assessment tax	9
Interest under section 234B@1% per month or part of a month for 9 months on ₹ 74,500 [i.e., difference between assessed tax of ₹ 2,19,560 and advance tax of ₹1,45,000 paid being ₹ 74,560 which is rounded off to ₹ 74,500[4]]	6,705
Interest under section 234B rounded off	6,710
Note: *The presumptive income computed under section 44AD would be ₹12 lakhs, being 8% of ₹45 lakhs and 6% of ₹140 lakhs.*	

[4] *Rounded off under Rule 119A of Income-tax Rules, 1962*

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12. Mr. Sharma has furnished his return of income for A.Y.2019-20 on 25.9.2019, i.e., after 31st July 2019, being the due date specified under section 139(1). Hence, the return is a belated return under section 139(4).

As per section 80 read with section 139(3), specified losses, which have not been determined in pursuance of a return of loss filed within the time specified in section 139(1), cannot be carried forward to the subsequent year for set-off against income of that year. The specified losses include, *inter alia*, business loss but does not include loss from house property and unabsorbed depreciation.

Accordingly, business loss of ₹ 9,80,000 of Mr. Sharma for A.Y. 2019-20, not determined in pursuance of a return of loss, filed within the time specified in section 139(1), cannot be carried forward to A.Y.2020-21.

However, the loss of ₹ 50,000 from house property and unabsorbed depreciation of ₹ 3,25,000 pertaining to A.Y.2019-20, can be carried forward to A.Y.2020-21 for set-off, even though Mr. Sharma has filed the return of loss for A.Y.2019-20 belatedly.

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SECTION B: INDIRECT TAXES

QUESTIONS

(1) All questions should be answered on the basis of the position of GST law as amended up to 30.04.2019.

(2) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. Further, GST compensation cess should be ignored in all the questions, wherever applicable.

1. Miss. Raksha is engaged in providing private coaching services in Noida, Uttar Pradesh and is not registered under GST till 25-Sep-20XX. Her aggregate turnover is ₹19,00,000/- on 30-Sep-20XX. She got GST registration on 30-Sep-20XX. Which of the following options are available to her?

   (a) She can pay tax @ 18%, charge it from customer and avail full input tax credit on procurements made.

   (b) She can pay tax @ 6% under exemption scheme for service providers but she cannot charge GST from customer and also cannot avail input tax credit.

   (c) She is not liable for registration since her aggregate turnover is less than ₹40,00,000/-

   (d) Either (a) or (b)

2. Mr. Arun, a registered supplier, is engaged in selling sweets. The sweets are sold in boxes and the cost of each sweet box is ₹ 500/-. In order to increase his turnover, he purchased certain juice cans @ ₹ 20/- each and added juice can with every sweet box as a gift. A sweet box along with free juice can is sold at ₹500/- each.

   Which of the statements is correct?

   (a) He is liable to pay tax on ₹520/- and eligible to claim input tax credit on purchase of juice cans

   (b) He is liable to pay tax on ₹500/- and not eligible to claim input tax credit on purchase of juice cans

   (c) He is liable to pay tax on ₹500/- and also eligible to claim input tax credit on purchase of juice cans

   (d) Either (a) or (b)

3. Which is not considered as supply under GST Law?

   (a) Stock transferred from one establishment in Delhi to another establishment in Gurgaon, Haryana registered under same PAN.

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(b) CA Ram supplies accounting services to CA Radha in lieu of taxation services received from CA Radha.

(c) A Health club supplies lunch to its members at its annual meeting against a nominal charge.

(d) Mr. A sells a flat to Mr. B

(i) Date of completion certificate - 31/01/20XX

(ii) Date of agreement with buyer - 01/02/20XX

(iii) Consideration received - 05/02/20XX

4. With reference to the provisions relating to transaction value under section 15 of the CGST Act, 2017, which of the following is not correct?

(a) Central excise duty will not be included in transaction value for supply of tobacco.

