

MOCK TEST PAPER 1
INTERMEDIATE (IPC) COURSE
PAPER – 4: TAXATION
SECTION – A: INCOME TAX
SOLUTIONS

Division A – Multiple Choice Questions

MCQ No.	Sub-part	Most Appropriate Answer	MCQ No.	Most Appropriate Answer
1.	(i)	(a)	2.	(d)
	(ii)	(c)	3.	(c)
	(iii)	(a)	4.	(d)
	(iv)	(c)		
	(v)	(b)		

Division B – Descriptive Questions

1. **Computation of total income of Mr. Rakesh for A.Y. 2021-22**

	Particulars	₹	₹	₹
I	Income from house property			
	Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		2,28,000	
	Less: Municipal taxes paid by him in the P.Y. 2020-21 pertaining to let out portion [₹ 60,000/2]		30,000	
	Net Annual Value (NAV)		1,98,000	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 1,98,000		59,400	
			1,38,600	
	Self-occupied portion [Ground Floor]			
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			1,38,600
II	Profits and gains of business or profession			
	Income from SEZ unit			25,00,000
III	Capital Gains			
	Long-term capital gains on sale of land (since held for more than 24 months)			
	Full Value of Consideration [Higher of stamp duty value of ₹ 17 lakhs and Actual consideration of ₹ 13 lakhs, since stamp duty value exceeds actual consideration by more than 10%]		17,00,000	

	Less: Indexed Cost of acquisition [$\text{₹ } 5,00,000 \times 301/100$]		15,05,000	1,95,000
	Cost of acquisition			
Higher of -	- Actual cost $\text{₹ } 1.75$ lakhs + $\text{₹ } 0.20$ lakhs = $\text{₹ } 1.95$ lakhs and			
	- Fair Market Value (FMV) as on 1.4.2001 = $\text{₹ } 5$ lakhs			
IV	Income from Other Sources			
	Royalty from artistic book		2,88,000	
	Less: Expenses incurred for earning royalty		40,000	
			2,48,000	
	Interest on savings bank deposits		40,000	
				2,88,000
	Gross Total Income			31,21,600
	Less: Deduction u/s 10AA [Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA @100% of export profits, since P.Y.2020-21, being the 3rd year of operations] [Profits of the SEZ x Export Turnover/Total Turnover] x 100% [$\text{₹ } 25$ lakhs x $\text{₹ } 140$ lakhs/ $\text{₹ } 200$ lakhs x 100%]			17,50,000
	Less: Deduction under Chapter VI-A			
	Deduction under section 80C			
	Tuition fee paid for maximum of two children is allowable ($\text{₹ } 14,000 \times 2$)	28,000		
	Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Rakesh	39,000		
	Insurance premium paid on life insurance policy of father not allowable, even though father is dependent on Mr. Rakesh	-	67,000	
	Deduction under section 80QQB		1,90,000	
	Royalty [$\text{₹ } 2,88,000 \times 15/18 = \text{₹ } 2,40,000$, restricted to amount brought into India in convertible foreign exchange $\text{₹ } 2,30,000$ minus $\text{₹ } 40,000$ expenses already allowed as deduction while computing royalty income]			
	Deduction under section 80TTA		10,000	
	Interest on savings bank account, restricted to $\text{₹ } 10,000$			
				2,67,000
				11,04,600

Computation of tax liability of Mr. Rakesh for A.Y.2021-22 under the normal provisions of the Act

Particulars	₹	₹
Tax on total income of ₹ 11,04,600		
Tax on LTCG of ₹ 1,95,000@20%		39,000
Tax on remaining total income of 9,09,600		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 9,09,600[@20% of ₹ 4,09,600]	81,920	94,420
		1,33,420
Add: Health and education cess@4%		5,337
Total tax liability		1,38,757
Tax liability (rounded off)		1,38,760

