PAPER 4: TAXATION

SECTION A: INCOME TAX

The Income-tax law, as amended by the Finance Act, 2020, including significant notifications/circulars and legislative amendments made upto 31st October, 2020, are applicable for May, 2021 examination. The relevant assessment year for May, 2021 examination is A.Y.2021-22. The October, 2020 edition of the Study Material is based on the provisions of Income-tax law as amended by the Finance Act, 2020 and significant notifications/circulars and legislative amendments made upto 31.10.2020, and hence, the same is relevant for May 2021 examination.

QUESTIONS AND ANSWERS

Case scenario

Mr. Sarthak, aged 38 years, working in Nobita Pvt. Limited as Senior Manager- Finance. His yearly pay slip for the financial year 2020-21 is as follows:

Earnings	Total	Deduction	Total
Basic Pay	6,34,068	Employee's contribution to Provident Fund	1,14,132
Dearness allowance	1,26,814	Profession tax	2,400
HRA	3,17,040	Income-tax	2,32,830
Transport Allowance	19,200	Net Pay	13,03,848
Personal Allowance	5,09,088		
Children Education Allowance for two children	12,000		
Medical Allowance	15,000		
Bonus	20,000		
Total Earnings	**16,53,210**		**16,53,210**

(i) His employer also contributes equivalent amount of contribution towards provident fund.

(ii) Dearness allowance forms part of retirement benefits.

(iii) He has intimated to his company that he would opt for 115BAC for the A.Y. 2021-22. Consequently, he has not submitted any investment proof to company.

(iv) He has paid ₹ 55,212 towards mediclaim premium for his parents (aged above 65 years) by account payee cheque.

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(v) He has purchased a house of ₹ 28,00,000 and taken a loan of ₹ 21,00,000 from HDFC. He is paying EMI of ₹ 22,835. Possession of house received on 01/04/2020. He himself is occupying this house. Total principal and interest paid for full year is ₹ 55,037 and ₹ 2,18,983 respectively as per interest certificate received from bank for F.Y. 2020-21.

(vi) He has 3 children, studying in Sandalwood International School. The following are the components of school fees paid for the Academic Session 2020-21:

School Fees Component	Child 1	Child 2	Child 3	Total
Tuition fees	30,000	37,000	40,000	1,07,000
Admission fees	20,000	-	-	20,000
Books, stationery and uniform	8,000	12,000	15,000	35,000
Infrastructure Fund	25,000	30,000	35,000	90,000
Commute cost	8,000	8,000	8,000	24,000
Activity Fees	6,000	7,000	8,000	21,000
Total Fees	**97,000**	**94,000**	**1,06,000**	**2,97,000**

(vii) He has invested ₹ 5000 in HDFC ULIP and taken a LIC policy for his wife for ₹ 10,000.

(viii) He has invested ₹ 12,500 and ₹ 25,000 towards NPS Tier I A/c and Tier II A/c, respectively.

(ix) He has also donated ₹ 50,000 in PM Cares fund created for relief from COVID-19 pandemic in India.

(x) He has invested ₹ 40,000 in listed equity shares of Shaktimaan Power Solution Limited on 01/03/2020 at ₹ 200 per share and sells 100 shares at ₹ 350 per share on 01/11/2020. STT is paid both at the time of sale and purchase of these shares.

Based on the above facts, choose the most appropriate answer to Q. Nos. 1 to 5:

1. What would be the amount of income chargeable to tax under the head "Salaries" in the hands of Mr. Sarthak for the A.Y. 2021-22?

   (a) ₹ 16,53,210

   (b) ₹ 16,21,236

   (c) ₹ 16,76,036

   (d) ₹ 16,71,236

2. Whether the tax deducted at source by Nobita Pvt Ltd. on the salary paid to Mr. Sarthak based on the intimation submitted by him, is correct?

   (a) Yes, the amount of ₹ 2,32,830 deducted as tax at source is correct.

   (b) No, the correct amount of tax to be deducted at source is ₹ 2,49,920.

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(c) No, the correct amount of tax to be deducted at source is ₹ 2,42,800.

(d) No, the correct amount of tax to be deducted at source is ₹ 2,41,300.

3. What would be the total income (without rounding off) of Mr. Ram for the A.Y. 2021-22, assume that he does not opt for section 115BAC?

(a) ₹ 11,73,736

(b) ₹ 11,76,699

(c) ₹ 11,61,699

(d) ₹ 11,58,736

4. What would be tax liability of Mr. Sarthak for the A.Y. 2021-22, if he does not opt for section 115BAC?

(a) ₹ 1,66,530

(b) ₹ 1,68,870

(c) ₹ 1,71,210

(d) ₹ 1,67,450

5. Assuming for the purpose of answering this question only that no contribution is made by Mr. Sarthak and his employer towards provident fund, what amount of deduction is available to Mr. Sarthak under Chapter VI-A for the previous year 2020-21, if he does not opt for section 115BAC?

(a) ₹ 2,62,500

(b) ₹ 2,59,537

(c) ₹ 2,50,000

(d) ₹ 2,04,500

6. Mr. Tejas, an Indian Citizen, left India permanently with his wife and two children, for extending his retail trade business of toys in Canada in the year 2015. From Canada, he is managing his retail business of toys in India. For the purpose his Indian business, he visits India every year from 1st September to 31st January. His business income is ₹ 23.50 lakhs and ₹ 18 lakhs from retail trade business in Canada and in India, respectively for the F.Y. 2020-21. He has no other income during the P.Y. 2020-21. Determine his residential status and income taxable in his hands for the A.Y. 2021-22.

(a) Resident and ordinarily resident in India and income of ₹ 18 lakhs and ₹ 23.50 lakhs would be taxable.

(b) Non-Resident and ₹ 18 lakhs from Indian retail trade business would only be taxable.

(c) Resident but not ordinarily Resident and ₹ 18 lakhs from Indian retail trade business

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would only be taxable.