(b) Municipal taxes paid by tenant will be included in transaction value for supply of renting service.

(c) Entertainment tax included in movie ticket will form part of transaction value.

(d) Customer makes payment of freight which is payable by the supplier, directly to the service provider. However, supplier does not include this amount in the invoice. Such amount will be included in transaction value of the supplier.

5. Which of the following services are notified under section 9(3) of CGST Act, 2017 or section 5(3) of IGST Act, 2017 the tax on which shall be paid on reverse charge basis by the recipient of such supply:

(i) Supply of security services provided by a person other than a body corporate to a composition taxpayer

(ii) Services supplied by an insurance agent to insurance company located in taxable territory

(iii) Supply of services by way of renting of hotel accommodation through e-commerce operator.

(iv) Supply of notified categories of goods or services or both by a supplier, who is not registered, to specified class of registered persons.

Choose from the following options:

(a) (i) & (ii)

(b) Only (ii)

(c) (i), (ii), (iii)

(d) (i) & (iv)

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6. M/s. Comfortable (P) Ltd. is registered under GST in the State of Odisha. It is engaged in the business of manufacturing of iron and steel products. It has received IT engineering services from M/s. High-Fi Infotech (P) Ltd. for ₹ 11,00,000/- (excluding GST @ 18%) on 28-Oct-20XX. Invoice for service rendered was issued on 5-Nov-XX. M/s Comfortable (P) Ltd. made part-payment of ₹ 4,20,000/- on 30-Nov-XX. Being unhappy with service provided by M/s High-fi Infotech (P) Ltd., it did not make the balance payment. Deficiency in service rendered was made good by M/s High-Fi Infotech (P) Ltd. by 15-Feb-XY. M/s. Comfortable (P) Ltd. made payment of ₹ 3,00,000/- on 15-Feb-XY and balance payment was made on 6-June-20XY, i.e. after 180 days of issue of invoice.

   Input tax credit available in respect of IT engineering services received from M/s. High-Fi Infotech (P) Ltd. in financial year 20XX-XY:

   (a) ₹ 1,98,000/-

   (b) Nil

   (c) ₹ 64,068/-

   (d) ₹ 1,09,831/-

7. Mr. Dev Anand is engaged in providing services of facilitating sale and purchase of securities to various clients. He is also engaged in trading of securities. His turnover details are as follows:

Trading of securities	₹ 40,00,000/-
Brokerage on account of facilitating transactions in securities	₹ 30,00,000/-

   You are required to ascertain aggregate turnover of Mr. Dev Anand under GST:

   (a) ₹ 30,00,000/-

   (b) ₹ 40,00,000/-

   (c) ₹ 70,00,000/-

   (d) ₹ NIL.

8. Mr. Pappu Singh, commenced his business in Feb-20XX. He has established following units:

   1. Unit A (in SEZ) and Unit B (non-SEZ) in the State of Maharashtra
   2. Unit C in Delhi
   3. Unit D and E in the State of Goa

   Mr. Pappu Singh has approached you to help him in determining the States and number of registrations he is required to take under GST (presuming the fact that he is making taxable supply from each State and his aggregate turnover exceeds the threshold limit):

   (a) Maharashtra-2: Delhi-1, Goa–Optional 1 or 2

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(b) Maharashtra-Optional 1 or 2: Delhi-1, Goa-Optional 1 or 2

(c) Maharashtra-1: Delhi-1, Goa-1

(d) Maharashtra-2: Delhi-1, Goa-2

9. A non-resident taxable person is required to apply for registration:

(a) within 30 days from the date on which he becomes liable to registration

(b) within 60 days from the date on which he becomes liable to registration

(c) at least 5 days prior to the commencement of business

(d) None of the above

10 Which of the following activity shall be treated neither as a supply of goods nor a supply of services?

(i) Permanent transfer of business assets where input tax credit has been availed on such assets

(ii) temporary transfer of intellectual property right

(iii) transportation of deceased

(iv) services by an employee to the employer in the course of employment

(a) (i) & (iii)

(b) (ii) & (iv)

(c) (i) & (ii)

(d) (iii) & (iv)

11. Examine whether the supplier is liable to get registered in the following independent cases:-

(i) Raghav of Assam is exclusively engaged in intra-State taxable supply of readymade garments. His turnover in the current financial year (FY) from Assam showroom is ₹ 28 lakh. He has another showroom in Tripura with a turnover of ₹ 11 lakh in the current FY.