Computation of tax liability of Mr. Rakesh as per section 115BAC for A.Y.2021-22

Particulars	₹
Gross total Income as per regular provisions of the Act	31,21,600
Less: Deduction u/s 10AA/ Deduction under Chapter VI-A [No deduction under section 10AA or under Chapter VI-A is allowed]	-
Total Income as per section 115BAC	31,21,600
Tax on total income of ₹ 31,21,600	
Tax on LTCG of ₹ 1,95,000@20%	39,000
Tax on remaining total income of 29,26,600	
Upto ₹ 2,50,000	Nil
₹ 2,50,001 – ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500
₹ 5,00,001 – ₹ 7,50,000[@10% of ₹ 2.50 lakh]	25,000
₹ 7,50,001 – ₹ 10,00,000[@15% of ₹ 2.50 lakh]	37,500
₹ 10,00,001 – ₹ 12,50,000[@20% of ₹ 2.50 lakh]	50,000
₹ 12,50,001 – ₹ 15,00,000[@25% of ₹ 2.50 lakh]	62,500
₹ 15,00,001 – ₹ 29,26,600[@30% of ₹ 14,26,600]	4,27,980
	6,15,480
Add: Health and education cess@4%	26,179
Total tax liability	6,80,659
Tax liability (rounded off)	6,80,660
Since tax liability as per section 115BAC is higher than the tax liability under normal provisions of the Act, it is beneficial for Mr. Rakesh not to exercise option under section 115BAC.	

2. Under section 6(1), 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 an 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.

Therefore, the residential status of Mrs. Jasmin, an Australian, for A.Y.2021-22 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2021-22 i.e. P.Y.2020-21 and in the preceding four assessment years.

Her stay in India during the previous year 2020-21 and in the preceding four years are as under:

P.Y. 2020-21

01.04.2020 to 10.08.2020	-	132 days
23.02.2021 to 31.03.2021	-	<u>37 days</u>
Total		<u>169 days</u>

Four preceding previous years

P.Y.2019-20 [1.4.2019 to 31.3.2020]	-	14 days
P.Y.2018-19 [1.4.2018 to 31.3.2019]	-	Nil
P.Y.2017-18 [1.4.2017 to 31.3.2018]	-	Nil
P.Y.2016-17 [1.4.2016 to 31.3.2017]	-	<u>Nil</u>
Total		<u>14 days</u>

The total stay of Mrs. Jasmin during the previous year in India was less than 182 days and during the four years preceding this year was for 14 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2021-22.

Computation of gross total income of Mrs. Jasmin for the A.Y. 2021-22

Particulars	₹	₹
Income from house property		
Flat located in Mumbai let-out from 01.05.2020 to 31.03.2021 @ ₹ 28,000/- p.m.		
Gross Annual Value [28,000 x 11] ¹	3,08,000	
Less: Municipal taxes	<u>Nil</u>	
Net Annual Value (NAV)	3,08,000	
Less: Deduction under section 24		
30% of NAV	92,400	
Interest on loan [fully allowable as deduction, since property is let-out]	<u>2,15,500</u>	100
Income from other sources		
- Gold chain worth ₹ 1,50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of relatives and gifts from a relative are not chargeable to tax.	Nil	
- Car worth ₹ 6,25,000 received from married sister of her husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax. Moreover, car is not included in the definition of property.	Nil	

¹ Actual rent received has been taken as the gross annual the value in absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.

- Gift received from friends of her husband aggregating to ₹ 1,72,000 is taxable under section 56(2)(x) since the amount of cash gifts of ₹ 1,72,000 exceeds ₹ 50,000.	<u>1,72,000</u>	<u>1,72,000</u>
Gross Total income		<u>1,72,100</u>

3. **Computation of income under the head “Salaries” of Mr. Raja for the A.Y.2021-22**