(d) Deemed resident and ₹ 18 lakhs from Indian retail trade business would only be taxable.

7. Dr. Sargun, maintained two bank A/c's, one current A/c with Canara Bank for her profession and a Saving Bank A/c with State Bank of India. The following are the details of her withdrawals from these A/c during the previous year 2020-21:

Date of withdrawals	Canara Bank	State Bank of India
25.04.2020	25,00,000	
27.04.2020		15,50,000
31.08.2020	29,00,000	
01.09.2020	14,20,000	
05.09.2020		14,00,000
07.10.2020	18,21,000	
11.12.2020	26,23,000	
12.02.2021	7,56,000	
25.03.2021		16,13,000

She furnished her return of income for the A.Y. 2020-21 and A.Y. 2019-20 on or before the time limit prescribed u/s 139(1). However, for the A.Y. 2018-19 and A.Y. 2017-18, she has furnished her return of income belatedly.

Is any tax deductible at source u/s 194N on the withdrawals made by Dr. Sargun from Canara Bank and SBI Bank? If yes, at what rate and what amount?

(a) TDS is deductible at source on ₹ 33,79,000 @ 5% by Canara Bank and no tax is deductible by SBI.

(b) TDS is deductible at source on ₹ 20,20,000 @ 5% by Canara Bank and no tax is deductible by SBI.

(c) TDS is deductible at source on ₹ 20,20,000 @ 2% by Canara Bank and no tax is deductible by SBI.

(d) TDS is deductible at source on ₹ 75,00,000 @ 5% and on ₹ 20,20,000 @ 2% by Canara Bank and tax is deductible at source @5% on ₹25,63,000 by SBI.

8. Ms. Rimjhim (aged 32 years), an interior decorator, has professional receipts of ₹ 25,60,000 for the previous year 2020-21. She also earned ₹ 1,25,000 as dividend and ₹ 4,65,000 as interest income on fixed deposits. She incurred expenses of ₹ 13,00,000 for her profession and ₹ 30,000 as interest on loan for making investment in shares on which

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she received dividend. What would be her total income for the A.Y. 2021-22, assuming that she wishes to make maximum tax savings without getting her books of account audited?

(a) ₹ 18,45,000

(b) ₹ 18,70,000

(c) ₹ 18,40,000

(d) ₹ 18,25,000

9. Mr. Arpan (aged 35 years) submits the following particulars for the purpose of computing his total income:

Particulars	₹
Income from salary (computed)	4,00,000
Loss from let-out house property	(-) 2,20,000
Brought forward loss from let-out house property for the A.Y. 2020-21	(-)2,30,000
Business loss	(-)1,00,000
Bank interest (FD) received	80,000

Compute the total income of Mr. Arpan for the A.Y.2021-22 and the amount of loss that can be carried forward for the subsequent assessment year?

(a) Total income ₹ 2,00,000 and loss from house property of ₹ 2,50,000 and business loss of ₹ 20,000 to be carried forward to subsequent assessment year.

(b) Total income ₹ 80,000 and loss from house property of ₹ 2,30,000 to be carried forward to subsequent assessment year.

(c) Total income ₹ 1,80,000 and loss from house property of ₹ 2,30,000 and business loss of ₹ 20,000 to be carried forward to subsequent assessment year.

(d) Total income is Nil and loss from house property of ₹ 70,000 to be carried forward to subsequent assessment year.

10. Mr. Vikas transferred 600 unlisted shares of XYZ (P) Ltd. to ABC (P) Ltd. on 15.12.2020 for ₹ 3,50,000 when the market price was ₹ 5,15,000. The indexed cost of acquisition of shares for Mr. Vikas was computed at ₹ 4,25,000.

Determine the income chargeable to tax in the hands of Mr. Vikas and ABC (P) Ltd. in respect of the above transaction.

(a) ₹ 90,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and nothing is taxable in the hands of ABC (P) Ltd.

(b) ₹ 75,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and nothing is taxable in the hands of ABC (P) Ltd.

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(c) ₹ 90,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and ₹ 1,65,000 is taxable under the head "Income from other sources" in the hands of ABC (P) Ltd.

(d) ₹ 75,000 chargeable to tax in the hands of Mr. Vikas as long-term capital gains and ₹ 1,65,000 is taxable under the head "Income from other sources" in the hands of ABC (P) Ltd.

11. Mr. Dhruv, a person of Indian origin and citizen of Country X, got married to Ms. Deepa, an Indian citizen residing in Country X, on 4th February, 2020 and came to India for the first time on 20-02-2020. He left for Country X on 12th August, 2020. He returned to India again on 20-01-2021 with his wife to spend some time with his parents-in law for 30 days and thereafter returned to Country X on 18.02.2021.

He received the following gifts from his relatives and friends of her wife during 01-04-2020 to 31-03-2021 in India:

- From parents of wife	₹ 1,01,000
- From married sister of wife	₹ 11,000
- From very close friends of his wife	₹ 2,82,000

(a) Determine his residential status and compute the total income chargeable to tax along with the amount of tax payable on such income for the Assessment Year 2021-22.

(b) Will your answer change if he has received ₹ 16,00,000 instead of ₹ 2,82,000 from very close friends of his wife during the previous year 2020-21 and he stayed in India for 400 days during the 4 years preceding the previous year 2020-21?

12. Mr. Roxx, a citizen of the Country Y, is a resident but not ordinarily resident in India during the financial year 2020-21. He owns two house properties in Country Y, one is used as his residence. Another house property is rented for a monthly rent of $ 18,000. Fair rent of the house property is $ 20,000. The value of one CYD ($) may be taken as ₹ 78.

He took ownership and possession of a flat in Delhi on 1.10.2020, which is used for self-occupation, while he is in India. The flat was used by him for 3 months at the time when he visited India during the previous year 2020-21. The municipal valuation is ₹ 4,58,000 p.a. and the fair rent is ₹ 3,60,000 p.a. He paid property tax of ₹ 13,800 and ₹ 2,800 as Sewerage tax to Municipal Corporation of Delhi.

