

Roll No.
Total No. of Questions – 7
Time Allowed – 3 Hours

INTERMEDIATE (IPC)
GROUP I - PAPER 4
TAXATION

MAY 2014

Total No. of Printed Pages – 12

Maximum Marks – 100

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Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

Question No. 1 is compulsory.

Attempt any **five** questions from the remaining **six** questions.

Working notes should form part of the answer.

Wherever necessary, suitable assumptions may be made and stated clearly by way of note.

All questions pertaining to the Income Tax relate

To Assessment Year 2014-15, unless

Stated otherwise in the question.

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1. (A) From the following details compute the total income of Kamal, A resident individual aged 54 years for the year ended 31-3-2014. Tax payable need not be calculated.

	₹
1. Salary including Dearness Allowance	5,00,000
2. Bonus	15,000
3. Salary to servant provided by Employer	12,000
4. Bill paid by Employer for Gas, Electricity and water provided free of cost at his flat	14,500
5. Cost of Laptop provided by the employer (Used both for official and personal purposes)	40,000

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Following additional information is provided :

- (1) Kamal purchased a flat in a Cooperative Housing Society in Delhi for ₹ 10,75,000 in April, 2010 by taking loan from State Bank of India amounting to ₹ 5,00,000 @ 15% per annum interest, ₹ 65,000 from his own savings and a deposit from a Nationalized Bank to whom this flat was given on lease for 10 years at a monthly lease rental of ₹ 5,500. The outstanding amount of loan is ₹ 1,60,000.
- (2) Municipal Taxes paid by Kamal ₹ 4,500 P.A.
- (3) Insurance in respect of the said flat ₹ 1,275
- (4) Kamal earned a profit of ₹ 15,000 in shares speculation business and incurred a loss of ₹ 20,200 in speculation business of cotton.
- (5) In the year 2008-09, he had gifted ₹ 50,000 to his wife and ₹ 30,000 to his son who was aged 11 years then. These amounts were advanced to Mr. Mohan @ 15% per annum interest.
- (6) Kamal received a gift of ₹ 25,000 each from his four friends on the occasion of his birthday.
- (7) He contributed ₹ 10,500 to Public Provident Fund and ₹ 6,000 to Unit Linked Insurance plan.
- (8) He deposited ₹ 60,000 in tax saver deposit with a Nationalised Bank in the name of his married son.
- (9) He has taken a policy on life for his married daughter on 1-4-2013 and paid a premium of ₹ 25,000. The sum assured for policy is ₹ 2,00,000.

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- (B) Farm Heroes is engaged in providing services for the last five years. **5**
The value of taxable services provided by Farm Heroes during the preceding financial year was ₹ 45 lakhs. It has received the following sums (Exclusive of service tax) in the month of January 2014. Calculate the value of taxable services and tax payable thereon for the month of January 2014.

	₹
(1) Supply of farm labour	55,000
(2) Testing of soil of farm land	1,65,000
(3) Value of Services provided free	50,500
(4) Processing of raw material to make it fit for production and this process is not liable to Excise Duty	6,35,000
(5) Advance Received for such services (As mentioned in (4) above) to be provided in May 2014.	2,13,000

- (C) Mr. Vijay a registered dealer from Gujarat, submits the following information pertaining to the month of January 2014. **5**

- (1) Purchase of Raw material A for ₹ 3,50,000 which was exempt from levy of VAT and utilized for production of X.
- (2) Purchase of Raw material B for ₹ 7.60,000 on which VAT is paid @ 1% and utilized for the production of product Y.
- (3) Purchase of Raw material C for ₹ 10,00,000 on which VAT is paid @ 12.5% and utilized 50% each for production of product Z and product E.

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Particulars of Sales are :

- (A) Sold X for ₹ 5,00,000 in Gujarat on which VAT is leviable at 4%.
- (B) Sold Y for ₹ 6,00,000 in Gujarat on which VAT is leviable at 0%.
- (C) Sold Z for ₹ 4,00,000 in Delhi @ CST 2%.
- (D) Sold E for ₹ 12,00,000 which is exempt from levy of VAT.

Assuming there is no opening and closing inventory, calculate the amount of VAT payable for the relevant month.

2. (A) JK Ltd., a manufacturing company purchased the following Plant and Machinery. 8

Date of Acquisition and Installation	Actual Cost (in ₹ Crores)
25-05-2013	90.00
31-08-2013	20.00
15-04-2014	120.00

From the above information compute the amount of depreciation available u/s 32(1), additional depreciation, if any and deduction u/s 32 AC for the Assessment Years 2014-15 and 2015-16.