Particulars	₹	₹
Basic Salary = ₹ 25,000 x 9 months		2,25,000
House Rent Allowance = ₹ 6,000 x 9 months	54,000	
Less: Least of the following exempt under section 10(13A)	36,000	18,000
(i) House rent allowance actually received = ₹ 6,000 x 9 = ₹ 54,000		
(ii) Rent paid (-) 10% of salary for the relevant period [₹ 58,500 (i.e., ₹ 6,500 x 9) (-) ₹ 22,500 (10% of salary i.e., 10% of ₹ 2,25,000 (Basic Salary))] = ₹ 36,000		
(iii) 50% of salary for the relevant period [50% of ₹ 2,25,000 (Basic salary)] ₹ 1,12,500		
Gratuity	3,50,000	
Less: Least of the following exempt under section 10(10)(ii)	3,50,000	Nil
(i) Actual Gratuity received ₹ 3,50,000		
(ii) 15 days salary for every year of completed service [15/26 x ₹ 25,000 x 26] = ₹ 3,75,000		
(iii) Notified limit = ₹ 20,00,000		
Leave encashment	3,15,000	
Less: Least of the following exempt under section 10(10AA)	2,50,000	65,000
(i) ₹ 3,00,000		
(ii) Leave salary actually received ₹ 3,15,000		
(iii) ₹ 2,50,000, being 10 months' salary x ₹ 25,000		
(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) for every year of actual service rendered for the employer from whose service he has retired 375/30 x ₹ 25,000 = ₹ 3,12,500 [Leave Due = Leave allowed – Leave taken] = 750 (30 days per year x 25 years) – 375 days (15 days x 25) = 375 days]		
Uncommuted Pension received [₹ 5,000 x 1) + (₹ 5,000 x 2 x 40%)		9,000
Commuted Pension received	3,00,000	
Less: Exempt under section 10(10A) 1/3 x ₹ 3,00,000/60% x 100%)	1,66,667	1,33,333
Gift Voucher [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt]		Exempt

Mobile Phone received as gift from colleagues (Neither taxable under the head "Salaries" nor "Income from other sources", since taxability provisions under section 56(2)(x) are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of "property" thereunder)		Nil
Gross Salary		4,50,333
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		50,000
Net Salary		4,00,333

4. **Computation of total income of Mr. Mayank for A.Y.2021-22**

Particulars	₹	₹
Salaries		4,70,000
Income from house property		
Loss from self-occupied house property	(2,00,000)	
Loss from let out house property	(60,000)	
	(2,60,000)	
Less: Loss of ₹ 2,00,000 set off against capital gain. Balance loss of ₹ 60,000 to be carried forward to A.Y. 2022-23 for set-off against income from house property		
Profits and gains from business or profession		
Profit from speculation business Y	40,000	
Less: Loss of ₹ 80,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(40,000)	
Loss of ₹ 40,000 from speculation business X to be carried forward to A.Y. 2022-23 for set-off against profits from speculation business		
Income from trading and manufacturing business @8%	3,50,000	
Less: Brought forward business loss of A.Y. 2015-16 set-off since a period of eight assessment years has not expired.	(3,50,000)	Nil
Balance loss of ₹ 2,00,000 to be carried forward to A.Y. 2022-23		
Capital Gains		
Enhanced compensation received from government for compulsory acquisition [Taxable in P.Y. 2020-21 since enhanced compensation is taxable on receipt basis]	3,00,000	
Long term capital gain on sale of vacant site	2,10,000	
Less: Short term capital loss on sale of jewellery	(1,50,000)	
	3,60,000	
Less: Loss from house property can be set-off to the extent of ₹ 2,00,000 as per section 71(3A) [since long-term capital gains would be chargeable to tax @20%, it would be beneficial to set-off the loss from house property against LTCG].	(2,00,000)	1,60,000
Income from Other Sources		
Interest on PPF deposit	95,000	
Less: Exempt under section 10(11)	(95,000)	Nil

Gross Total Income		6,30,000
<i>Less: Deduction under Chapter VI-A</i>		
Deduction under section 80G		
Donation to recognized and approved charitable trust [Donation of ₹ 1,10,000 to be first restricted to ₹ 47,000, being 10% of adjusted total income of ₹ 4,70,000 i.e., [₹ 6,30,000 – ₹ 1,60,000]. Thereafter, deduction would be computed at 50% of ₹ 47,000.	23,500	23,500
Total Income		6,06,500

5. (a) **TDS implications**

(i) **On payments made to contractor**

Since Vikas is a salaried person and does not have business or profession income, TDS u/s 194C is not attracted in his case. In any case, the contractor is engaged for reconstruction of residential house, hence, the amount paid to him is exclusively for personal purposes of Mr. Vikas. Consequently, section 194C would not be attracted.