(ii) Pulkit of Panjim, Goa is exclusively engaged in intra-State taxable supply of shoes. His aggregate turnover in the current financial year is ₹ 22 lakh.

(iii) Harshit of Himachal Pradesh is exclusively engaged in intra-State supply of pan masala. His aggregate turnover in the current financial year is ₹ 24 lakh.

(iv) Ankit of Assam is exclusively engaged in intra-State supply of taxable services. His aggregate turnover in the current financial year is ₹ 25 lakh.

(v) Sanchit of Assam is engaged in intra-State supply of both taxable goods and services. His aggregate turnover in the current financial year is ₹ 30 lakh.

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12. Mr. Ajay has a registered repair centre where electronic goods are repaired/serviced. His repair centre is located in State of Rajasthan and he is not engaged in making any inter-State supply of services. His aggregate turnover in the preceding financial year (FY) is ₹ 45 lakh.

    With reference to the provisions of the CGST Act, 2017, examine whether Mr. Ajay can opt for the composition scheme in the current financial year (FY)? Is he eligible to avail benefit of concessional payment of tax under *Notification No. 2/2019 CT (R) dated 07.03.2019*? Considering the option of payment of tax available to Mr. Ajay, compute the amount of tax payable by him assuming that his aggregate turnover in the current financial year is ₹ 35 lakh.

    Will your answer be different if Mr. Ajay procures few items required for providing repair services from neighbouring State of Madhya Pradesh?

13. Advise regarding availability of input tax credit (ITC) under the CGST Act, 2017 in the following independent cases:-

    (i) AMT Co. Ltd. purchased a mini bus having seating capacity of 16 persons for transportation of its employees from their residence to office and back.

    (ii) Bangur Ceramics Ltd., a manufacturing company purchased two trucks for transportation of its finished goods from the factory to dealers located in various locations within the country.

    (iii) "Hans premium" dealing in luxury cars in Chankyapuri, Delhi purchased five Skoda VRS cars for sale to customers.

    (iv) Sun & Moon Packers Pvt. Ltd. availed outdoor catering service to run a canteen in its factory. The Factories Act, 1948 requires the company to set up a canteen in its factory.

14. M/s. Flow Pro sold a machine to BP Ltd. It provides the following particulars in this regard**:-**

S. No.	Particulars	₹
(i)	Price of the machine (excluding taxes and incidental charges)	30,000
(ii)	Machine was subject to third party inspection. The inspection charges have been directly paid by BP Ltd. to the inspection agency.	5,000
(ii)	Freight charges for delivery of the machine (M/s Flow Pro has agreed to deliver the goods at BP Ltd's premises)	2,000
(iv)	Subsidy received from State Government on sale of machine under skill Development Programme. [The subsidy is directly linked to the price].	5,000

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(v)	Discount of 2% is offered to BP Ltd. on the price and recorded in the invoice	

Note: Items given in S. No. (ii) to (v) have not been considered in the price at S. No. (i).

Determine the value of taxable supply made by M/s Flow Pro to BP Ltd.

15. State with reasons, whether GST is payable in the following independent cases:-
    (i) Services provided to recognized sports body as curator of national team.
    (ii) Services provided by way of transportation of passenger in Metered Cab.
    (iii) Services by way of public conveniences such as provision of facilities of washrooms.
    (iv) Services provided by a player to a franchisee which is not a recognized sports body.
16. Mahak Sons is a registered supplier of electronic items and pays GST under regular scheme. On 15th July 20XX, Mahak Sons received an order from Sunder Trader for supply of a consignment of electronic items. Mahak Sons gets the consignment ready by 20th July 20XX. The invoice for the consignment was issued the next day, 21st July 20XX. Sunder Trader could not collect the consignment immediately. Sunder Trader collects the consignment from the premises of Mahak Sons on 30th July 20XX and hands over the cheque towards payment on the same date. The said payment is entered in the books of accounts of Mahak Sons on 31st July, 20XX and amount is credited in their bank account on 1st August 20XX.