He had taken a loan of ₹ 18,00,000 @9.5% from HDFC Bank on 1st August, 2018 for purchasing this flat. No amount is repaid by him till 31.03.2021.

He also had a house property in Bangalore which is let out on a monthly rent of ₹ 40,000. The fair rent of which is ₹ 4,58,000 p.a. and Municipal value of ₹ 3,58,000 p.a. and Standard Rent of ₹ 4,20,000 p.a. He had taken a loan of ₹ 25,00,000 @ 10% from one of

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his friends, residing in Country Y for this house. Municipal tax of ₹ 5,400 is paid by him in respect of this house during the previous year 2020-21.

Compute the income chargeable from house property of Mr. Roxx for the assessment year 2021-22.

13. Mr. Prakash furnishes the following information for the financial year 2020-21.

Particulars	₹
Loss from speculation business-X	85,000
Profit from speculation business-Y	45,000
Interest on borrowings in respect of self-occupied house property	3,18,000
Income from let out house property	1,20,000
Presumptive Income from trading and manufacturing business under section 44AD	1,00,000
Salary from XYZ (P) Ltd.	5,25,000
Interest on PPF deposit	65,000
Long term capital gain on sale of Vacant site	1,25,000
Short term capital loss on sale of Jewellery	65,000
Investment in tax saver deposit on 31-03-21	60,000
Brought forward loss of business of assessment year 2015-16	1,00,000
Donation to a charitable trust recognized under section 12AA and approved under section 80G (payment made via credit card)	60,000

Compute total income of Mr. Prakash for the assessment year 2021-22 also show the loss, eligible to be carried forward. Assume that he does not opt for section 115BAC.

14. Compute total income and tax liability thereon of Mr. Raghav for the A.Y. 2021-22 from the following details:

Mr. Raghav (aged, 61 years) working in a private company from last 10 years. His salary details for the financial year 2020-21 are:

(i)	Basic Salary	1,70,000 p.m.
(ii)	Dearness Allowance (forms part of retirement benefits)	80,000 p.m.
(iii)	Commission	32,000 p.m.
(iv)	Transport Allowance	5,000 p.m.
(v)	Medical Reimbursement	40,000

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Mr. Raghav resigned from the services on 30th November, 2020 after completing 10 years and 5 months of service. He was paid gratuity of ₹ 25 lakhs on his retirement. He is not covered under the Payment of Gratuity Act, 1972.

He started business of hiring of goods vehicle, purchased 4 small goods vehicle on 10th December, 2020 and 4 heavy vehicles having gross weight of 20 MTs each· on 1st January, 2021. He did not maintain books of accounts for the business of hiring of goods vehicle. Mr. Shivpal, his very close friend gifted him ₹ 2 lakhs to purchase the vehicles.

He was holding 30% equity shares in TSP (P) Ltd., an Indian company. The paid up share capital of company as on 31st March, 2020 was ₹ 20 lakh divided into 2 lakh shares of ₹ 10 each which were issued at a premium of ₹ 30 each. Company allotted shares to shareholders on 1st October, 2013.

He sold all these shares on 30th April, 2020 for ₹ 60 per share. Equity shares of TSP (P) Ltd. are listed on National Stock Exchange and Mr. Raghav has paid STT both at the time of acquisition and transfer of such shares. FMV on 31.1.2018 was ₹ 50 per share.

On 12.2.2021, interest of fixed deposits of ₹ 92,500 credited to his SBI Bank. On 30.4.2020, ₹ 5,500 and on 30.12.2020, ₹ 8,500 credited to interest on saving bank A/c with SBI Bank.

He deposited ₹ 1,10,000 in PPF A/c. He paid insurance premium of ₹ 20,000 on his life policy during the financial year 2020-21. The policy was taken in April 2011 and sum assured was ₹ 3,00,000. He also made payment of ₹ 25,000 towards L.I.C. pension fund and premium of ₹ 40,000 towards mediclaim policy for self and ₹ 20,000 for his wife. All the payment he made by A/c payee cheque.

There was no change in salary of Mr. Raghav from last two years. He does not opt to pay tax as per section 115BAC.

Cost inflation Index is:

Financial Year	Cost Inflation Index
2013-14	220
2020-21	301

15. Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.

    (i) Mr. Kunal received a sum of ₹ 10,20,000 on 28.02.2021 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.

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(ii) Indian Bank sanctioned and disbursed a loan of ₹ 12 crores to B Ltd. on 31-12-2020. B Ltd. paid a sum of ₹ 1,20,000 as service fee to Indian Bank for processing the loan application.

(iii) Mr. Agam, working in a private company, is on deputation for 5 months (from October, 2020 to February, 2021) at Mumbai where he pays a monthly house rent of ₹ 32,000 for those five months, totalling to ₹ 1,60,000. Rent is paid by him on the first day of the relevant month.

SUGGESTED ANSWERS

MCQ No.	Most Appropriate Answer
1.	(c)
2.	(b)
3.	(a)
4.	(b)
5.	(b)

MCQ No.	Most Appropriate Answer
6.	(c)
7.	(c)
8.	(a)
9.	(a)
10.	(c)

11. (a) Determination of residential status and computation of total income and tax payable of Mr. Dhruv

Under section 6(1), an individual, being a person of Indian origin and who comes on a visit to India during the previous year and his total income other than the income from foreign source exceeds ₹ 15,00,000, is said to be resident in India, if he stayed in India for a total period of 120 days or more during that previous year and for 365 days or more during the 4 years immediately preceding the relevant previous year.

However, in case, the total income other than the income from foreign source does not exceed ₹ 15,00,000, the said individual is said to be resident in India, only if he stayed in India for a total period of 182 days or more during that previous year.