What will be the consequences if asset acquired on 31-08-2013 is sold on 01-05-2016 ?

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- (B) Raj Associates is a consultancy firm. During the financial year 2013-14, it received ₹ 18 lakh as professional fee on which tax has been deducted u/s 194 J. You are required to compute the value of taxable service and service tax liability of Raj Associates for the year 2013-14 assuming that the receipt is inclusive of Service Tax. 4
- (C) Mr. Javed, A manufacturer sells goods to Mr. Kabir for ₹ 5,000 who sells it to Mr. Hakim a wholesaler for ₹ 5,500. The wholeseller sells goods to a retailer Mr. Mohan for ₹ 6,000 who inturn sells it to end user for ₹ 7,000. 4
- Compute the VAT liability, input credit availed and tax payable by the manufacturer, wholeseller and retailer under invoice method assuming :
- (1) VAT Rate is 12.5%
- (2) Above prices are excluding VAT component.
3. (A) Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2013-14 : 8
- ₹
- | | |
|---|-------|
| 1. Reimbursement of following Medical Expenses incurred by Ms. Rakhi. | |
| (A) On treatment of her self employed daughter in a private clinic | 4,000 |
| (B) On treatment of herself by Family doctor | 8,000 |
| (C) On treatment of her Mother-in-law dependent on her, in a Nursing Home | 5,000 |

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- | | | |
|----|--|--------------------|
| 2. | Payment of premium on Mediclaim Policy taken on her health. | 7,500 |
| 3. | Medical Allowance | 2,000
Per month |
| 4. | Medical Expenses Reimbursed on her Son's treatment in a Government Hospital | 5,000 |
| 5. | Expenses incurred by company on the treatment of her minor son abroad. | 1,05,000 |
| 6. | Expenses in relation to Foreign Travel and stay of Rakhi and her son abroad for Medical Treatment. | 1,20,000 |
| | (Limit prescribed by RBI for this is ₹ 2,00,000) | |

Discuss about the taxability of above benefits and allowances in the hands of Rakhi.

- (B) Explain the provisions regarding adjustment of Excess amount of Service Tax paid in case of renting of Immovable Property Service, owing to Property Tax Payment. **4**
- (C) State the circumstances under which VAT registration can be cancelled. **4**

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4. (A) Nisha has two houses, both of which are self occupied. The particulars of these are given below : 8

Particulars	(Value in ₹)	
	House – I	House – II
Municipal Valuation per annum	1,20,000	1,15,000
Fair Rent per annum	1,50,000	1,75,000
Standard rent per annum	1,00,000	1,65,000
Date of completion	31-03-1999	31-03-2001
Municipal taxes payable during the year (paid for House II only)	12%	8%
Interest on money borrowed for repair of property during current year	–	55,000

Compute Nisha's income from the House Property for the Assessment Year 2014-15 and suggest which house should be opted by Nisha to be assessed as self occupied so that her Tax liability is minimum.

- (B) What do you mean by Bundled Service ? Explain by giving an example of the same. 4
- (C) How VAT can be said to be non beneficial as compared to single last point system ? Also explain any other three deficiencies of VAT system in India. 4

5. (A) Mr. Roy, aged 55 years owned a Residential House in Ghaziabad. It was acquired by Mr. Roy on 10-10-1986 for ₹ 6,00,000. He sold it for ₹ 53,00,000 on 4-11-2013. The stamp valuation authority of the state fixed value of the property at ₹ 65,00,000. The Assessee paid 2% of the sale consideration as brokerage on the sale of the said property. 8

Mr. Roy Acquired a Residential House property at Kolkata on 10-12-2013 for ₹ 10,00,000 and deposited ₹ 7,00,000 on 10-4-2014 and ₹ 5,00,000 on 15-6-2014 in the capital gains bonds of Rural Electrification Corporation Ltd. He deposited ₹ 4,00,000 on 6-7-2014 and ₹ 3,00,000 on 1-11-2014 in the capital gain deposit scheme in a Nationalized Bank for construction of an additional floor on the residential house property in Kolkata.

Compute the Capital Gain chargeable to Tax for the Assessment Year 2014-15 and Income Tax chargeable thereon assuming Mr. Roy has no other income.