    You are required to determine the time of supply of the electronic items for the purpose of payment of tax.
17. ABC Ltd., a registered supplier has made following taxable supplies to its customer Mr. P in the quarter ending 30th June, 20XX.

Date	Bill No.	Particulars	Invoice value (including GST) [₹]
5th April, 20XX	102	Notebooks [10 in numbers]	1,200
10th May, 20XX	197	Chart Paper [4 in number]	600
20th May, 20XX	230	Crayon colors [2 packets]	500
2nd June, 20XX	254	Poster colors [5 packets]	900
22nd June, 20XX	304	Pencil box [4 sets]	700

Goods in respect of bill no. 102, 230 and 254 have been returned by Mr. P. You are required to advise ABC Ltd. whether it can issue consolidated credit note against all the three invoices?

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18. Mr. X, a supplier of goods, pays GST under regular scheme. The amount of input tax credit (ITC) available and output tax liability under different tax heads is as under:-

Head	Output tax liability	ITC
IGST	2,000	4,000
CGST	800	2,000
SGST/UTGST	2,500	500

Compute the minimum GST payable in cash by Mr. X. Make suitable assumptions as required.

SUGGESTED ANSWERS/HINTS

1. (d)

2. (c)

3. (d)

4. (a)

5. (b)

6. (a)

7. (a)

8. (a)

9. (c)

10. (d)

11. 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 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 masala and Tobacco and manufactured tobacco substitutes.

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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 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) Raghav is eligible for higher threshold limit of turnover for registration, i.e. ₹ 40 lakh as he is exclusively engaged in intra-State supply of goods. However, since Raghav is engaged in supplying readymade garments from a Special Category State i.e. Tripura, the threshold limit gets reduced to ₹ 10 lakh. Thus, Raghav is liable to get registered under GST as his turnover exceeds ₹10 lakh. Further, he is required to obtain registration in both Assam and Tripura as he is making taxable supplies from both the States.

(ii) The applicable threshold limit for registration for Pulkit in the given case is ₹ 40 lakh as he is exclusively engaged in intra-State taxable supply of goods. Thus, he is not liable to get registered under GST as his turnover is less than the threshold limit.

(iii) Harshit 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, Harshit is liable to get registered under GST.

(iv) Though Ankit is dealing in Assam, he is not entitled for higher threshold limit for registration as the same is applicable only in case of exclusive supply of goods while he is exclusively engaged in providing services. Thus, the applicable threshold limit for registration in this case is ₹ 20 lakh and hence, Ankit is liable to get registered under GST.

(v) Since Sanchit is engaged in supply of both taxable goods and services, the applicable threshold limit for registration in his case is ₹ 20 lakh. Thus, Sanchit is liable to get registered under GST as his turnover is more than the threshold limit.

12. Section 10 of the CGST Act, 2017 provides that a registered person, whose aggregate turnover in the preceding financial year did not exceed ₹ 1.5 crore (₹ 75 lakh in Special Category States except Assam, Himachal Pradesh and Jammu and Kashmir), may opt to pay, in lieu of the tax payable by him, an amount calculated at the specified rates. However, if, *inter alia*, such registered person is engaged in the supply of services other than restaurant services, he shall not be eligible to opt for composition levy.

In the given case, since Mr. Ajay is a supplier of repair services, he is not eligible for composition scheme even though his aggregate turnover in the preceding FY does not exceed ₹ 1.5 crore. Therefore, he has to discharge his tax liability under regular provisions at the applicable rates.