Since in the present case, total income other than from foreign source, of Mr. Dhruv, a person of Indian origin does not exceed ₹ 15,00,000, he would be said to be resident in India, only if he stayed in India for 182 days or more during the previous year 2020-21 relevant to A.Y. 2021-22.

His stay in India during the previous year 2020-21 is as under:

P.Y. 2020-21

01.04.2020 to 12.08.2020	-	134 days
20.01.2021 to 18.02.2021	-	30 days
Total		**164 days**

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Since Mr. Dhruv has stayed in India during the previous year for less than 182 days, he is said to be non-resident. Accordingly, his total income and tax payable would be computed in the following manner:

Computation of total income and tax payable of Mr. Dhruv for the A.Y. 2021-22

Particulars	₹
Income from other sources	
Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x) if the aggregate value of such gifts exceeds ₹ 50,000**.**	
- ₹ 1,01,000 received from parents of wife would be exempt, since parents of wife fall within the definition of 'relatives' and gifts from a relative are not chargeable to tax.	Nil
- ₹ 11,000 received from married sister-in-law is exempt, since sister of wife falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil
- Gift received from close friends of his wife of ₹ 2,82,000 is taxable under section 56(2)(x) since the said sum exceeds ₹ 50,000.	2,82,000
Total Income	**2,82,000**
Tax on total income of ₹ 2,82,000 [5% of ₹ 32,000 in excess of ₹ 2,50,000, being the basic exemption limit]	1,600
Add: Health and Education cess@4%	64
Total tax payable	**1,664**
Total tax payable (rounded off)	**1,660**

(b) Determination of residential status and computation of total income and tax payable of Mr. Dhruv (if he has received cash gifts from non-relative for ₹ 16,00,000):

Where an individual, being a person of Indian origin comes on visit to India and he is having total income other than income from foreign sources exceeding ₹ 15 lakhs during the previous year, such individual is said to be resident in India, if he stays in India during the previous year for 120 days or more and for 365 days or more during the 4 years immediately preceding the relevant previous year. As per section 6(6), such individual whose stay in India is for 120 days or more but less than 182 days in the P.Y. 2020-21 would be resident but not ordinarily resident irrespective of his residential status or no. of days of stay in India in the immediately preceding PYs.

Mr. Dhruv, is a person of India origin who has come on a visit to India during the previous year. Since his total income other than income from foreign sources exceeds ₹ 15,00,000; and his stay in India is for 164 days during the P.Y. 2020-21 and for 400

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days during the 4 years immediately preceding the P.Y. 2020-21, he is resident but not ordinarily resident in India for the P.Y. 2020-21.

In such case, his total income and tax payable would be computed in the following manner:

Computation of total income and tax payable of Mr. Dhruv for the A.Y. 2021-22

Particulars	₹
Income from other sources	
Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x) if the aggregate value of such gifts exceeds ₹ 50,000**.**	
- ₹ 1,01,000 received from parents of wife would be exempt, since parents of wife fall within the definition of 'relatives' and gifts from a relative are not chargeable to tax.	Nil
- ₹ 11,000 received from married sister-in-law is exempt, since sister of wife falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil
- Gift received from close friends of his wife of ₹ 16,00,000 is taxable under section 56(2)(x) since the amount of cash gifts exceeds ₹ 50,000.	16,00,000
Total Income	**16,00,000**
Tax on total income of ₹ 16,00,000	2,17,500
Upto ₹ 2,50,000 Nil	
₹ 2,50,001 – ₹ 5,00,000 [₹ 2,50,000 @ 5%] 12,500	
₹ 5,00,001 – ₹ 7,50,000 [₹ 2,50,000 @ 10%] 25,000	
₹ 7,50,001 – ₹ 10,00,000 [₹ 2,50,000 @ 15%] 37,500	
₹ 10,00,001 – ₹ 12,50,000 [₹ 2,50,000 @ 20%] 50,000	
₹ 12,50,001 – ₹ 15,00,000 [₹ 2,50,000 @ 25%] 62,500	
₹ 15,00,001 – ₹ 16,00,000 [₹ 1,00,000 @ 30%] 30,000	
Add: Health and Education cess@4%	8,700
Total tax payable	**2,26,200**

Note – Since his tax payable as per normal provisions is ₹ 3,04,200 [₹ 2,92,500 (₹ 1,12,500 plus 30% on ₹ 6,00,000 income exceeding ₹ 10,00,000) plus ₹ 11,700, being health and education cess @4%], which is higher than the tax payable computed as per concessional tax rates available under section 115BAC, it is beneficial for him to opt for section 115BAC.

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12. Since Mr. Roxx, is a resident but not ordinarily resident in India, only the income in respect of properties situated in India would be taxable in his hands.

Thus, the rental income which accrues or arises in Country Y from the let-out property and annual value of self-occupied property would not be taxable in his hands. However, income arising from properties in India are taxable in the hands of Mr. Roxx.

Accordingly, the income from house property of Mr. Roxx for A.Y.2021-22 will be calculated as under:

	Particulars	₹	₹
1.	**Self-occupied house at Delhi**		
	Annual value		Nil
	Less: Deduction under section 24	Nil	
	Interest on borrowed capital **(See Note below)**		2,00,000
	Chargeable income from this house property		**(2,00,000)**
2.	**Let out house property at Bangalore**		
	Expected rent, being higher of ₹ 3,58,000 municipal value and fair rent of ₹ 4,58,000 but restricted to Standard rent of ₹ 4,20,000	4,20,000	
	Actual rent [40,000 x 12]	4,80,000	
	Gross Annual Value, being higher of expected rent and actual rent		4,80,000
	Less: Municipal taxes		5,400
	Net Annual Value		4,74,600
	Less: Deduction under section 24		
	- 30% of net annual value [30% x 4,74,600]	1,42,380	
	- Interest on borrowed capital (actual allowable as deduction without any ceiling limit)	2,50,000	3,92,380
			82,220
	Loss under the head "Income from house property" (₹ 2,00,000 - ₹ 82,220)		**(1,17,780)**