Tax is deductible @3.75% under section 194M, since payments to Mr. Naveen, a contractor, for reconstruction of his residential house exceeds ₹ 50 lakhs in aggregate during the F.Y.2020-21.

Amount of tax to be deducted = 3.75% of ₹ 60 lakhs = ₹ 2,25,000

(ii) **Payment to transporter who has not furnished PAN**

Under section 194C, no tax is deductible in respect of payments to a transporter, who owns ten or less goods carriages at any time during the year and furnishes a declaration to that effect along with his PAN to the person paying or crediting such sum.

However, in this case, this exemption from TDS would not be available, since Gaurav has not furnished his PAN to ABC Ltd. As per section 206AA, due to non-furnishing of PAN, tax would be deductible at a higher rate of 20% and not @1% provided under section 194C.

Amount of tax to be deducted = ₹ 2,50,000 x 20% = ₹ 50,000.

(b) (i) **True** : Section 139A(2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.

(ii) **False**: Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

SECTION B - INDIRECT TAXES (50 MARKS)

SUGGESTED ANSWERS

Division A - Multiple Choice Questions

Question No.	Answer
1.1	(a) (i) and (iv)
1.2	(c) ₹ 60,000
1.3	(d) 4 th September
1.4	(b) 20 th October of the next year
1.5	(c) (ii) & (iv)
2.	(c) Grand-parents are considered as related persons to their grand-son/grand-daughter only if they are wholly dependent on their grand-son/grand-daughter
3.	(d) (i), (ii) and (iii)
4.	(d) Mr. X has to compulsorily get registered under GST irrespective of the threshold limit.

Division B - Descriptive Questions

1. **Computation of GST payable on outward supplies**

S. No.	Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)	Total (₹)
(i)	Intra-State supply of goods for ₹ 8,00,000	72,000	72,000		1,44,000
(ii)	Inter-State supply of goods for ₹ 3,00,000			54,000	54,000
	Total GST payable				1,98,000

Computation of total ITC

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Opening ITC	57,000	Nil	70,000
Add: ITC on Intra-State purchases of goods valuing ₹ 2,00,000	18,000	18,000	Nil
Add: ITC on Inter-State purchases of goods valuing ₹ 50,000	Nil	Nil	9,000
Total ITC	75,000	18,000	79,000

Computation of minimum GST payable from electronic cash ledger

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)	Total (₹)
GST payable	72,000	72,000	54,000	1,98,000
Less: ITC [First ITC of IGST should be utilized in full - first against IGST liability and then against CGST and SGST liabilities in a manner to minimize cash outflow]	(Nil) IGST	(25,000) IGST	(54,000) IGST	79,000
	(72,000) CGST	(18,000) SGST		90,000
Minimum GST payable in cash	Nil	29,000	Nil	29,000

Note: 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, ITC of IGST has been used to pay SGST (after paying IGST liability) to minimize cash outflow.

2. (a) **Computation of value of taxable supply made by M/s. Flow Pro to BP Ltd.**

Particulars	Amount (₹)
Price of the machine [Since the subsidy is received from the State Government, the same is not includible in the value of supply in terms of section 15(2)(e)]	25,000
Third party inspection charges [Any amount that the supplier is liable to pay in relation to the supply but has been incurred by the recipient and not included in the price actually paid or payable for the goods, is includible in the value of supply in terms of section 15(2)(b)]	5,000
Freight charges for delivery of the machine [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.]	2,000
Total	32,000
Less: Discount @ 2% on ₹ 25,000 being price charged to BP Ltd. [Discount given before or at the time of supply if duly recorded in the invoice is deductible from the value of supply in terms of section 15(3)(a)]	<u>500</u>
Value of taxable supply	31,500

(b) No. The option to pay tax under composition scheme lapses from the day on which the aggregate turnover of the person availing composition scheme for goods during the financial year exceeds the specified limit (₹ 1.5 crore). Once he crosses the threshold, he is required to file an intimation for withdrawal from the scheme in prescribed form within 7 days of the occurrence of such event.