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However, with effect from 01.04.2019, *Notification No. 2/2019 CT (R) dated 07.03.2019* has provided an option to a registered person whose aggregate turnover in the preceding financial year is upto ₹ 50 lakh and who is not eligible to pay tax under composition scheme, to pay tax @ 3% [Effective rate 6% (CGST + SGST/UTGST)] on first supplies of goods and/or services upto an aggregate turnover of ₹ 50 lakh made on/after 1st April in any FY, subject to specified conditions.

Thus, in view of the above-mentioned provisions, Mr. Ajay is eligible to avail the benefit of concessional payment of tax under *Notification No. 2/2019 CT (R) dated 07.03.2019* as his aggregate turnover in the preceding FY does not exceed ₹ 50 lakh and he is not eligible to opt for the composition scheme.

Thus, the amount of tax payable by him under *Notification No. 2/2019 CT (R) dated 07.03.2019* is ₹ 2,10,000 [6% of ₹ 35 lakh].

A registered person cannot opt for *Notification No. 2/2019 CT (R) dated 07.03.2019,* if *inter alia*, he is engaged in making any inter-State outward supplies. However, there is no restriction on inter-State procurement of goods. Hence, answer will remain the same even if Mr. Ajay procures few items from neighbouring State of Madhya Pradesh.

13. (i) Section 17(5) of the CGST Act, 2017, *inter alia,* blocks input tax credit in respect of motor vehicles for transportation of persons having approved seating capacity of not more than 13 persons (including the driver), except when they are used for certain specified purposes.

Since in the given case, the mini bus has a seating capacity of 16 persons, the ITC thereon will not be blocked.

(ii) Section 17(5) of the CGST Act, 2017, *inter alia,* blocks input tax credit in respect of motor vehicles **for transportation of persons** with certain exceptions. Thus, ITC on motor vehicles for transportation of goods is allowed unconditionally.

Therefore, ITC on trucks purchased by Bangur Ceramics Ltd for transportation of its finished goods from the factory to dealers located in various locations within the country is allowed.

(iii) Section 17(5) of the CGST Act, 2017, *inter alia,* blocks input tax credit in respect of motor vehicles for transportation of persons having approved seating capacity of not more than 13 persons (including the driver), except when they are used for making further supply of such motor vehicles.

Being a dealer of cars, "Hans Premium" has purchased the cars for further supply. Therefore, ITC on such cars is allowed even though seating capacity is less than 13.

(iv) Section 17(5) of the CGST Act, 2017 *inter alia,* blocks input tax credit in respect of outdoor catering services. However, ITC is available on such services, when the same are provided by an employer to its employees under a statutory obligation.

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Thus, in view of the above- mentioned provisions, Sun & Moon packers Pvt. Ltd. can avail ITC in respect of outdoor catering services availed by it as the same is being provided under a statutory obligation.

14. Computation of value of taxable supply

Particulars	**₹**
Price of the machine (Price ₹ 30,000 - ₹ 5,000 subsidy) [Note-1]	25,000
Third party inspection charges [Note-2]	5,000
Freight charges for delivery of the machine value [Note-3]	2,000
Total	32,000
Less: Discount @ 2% on ₹ 30,000 being price charged to BP Ltd. [Note-4]	600
Value of taxable supply	31,400

Notes:-

1. Since subsidy is received from State Government, the same is deductible to arrive at taxable value under section 15 of the CGST Act, 2017.
2. Any amount that the supplier is liable to pay in relation to such supply but has been incurred by the recipient, is includible in the value of supply under section 15 of the CGST Act, 2017.
3. Since arranging freight is the liability of supplier, it is a case of composite supply and thus, freight charges are added in the value of principal supply.
4. Discount given before or at the time of supply if duly recorded in the invoice is deductible from the value of supply under section 15 of the CGST Act, 2017.