Note: Interest on borrowed capital

Particulars	₹
Interest for the current year [18,00,000 x 9.5%]	1,71,000
Add: 1/5th of pre-construction interest (₹ 2,85,000 x 1/5)	57,000

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1.8.2018 to 31.03.2019 – (₹ 18,00,000 x 9.5% x 8/12)	1,14,000	
1.4.2019 to 31.03.2020 – (₹ 18,00,000 x 9.5%)	1,71,000	
		2,28,000
Interest deduction allowable under section 24, restricted to		**2,00,000**

13. Computation of total income of Mr. Prakash for A.Y.2021-22

Particulars	₹	₹
Salary from XYZ (P) Ltd.	5,25,000	
Less: Standard Deduction u/s 16(ia)	50,000	
	4,75,000	
Less: Loss from house property of ₹ 20,000 [₹ 80,000 - ₹ 60,000, being the loss set-off against long-term capital gains]	20,000	4,55,000
Income from house property		
Income from let out house property	1,20,000	
Less: Loss from self-occupied house property to the extent of ₹ 2 lakhs, allowable as deduction u/s 24(b) in respect of interest on borrowings	2,00,000	
	(80,000)	
Less: Amount set-off against other heads of income	(80,000)	
Profits and gains from business or profession		
Profit from speculation business Y	45,000	
Less: Loss of ₹ 85,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(45,000)	
		Nil
Presumptive Income from trading and manufacturing business	1,00,000	
Less: Brought forward business loss of A.Y. 2015-16 set-off since the period of eight assessment years has not expired	(1,00,000)	Nil
Capital Gains		
Long term capital gain on sale of vacant site	1,25,000	
Less: Short term capital loss on sale of jewellery	65,000	
	60,000	

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Less: Loss from house property to be set-off to the extent of LTCG	60,000	Nil
(It is more beneficial for Mr. Prakash to first set-off the loss from house property against the long-term capital gains, since it is taxable @20%)		
Income from Other Sources		
Interest on PPF deposit	65,000	
Less: Exempt	65,000	Nil
Gross Total Income		**4,55,000**
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Investment in tax saver deposit on 31.3.2021	60,000	
Deduction under section 80G		
Donation to recognized and approved charitable trust [Donation of ₹ 60,000 to be first restricted to ₹ 39,500, being 10% of adjusted total income of ₹ 3,95,000 (₹ 4,55,000 – ₹ 60,000). Thereafter, deduction would be computed at 50% of ₹ 39,500.	19,750	
		79,750
Total Income		**3,75,250**

Losses to be carried forward to A.Y.2022-23	
Particulars	**₹**
Loss from speculation business X (₹ 85,000 - ₹ 45,000)	40,000
Loss from speculation business can be set-off only against profits of any other speculation business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from speculation business, if any, in that year.	

14. Computation of Total Income of Mr. Raghav for the A.Y.2021-22

Particulars	₹	₹
Salaries		
Basic Salary = 1,70,000 x 8	13,60,000	
Dearness Allowance = 80,000 x 8	6,40,000	
Commission = 32,000 x 8	2,56,000	

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Transport Allowance = 5,000 x 8		40,000	
Medical reimbursement [Fully taxable]		40,000	
Gratuity – Amount received	25,00,000		
Less: Least of the following exempt u/s 10(10)			
(i) Actual Gratuity received ₹ 25,00,000			
(ii) ½ month's salary for every year of completed service [½ x 2,50,000 (Basic salary plus DA) + x 10] = ₹ 12,50,000			
(iii) Notified limit of ₹ 20,00,000			
Least of the above is exempt	12,50,000		
		12,50,000	
Gross Salary		**35,86,000**	
Less: Standard deduction u/s 16(ia) [Actual salary or ₹ 50,000, whichever is less]		50,000	
Net Salary			35,36,000
Profits and gains of business or profession			
Income from business of hiring goods vehicle			
Other than heavy goods vehicles = 4 x (₹ 7,500 p.m.) x (4 months)		1,20,000	
Heavy goods vehicles = 4 x (20 MTs x ₹ 1,000 per MT) x (3 months)		2,40,000	
			3,60,000
Capital Gains			
On transfer of 60,000 shares (2,00,000 x 30%)			
Sales consideration [60,000 x ₹ 60 per share]		36,00,000	
Less: Cost of acquisition, higher of –		30,00,000	
- Actual cost [60,000 x ₹ 40 per share]	24,00,000		
- Lower of			
• FMV on 31.1.2018 [60,000 x 50]	30,00,000		
• Actual sales consideration [60,000 x 60]	36,00,000		
Long-term capital gains u/s 112A (since shares are held for a period of more than 12 months before transfer)			6,00,000

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Income from Other Sources		
Gift from friend taxable u/s 56(2)(x) since the same exceeds ₹ 50,000. It is fully taxable	2,00,000	
Interest on Saving A/c with SBI Bank	14,000	
Interest on Fixed deposits with SBI Bank	1,00,000	
[Since interest is credited after deduction of at source @ 7.5%, as the amount of interest exceeds ₹ 50,000, amount included in the total income need to be grossed up (₹ 92,500 x 100/92.5)]		3,14,000
Gross Total Income		**48,10,000**
Less: Deduction under Chapter VI-A		
Section 80C		
Deposits in PPF A/c	1,10,000	
Life Insurance premium [fully deductible, since, in respect of a policy taken before 1.4.2012, the actual premium paid (₹ 20,000) or 20% of the sum assured (₹ 3,00,000 x 20% = ₹ 60,000), whichever is lower, has to be deducted]	20,000	
	1,30,000	
Section 80CCC		
Payment to LIC Pension Fund	25,000	
	1,55,000	
Restricted to ₹ 1,50,000, being the maximum allowable deduction		1,50,000
Section 80D		
Medical insurance premium for self and spouse ₹ 60,000, allowable to the extent of ₹ 50,000, since Mr. Raghav is a senior citizen		50,000
Section 80TTB		
Deduction in respect of interest on fixed deposits and saving bank allowable as deduction under section 80TTB, since Mr. Raghav is a senior citizen, to the extent of ₹ 50,000		50,000
Total Income		**45,60,000**