Every person who has furnished such an intimation, may electronically furnish at the common portal, a statement in prescribed form containing details of the stock of inputs and inputs contained in semi-finished or finished goods held in stock by him on the date on which the option is withdrawn, within a period of 30 days from the date from which the option is withdrawn.

3. (a) (i) Section 22 of the CGST Act, 2017 stipulates that every supplier becomes liable to registration if his turnover exceeds the applicable threshold limit in a financial year. However, as per section 24, a person making taxable supply of goods/services or both on behalf of other taxable persons whether as an agent or not is liable to be compulsorily registered even if its aggregate turnover does not exceed the applicable threshold limit during the financial year.

(ii) As per section 23 of the CGST Act, 2017, an agriculturist who is only engaged in supply of produce out of cultivation of land is not required to obtain registration even if his turnover exceeded the applicable threshold limit for registration.

(b) Section 49(3) of the CGST Act, 2017 provides that the amount available in the electronic cash ledger may be used for making any payment towards tax, interest, penalty, fees or any other amount payable under the provisions of this Act or the rules made there under in prescribed manner.

Further, section 49(4) provides that the amount available in the electronic credit ledger may be used for making any payment towards output tax under this Act or under the Integrated Goods and Services Tax Act in prescribed manner.

Accordingly, as per the combined reading of the above provisions, late fees shall be paid only through electronic cash ledger and not possible through electronic credit ledger. Thus, contention of the accountant of M/s ABC & Co., is not correct and the above amount shown on the common portal has to be deposited in Electronic Cash Ledger under appropriate minor head, through any of the specified modes.

4. (a) (i) Tax on services supplied by a recovery agent to, *inter alia*, a non- banking financial company (NBFC) is payable under reverse charge by such non-banking financial company.
Therefore, in the given case, person liable to pay GST is the NBFC - Newton Credits Ltd.
- (ii) As per section 13(3) of the CGST Act, 2017, the time of supply of service on which GST is payable under reverse charge is earlier of the following:-
- Date of payment as entered in the books of account of the recipient (18th April) or the date on which the payment is debited in his bank account (20th April), whichever is earlier;
 - Date immediately following 60 days since issue of invoice by the supplier, i.e. 9th April.
- Thus, time of supply of service is 9th April.
- (b) (1) The debit/credit note shall be issued by the registered person who has supplied the goods and/or services, i.e. Kartik & Co.
- (2) Yes, debit/credit note need to be issued in each of the circumstances as under:
- (i) A credit note is required to be issued as the taxable value in invoice no. 1 exceeds the actual taxable value.
 - (ii) A debit note is required to be issued as the tax charged in the invoice no. 4 is less than the actual tax payable.
 - (iii) A debit note is required to be issued as the value of supply charged in the invoice no. 8 is less than the actual value.
- (3) The details of the credit note cannot be declared later than the return for the month of September following the end of the financial year in which such supply was made or the date of furnishing of the relevant annual return, whichever is earlier.
5. (a) Seventh Schedule to Article 246 of the Constitution contains three lists which enumerate the matters under which the Union and the State Governments have the authority to make laws.
- (i) List -I (UNION LIST): It contains the matters in respect of which the Parliament (Central Government) has the exclusive right to make laws.
 - (ii) List -II (STATE LIST): It contains the matters in respect of which the State Government has the exclusive right to make laws.
 - (iii) List -II (CONCURRENT LIST): It contains the matters in respect of which both the Central & State Governments have power to make laws.
- (b) Registered persons (other than supplier of online information and database access or retrieval services (OIDAR) located in non-taxable territory and providing such services to a non-taxable online recipient), having **an aggregate turnover up to ₹ 5 crore** in the preceding financial year, and who have opted to furnish quarterly return under QRMP scheme are eligible for QRMP scheme as the class of persons who shall **furnish a return for every quarter** from January, 2021 onwards, and **pay the tax due every month**.

Thus, the taxpayers whose aggregate turnover is up to ₹ 5 crore in the preceding financial year are eligible for QRMP scheme. For computing aggregate turnover, details furnished in returns for tax periods in the preceding financial year shall be taken into account.