15. (i) Services provided to a recognized sports body by an individual as a player, referee, umpire, coach or team manager for participation in a sporting event organized by a recognized sports body are exempt from GST vide *Notification No. 12/2017 CT(R) dated 28.06.2017*. Thus, GST is payable in case of services provided to a recognized sports body as curator of national team.

(ii) Service of transportation of passengers, with or without accompanied belongings, *inter alia,* by metered cabs are specifically exempt from GST vide *Notification No. 12/2017 CT(R) dated 28.06.2017.* Thus, GST is not payable in this case.

(iii) Services by way of public conveniences such as provision of facilities of bathroom, washrooms, lavatories, urinal or toilets are not liable to GST as it is specifically exempt as per *Notification No. 12/2017 CT(R) dated 28.06.2017.* Thus, GST is not payable in this case.

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(iv) Services provided by a player to a franchisee which is not a recognized sports body is taxable as it is not exempt under *Notification No. 12/2017 CT(R) dated 28.06.2017.* Thus, GST is payable in this case.

16. As per section 12(2) of the CGST Act, 2017, the time of supply in respect of goods shall be the earlier of the following two dates:-

(a) Date of issue of invoice/last date on which the invoice is required to be issued as per section 31 of the CGST Act, 2017

(b) Date of receipt of payment

Further, as per *Notification No. 66/2017 CT dated 15.11.2017,* a registered person (excluding composition supplier) has to pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a) i.e., date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31.

As per section 31(1), the invoice needs to be issued either before or at the time of removal (where supply involves movements of goods) of goods/delivery of goods/ making goods available to the recipient.

In this case, the invoice is issued before the removal of the goods and is thus, within the time limit prescribed under section 31(1). Therefore, time of supply for the purpose of payment of tax is the date of issue of invoice, which is 21st July, 20XX.

17. Where **one or more** tax invoices have been issued for supply of any goods and/or services and

(a) the taxable value/tax charged in that tax invoice is found to exceed the taxable value/tax payable in respect of such supply, or

(b) where the goods supplied are returned by the recipient, or

(c) where goods and/or services supplied are found to be deficient,

the registered person, who has supplied such goods and/or services, may issue to the recipient **one or more** credit notes for supplies made in a financial year containing prescribed particulars.

Thus, one (consolidated) or more credit notes can be issued in respect of multiple invoices issued in a financial year without linking the same to individual invoices.

Hence, in view of the above-mentioned provisions, M/s ABC Ltd. can issue a consolidated credit note for the goods returned in respect of all the three invoices.

18. Mr. X can use the ITC to pay his output tax liability. The order of utilisation of ITC is as under:-

(i) IGST credit should first be utilized towards payment of IGST.

(ii) Remaining IGST credit, if any, can be utilized towards payment of CGST and SGST/UTGST in any order and in any proportion.

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(iii) Entire ITC of IGST should be fully utilized before utilizing the ITC of CGST or SGST/UTGST.

(iv) ITC of CGST should be utilized for payment of CGST and IGST in that order.

(v) ITC of SGST /UTGST should be utilized for payment of SGST/UTGST and IGST in that order. However, ITC of SGST/UTGST should be utilized for payment of IGST, only after ITC of CGST has been utilized fully.

CGST credit cannot be utilized for payment of SGST/UTGST and SGST/UTGST credit cannot be utilized for payment of CGST.

Computation of minimum GST payable in cash

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
GST payable	800	2,500	2,000
Less: ITC	-	(2,000)-IGST	(2,000)-IGST
	(800)-CGST	(500) – SGST	____
Net GST payable in cash	Nil	Nil	Nil

Since sufficient balance of ITC of CGST is available for paying CGST liability and cross utilization of ITC of CGST and SGST is not allowed, it is beneficial to use ITC of IGST to pay SGST (after paying IGST liability) to minimize cash outflow.

Note: GST law has been subject to frequent changes since its inception. Although many clarifications are continually being issued by way of FAQs or otherwise, many issues continue to arise on account of varying interpretations on several of its provisions. Therefore, alternate answers may be possible for the above questions depending upon the view taken.

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