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Computation of tax liability of Mr. Raghav for A.Y. 2021-22

Particulars	₹	₹
Tax on total income of ₹ 45,60,000		
Tax on long-term capital gains of ₹ 6,00,000 arising from transfer of listed shares @10% under section 112A after deducting ₹ 1 lakh.		50,000
Tax on other income of ₹ 39,60,000 [₹ 45,60,000 – ₹ 6,00,000 capital gains]		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 5,00,000 [i.e., ₹ 3,00,000@5%]	10,000	
₹ 5,00,001 – ₹ 10,00,000 [i.e., ₹ 5,00,000@20%]	1,00,000	
₹ 10,00,001 – ₹ 39,60,000 [i.e., ₹ 29,60,000@30%]	8,88,000	9,98,000
		10,48,000
Add: Health and Education cess@4%		41,920
Tax liability		**10,89,920**

15. TDS implications

(i) On pre-mature withdrawal from EPF

No tax is deductible under section 192A even though the employee, Mr. Kunal, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health. Hence, Rule 8 of Part A of the Fourth Schedule is applicable in this case.

(ii) On payment of service fee to bank

Even though service fee is included in the definition of "interest" under section 2(28A), no tax is deductible at source under section 194A, since the service fee is paid to a banking company, i.e., Indian Bank.

(iii) On payment of rent by a salaried individual

Mr. Agam, a salaried individual, is not liable to deduct tax at source @5% under section 194-IB on ₹ 1,60,000 (being rent for 5 months from October 2020 to February 2021) from the rent of ₹ 32,000 payable on 1st day of every month, since the monthly rent does not exceed ₹ 50,000.

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SECTION B: INDIRECT TAXES

QUESTIONS

(1) All questions should be answered on the basis of position of the GST law as amended by the provisions of the Finance Act, 2020 and the Finance (No. 2) Act, 2019, which have become effective up to 31st October, 2020, including significant notifications and circulars issued and other legislative amendments made, up to 31st October, 2020.

(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.

M/s Aditi & Co, a partnership firm registered under GST, is undertaking various Government projects.

The firm has let out on hire the following vehicles-

i. A motor vehicle to carry more than 15 passengers to a State Government Electricity Department

ii. An electric motor vehicle to carry more than 12 passengers to Local Municipal Corporation

iii. An electric motor vehicle to carry upto 12 passengers to State Transport Undertaking

The firm provided the following additional information for the month of October:

i. Works contract services were availed for construction of immovable property being plant and machinery, where value of GST component was ₹ 1,10,000.

ii. GST amounting to ₹ 70,000 was paid on account of demand of the Department due to fraud in returns filed.

iii. Goods valuing ₹ 10,00,000, (GST on the same ₹ 1,00,000) were received 180 days ago (invoice also issued on the date of receipt of supply) for which payment has been made till date to an extent of ₹ 4,00,000 towards value, ₹ 40,000 towards tax.

The firm made two independent outward supplies in which value of supply was understated in one case by ₹ 75,000 and overstated by ₹ 45,000 in the other case.

The firm received certain supply of goods from registered persons on which tax was payable under reverse charge basis.

All the amounts given above are exclusive of taxes, wherever applicable. All transactions referred to above are intra-State. All the conditions for availing ITC have been fulfilled subject to the information given above.

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From the information given above, choose the most appropriate answer for Q. 1 to Q. 5 given below:-

1. In respect of vehicles let out on hire by the firm, services that are exempt from GST are

   (i) Letting on hire a motor vehicle to State Electricity Department (>15 passengers)

   (ii) Letting on hire an electric vehicle to Local Municipality (> 12 passengers)

   (iii) Letting on hire an electric vehicle to State Transport Undertaking (<12 passengers)

   (a) (i)

   (b) (ii)

   (c) (i) and (iii)

   (d) (ii) and (iii)

2. Determine the amount of eligible ITC to be claimed by the firm for the month of October.

   (a) ₹ 70,000

   (b) ₹ 1,10,000

   (c) ₹ 1,80,000

   (d) Nil

3. Determine the amount of ITC to be added to the output tax liability.

   (a) ₹ 40,000

   (b) ₹ 60,000

   (c) ₹ 1,00,000

   (d) Nil

4. Which of the following is correct in respect of document to be issued by the firm for understatement and overstatement of invoice value?

   (i) Debit note is to be issued for ₹ 75,000.

   (ii) Credit note is to be issued for ₹ 75,000.

   (iii) Debit note is to be issued for ₹ 45,000.

   (iv) Credit note is to be issued for ₹ 45,000.

   (a) i & iii

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(b) ii & iii

(c) i & iv

(d) ii & iv

5. Which of the following statements is correct in respect of supply of goods received by the firm which are taxable under reverse charge?

(i) Firm shall issue a payment voucher at the time of making payment to supplier.

(ii) Firm shall issue invoice for supply of goods.

(iii) Firm shall issue receipt voucher at the time of making payment to supplier.

(iv) Firm is not required to issue any document in respect of such supply.

(a) i

(b) i & ii

(c) ii & iii

(d) iv

6. Sahil, a resident of Delhi, is having a residential property in Vasant Vihar, Delhi which has been given on rent to a family for ₹ 50 lakh per annum. Determine whether Sahil is liable to pay GST on such rent.

(a) Yes, as services by way of renting is taxable supply under GST.

(b) No, service by way of renting of residential property is exempt.

(c) No, service by way of renting of residential property does not constitute supply.

(d) Sahil, being individual, is not liable to pay GST.

7. Various taxes have been subsumed in GST to make one nation one tax one market for consumers. Out of the following, determine which taxes have been subsumed in GST.