Cost inflation index for Financial Year 1986-87 = 140 and for Financial Year 2013-14 = 939.

- (B) State with reasons, whether the following statements are True or False. 4

- (1) Mr. Vikas, an individual, has not provided any service in the half year period of April to September. He need not file any return for this period.
- (2) Mr. Sumeet has filed his Service Tax return belatedly. He wants to revise the same. He can file a revised return.

- (C) State with reasons whether the following statements are true or false with regards to input tax credit of VAT : 4

- (1) It is always mandatory to issue a tax invoice under VAT provisions.
- (2) VAT usually increases the price as the tax is payable on the first sales price.
- (3) VAT Rate on sale of Lottery tickets is 4%.
- (4) It is permitted to issue 'Tax Invoice' inclusive of VAT.

6. (A) Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the previous year 2012-13. 4

	₹
(1) Income from Salary	15,000
(2) Income from Business (before providing depreciation)	66,000
(3) Long term capital gain on sale of Land	10,800
(4) Loss on maintenance of Race Horses	15,000
(5) Loss from Gambling	9,100

The other details of unabsorbed depreciation and brought forward losses pertaining to Assessment Year 2013-14 are as follows :

	₹
(1) Unabsorbed depreciation	11,000
(2) Loss from Speculative business	22,000
(3) Short term capital loss	9,800

Compute the Gross total income of Mr. Garg for the Assessment Year 2014-15 and the amount of loss, if any, that can be carried forward, or not.

- (B) Ria, Roma and Raj, three new retail investors, have made the following investments in equity shares/units of equity oriented fund of Rajiv Gandhi equity savings scheme for the previous year 2013-14 as below : 4

	Ria ₹	Roma ₹	Raj ₹
Investment in listed Equity Shares	50,000	23,000	—
Investment in equity oriented funds	10,000	12,000	55,000
Gross total income	10,80,000	11,50,000	12,60,000

Calculate the amount of deduction allowable under section 80 CCG in all the three cases for the Assessment Year 2014-15.

What would be the Tax-treatment in the hands of Raj, if he sells his investments in the Financial Year 2014-15 ?

- (C) Mr. X provides some taxable services to Mr. Y. In the course of providing such services, Mr. X. incurs some expenditure such as travelling, Telephone, etc. and includes these amounts in the value of taxable services. 4

Discuss whether Service Tax has to be charged on these items of expenditures.

Will your answer be different if Mr. X indicates these items separately in the invoice ?

- (D) "Invoices are crucial documents for Administering VAT." Discuss. 4

7. (A) Answer any **two** of the following three sub divisions. 2×2
=4
- (1) What are the provisions relating to tax deduction at source in respect of :
- (A) ABC and Co. Ltd. Paid ₹ 19,000 to one of its Directors as sitting fees on 01-01-2014.
- (B) Mr. X sold his House to Mr. Y on 01-02-2014 for ₹ 60 lacs ?
- (2) (A) Mr. Vineet submits his return of income on 12-09-2014 for AY 2014-15 consisting of income under the head house property and other sources. On 21-01-2015, he realized that he had not claimed deduction under section 80 TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income, since one year has not elapsed from the end of the relevant Assessment Year. Discuss. 2×2
=4
- (B) Where the Karta of an Hindu undivided family is absent from India, the return of income can be signed by any male member of the family ? Give reasoning for the statement to be true or false.
- (3) Who is liable to pay Advance Tax ? What is the procedure to compute the Advance Tax payable ? 2×2
=4
- (B) Ajit who entered into a roll over contract, approached ABC Bank Ltd. for selling US \$ 4,6000 at the rate of ₹ 60 per US dollar. RBI Reference rate at that time was ₹ 60.50 per US Dollar. However, the rate of exchange declared by CBEC for the day is ₹ 61.50 per US dollar. Calculate the value of taxable service with reference to rule 2B of the service tax (Determination of value) Rules, 2006 and Service Tax payable thereon. 4

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- (C) Mr. X furnishes the following particulars for the month of December 2013. Compute the VAT payable and input tax carried forward to Next period, if any. 4

	₹
Inputs purchased during the month (from within state) (inclusive of VAT 12.5%)	2,25,000
Raw Material purchased intra state (including CST 2%)	51,000
Transportation charges	35,000
Balance of VAT Credit as on 1-12-2013	6,700

90% of the stock was sold during the month at the profit of 20% on cost. Assume there was no opening stock of goods. The VAT Rate on sale is 4%.

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