(i) Basic customs duty levied under Customs Act, 1962

(ii) Taxes on lotteries

(iii) Environment tax

(a) (ii)

(b) (ii) and (iii)

(c) (iii)

(d) (i), (ii) and (iii)

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8. Goods as per section 2(52) of the CGST Act, 2017 includes:

   (i) Actionable claims

   (ii) Growing crops attached to the land agreed to be severed before supply.

   (iii) Money

   (iv) Securities

   (a) (i) and (iii)

   (b) (iii) and (iv)

   (c) (i) and (ii)

   (d) (ii) and (iii)

9. Mr. Z of Himachal Pradesh starts a new business and makes following supplies in the first month-

   (i) Intra-State supply of taxable goods amounting to ₹ 17 lakh

   (ii) Supply of exempted goods amounting to ₹ 1 lakh

   (iii) Inter-State supply of taxable goods amounting to ₹ 1 lakh

   Whether he is required to obtain registration?

   (a) Mr. Z is liable to obtain registration as the threshold limit of ₹ 10 lakh is crossed.

   (b) Mr. Z is not liable to obtain registration as he makes exempted supplies.

   (c) Mr. Z is liable to obtain registration as he makes the inter-State supply of goods.

   (d) Mr. Z is not liable to obtain registration as the threshold limit of ₹ 20 lakh is not crossed.

10. "Wedding Bells", a wedding photographer, has commenced providing pre-wedding shoot services in Jaipur from the beginning of current financial year 2020-2021. It has provided the following details of turnover for the various quarters till December, 2020 :-

S. No.	Quarter	Amount (₹ in lakh)
1	April,2020-June,2020	20
2	July,2020-September,2020	30
3	October,2020-December,2020	40

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You may assume the applicable tax rate as 18%. Wedding Bells wishes to pay tax at a lower rate and opts for the composition scheme. You are required to advise whether it can do so and calculate the amount of tax payable for each quarter?

11. Mr. Priyam, director of Sun Moon Company Private Limited, provided service to the company for remuneration of ₹ 1,25,000. Briefly answer whether GST is applicable in the below mentioned independent cases? If yes, who is liable to pay GST?

    (i) Mr. Priyam is an independent director of Sun Moon Company Private Limited and not an employee of the company.

    (ii) Mr. Priyam is an executive director, i.e. an employee of Sun Moon Company Private Limited. Out of total remuneration amounting to ₹ 1,25,000, ₹ 60,000 has been declared as salaries in the books of Sun Moon Company Private Limited and subjected to TDS under section 192 of the Income-Tax Act (IT Act). However, ₹ 65,000 has been declared separately other than salaries in the Sun Moon Company Private Limited's accounts and subjected to TDS under section 194J of the IT Act as professional services.

12. (a) Miss Kashi is a registered intra-State supplier of goods in Haryana. During the months of August and September, she was out of station on a religious pilgrimage with her family for 55 days. Thus, no business transaction was made during August. Miss Kashi is of the opinion that as there is no transaction, there is no need to file monthly return [GSTR-3B] for the month of August. However, her tax consultant has advised her to file nil GSTR-3B. Whether the advice given by tax consultant is correct? Explain.

    (b) Will your answer in (a) change, if Miss Kashi has placed an order for some purchases during August over her mobile phone, which has been received in her premises and she intends to take input tax credit on the same?

    (c) Assuming in (a) above, Miss Kashi does not have internet facility in her mobile and there is no facilitation centre notified by the Commissioner, whether no return is required to be filed in the absence of means to file return? Explain.

13. Bali Limited, a registered taxpayer, provides security services to registered persons from Mumbai office and Delhi office. The aggregate turnover of Mumbai office and Delhi office in the preceding financial year is ₹ 300 crore and ₹ 250 crore respectively. For the month of November in the current financial year, Bali Limited prepares duplicate invoices and does not issue e-invoice as it is of the view that it's aggregate turnover does not cross the threshold limit to make it liable for issuing e-invoices.

    Briefly explain whether the view taken by Bali Limited is correct in law? Also explain the advantages of e-invoicing, if any.

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SUGGESTED ANSWERS

1. (b)

2. (b)

3. (b)

4. (c)

5. (a)

6. (b)

7. (a)

8. (c)

9. (c)

10. Section 10(2A) of the CGST Act, 2017 provides the turnover limit of ₹ 50 lakh in the preceding financial year for becoming eligible for composition levy for services. Wedding Bells has started the supply of services in the current financial year (FY), thus, it's aggregate turnover in the preceding FY is Nil. Consequently, in the current FY, Wedding Bells is eligible for composition scheme for services. A registered person opting for composition levy for services shall pay tax @ 3% [Effective rate 6% (CGST+ SGST/UTGST)] of the turnover of supplies of goods and services in the State.

Further, Wedding Bells becomes eligible for the registration when the aggregate turnover exceeds ₹ 20 lakh (the threshold limit of obtaining registration). While registering under GST, Wedding Bells can opt for composition scheme for services.

The option of a registered person to avail composition scheme for services shall lapse with effect from the day on which his aggregate turnover during a financial year exceeds the threshold limit of ₹ 50 lakh.

However, for the purposes of determining the tax payable under composition scheme, the expression "turnover in State" shall not include the value of supplies from the first day of April of a FY up to the date when such person becomes liable for registration under this Act.

Thus, for determining the turnover of the State for payment of tax under composition scheme for services, turnover of April,2020 – June,2020 quarter [₹ 20 lakh] shall be excluded. On next ₹ 30 lakh [turnover of July,2020 – September, 2020 quarter], it shall pay tax @ 6% [3% CGST and 3% SGST].

For the purposes of computing aggregate turnover of a registered person for determining his eligibility to pay tax under this section, aggregate turnover includes

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value of supplies from the 1st April of a FY up to the date of his becoming liable for registration.

Thus, while computing aggregate turnover for determining Wedding Bells's eligibility to pay tax under composition scheme, value of supplies from the first day of April of a financial year up to the date when it becomes liable for registration under this Act (i.e. turnover of April,2020 – June,2020 quarter), are included.

By the end of July, 2020 – September, 2020 quarter, the aggregate turnover reaches ₹ 50 lakh. Consequently, the option to avail composition scheme for services shall lapse by the end of July, 2020 – September, 2020 quarter and thereafter, it is required to pay tax at the normal rate of 18%.

Considering the above provisions, the tax payable for each quarter is as under:-

S. No.	Quarter	GST rate [CGST + SGST]	Turnover (₹ in lakh)	GST payable (₹ in lakh)
1	April, 2020 – June, 2020	-	20	-
2	July, 2020 – September, 2020	6%	30	1.8
3	October, 2020 – December, 2020	18%	40	7.2

11. (i) As per Para I of Schedule III of the CGST Act, services by an employee to the employer in the course of or in relation to his employment are non-supplies, i.e. they are neither supply of goods nor supply of services. Services provided by the independent directors who are not employees of the said company to such company, in lieu of remuneration as the consideration for the said services, are clearly outside the scope of Schedule III of the CGST Act and are therefore taxable. Further, such remuneration paid to the directors is taxable in hands of the company, on reverse charge basis.

Thus, GST is applicable in this case and Sun Moon Company Private Limited is liable to pay GST.

(ii) The part of director's remuneration which is declared as salaries in the books of a company and subjected to TDS under section 192 of the Income-tax Act (IT Act), is not taxable being consideration for services by an employee to the employer in the course of or in relation to his employment in terms of Schedule III.

Further, the part of employee director's remuneration which is declared separately other than salaries in the company's accounts and subjected to TDS under section 194J of the IT Act as fees for professional or technical services are treated as consideration for providing services which are outside

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the scope of Schedule III and is therefore, taxable. The recipient of the said services i.e. the company, is liable to discharge the applicable GST on it on reverse charge basis.

In lieu of the above provisions, ₹ 60,000 declared as salaries in the books of Sun Moon Company Private Limited and subjected to TDS under section 192 of the Income-Tax Act (IT Act), is not taxable being consideration for services by an employee to the employer in the course of or in relation to his employment in terms of Schedule III.

Further, ₹ 65,000 declared separately other than salaries in the Sun Moon Company Private Limited's accounts and subjected to TDS under section 194J of the IT Act as professional services is treated as consideration for providing services which is outside the scope of Schedule III and is therefore, taxable. The recipient of the said services i.e. the Sun Moon Company Private Limited, is liable to discharge the applicable GST on it on reverse charge basis.

12. (a) The advice given by tax consultant is correct.

Under GST law, filing of GSTR-3B is mandatory for all normal and casual taxpayers, even if there is no business activity in any particular tax period. For such tax period(s), a Nil GSTR-3B is required to be filed.

Therefore, in the given case, even though Miss Kashi was out of station on a religious pilgrimage with her family for 55 days and thus, could not do any business transaction during the month of August, she is still required to file Nil GSTR-3B for that month.

(b) Nil GSTR-3B means that the return has nil or no entry in all its Tables**.** Since in the present case, Miss Kashi has received certain purchases, she cannot file Nil GSTR-3B, as the said purchases will need to be disclosed in the "Table for Eligible ITC" in GSTR-3B**.**

Thus, Miss Kashi is required to file monthly return, GSTR-3B for the month of August.

(c) GSTR-3B can be submitted electronically on the common portal, either directly or through a Facilitation Centre notified by the Commissioner. Further, a Nil GSTR-3B can be filed through an SMS using the registered mobile number of the taxpayer.

Thus, Miss Kashi is required to file Nil GSTR-3B for the month of August through an SMS using her registered mobile number even though there is no internet facility in her mobile and no Facilitation Centre notified by the Commissioner.

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13. The view taken by Bali Limited is not correct in law.

All notified registered businesses (except specified class of persons) with an aggregate turnover (based on PAN) in the preceding financial year greater than ₹ 500 crore are required to issue e-invoices.

The eligibility is based on aggregate annual turnover on the common PAN. Thus, the aggregate total turnover of Bali Limited is more than ₹ 500 crores (considering both the GSTINs) and is required to issue e-invoices.

Further, where e-invoicing is applicable, there is no need of issuing invoice copies in triplicate/duplicate.

E-invoice has many advantages for businesses, which have been given as under:-

(i) **Auto-reporting of invoices into GST return and auto-generation of e-way bill (wherever required).** Under e-invoicing, business has to report the B2B invoice data only once in the e-invoice form and the same is reported in multiple forms (GSTR-1, e-way bill etc.). E-way bill can be auto-generated using e-invoice data. GSTR-1 can also be auto-populated with the e-invoice data. It will become part of the business process of the taxpayer.

(ii) **Accuracy/Reconciliation.** Since same data is reported to tax department as well as to the buyer to prepare his inward supplies (purchase) register, transcription errors are reduced. On receipt of information through GST System, buyer can do reconciliation with his Purchase Order.

(iii) **Early payment.** E-invoicing facilitates standardisation and inter-operability leading to reduction of disputes among transacting parties and thus, improving payment cycles.

(iv) **Cost reduction.** E-invoicing helps in reducing processing costs and thus, leads to improvement of overall business efficiency.

(v) **Reduction of tax evasion.** Since a complete trail of B2B invoices is available with the Department, it will enable the system-level matching of input tax credit and output tax thereby reducing the tax evasion.

(vi) **Elimination of fake invoices.** E-invoicing eliminates the fake invoices. Claiming fictitious input tax credit (ITC) by raising fake invoices is also one of the biggest challenges currently faced by tax-authorities. The e-invoice system helps to curb the actions of unscrupulous taxpayers and reduce the number of fraud cases as the tax authorities have access to data in real-time.

(vii) **Paper Elimination.** E-invoicing helps in paper elimination and thereby it is eco-friendly.

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