IPCC
GROUP-I PAPER-4
TAXATION

Roll No. .....

NOV 2010

Total No. of Questions – **7**

Total No. of Printed Pages – **11**

Time Allowed – **3** Hours

Maximum Marks – **100**

KPM

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 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 by the candidates.

Marks

1. (a) Mr. Soohan submits the following details of his income for the assessment year 2010-11. **5**

Income from salary	3,00,000.00
Loss from let out house property	40,000.00
Income from sugar business	50,000.00
Loss from iron ore business b/f (discontinued in 2003 – 04)	1,20,000.00
Short term capital loss	60,000.00
Long term capital gain	40,000.00
Dividend	5,000.00
Income received from lottery winning (Gross)	50,000.00
Winning in card games	6,000.00
Agricultural income	20,000.00
Long term capital gain from shares (STT paid)	10,000.00
Short term capital loss under section 111	10,000.00
Bank interest	5,000.00

Calculate gross total income and losses to be carried forward.

Marks

(b) Mr. A is a proprietor of Akash Enterprises having 2 units. He transferred on 1.4.2009 his unit 1 by way of slump sale for a total consideration of ₹ 25 Lacs. The expenses incurred for this transfer were ₹ 28,000/-. His Balance Sheet as on 31.3.2009 is as under : 5

Liabilities	Total ₹	Assets	Unit 1 ₹	Unit 2 ₹	Total ₹
Own Capital	15,00,000	Building	12,00,000	2,00,000	14,00,000
Revaluation Reserve (for building of unit 1)	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
		Debtors	1,00,000	40,000	1,40,000
Bank loan (70% for unit 1)	2,00,000	Other assets	1,50,000	60,000	2,10,000
Trade creditors (25% for unit 1)	1,50,000				
TOTAL	**21,50,000**	**TOTAL**	**17,50,000**	**4,00,000**	**21,50,000**

Other information :

(i) Revaluation reserve is created by revising upward the value of the building of unit 1.

(ii) No individual value of any asset is considered in the transfer deed.

(iii) Other assets of unit 1 include patents acquired on 1.7.2007 for ₹ 50,000/- on which no depreciation has been charged.

Compute the capital gain for the assessment year 2010-11.

Marks

(c) Smart & Express Co., is providing taxable information technology software services. The firm furnishes the following information relating to the services rendered, bills raised, amount received pertaining to this service, for the financial year ended on 31st March, 2010 as under : **5**

		₹
(i)	Amount received being 10% of the assignment fees on 31st March, 2010 for the upgradation and enhancement of software services to be rendered during the financial year 2010-11.	6,00,000
(ii)	Services provided to UNICEF, an International Organisation in Gandhinagar, for analysis, design and programming of latest information technology software.	5,00,000
(iii)	Services billed to clients (In one of the bill amounting to ₹ 3,00,000 service tax was not charged due to conflicting nature and in another bill the firm failed to recover the service tax from the client, which was charged separately, due to insolvency of the client, the bill details are as under :	3,00,00,000

	₹
Being the charges for right to use IT software	8,00,000
Service tax @ 10%	80,000
Education cess @ 2%	1,600
Secondary & Higher education cess @ 1%	800
	8,82,400

(iv)	Amount received for services rendered during current financial year (excluding payment for 2 bills in item (iii) above for which payment received during current financial year)	1,04,78,500

Service tax and education cess have been charged separately in all the bills except wherever mentioned when it is not so charged separately.

Compute the value of total taxable services and service tax payable thereon for the year ended 31-3-2010, assigning reason in brief to the treatment of all items.

Marks

(d) Mr. Rajesh is a registered dealer and gives the following information. You are required to compute the net tax liability and total sales value under Value Added Tax : 5

Rajesh sells his products to dealers in his State and in other States.

The profit margin is 15% of cost of production and VAT rate is 12.5 % of sales.

(i) Intra State purchases of raw material ₹ 2,50,000/- (excluding VAT @ 4%)

(ii) Purchases of raw material from an unregistered dealer ₹ 80,000/- (including VAT @ 12.5%)

(iii) High seas purchases of raw material are ₹ 1,85,000/- (excluding custom duty @ 10% of ₹ 18,500)

(iv) Purchases of raw materials from other States (excluding CST @ 2%) ₹ 50,000/-

(v) Transportation charges, wages and other manufacturing expenses excluding tax ₹ 1,45,000/-

(vi) Interest paid on bank loan ₹ 70,000/-.

2. (a) (i) Which income of Sikkimese individual is exempted from tax under section 10 (26AAA) ? 4

(ii) How will you calculate the period of holding in case of the following assets ? 4

(1) Shares held in a company in liquidation

(2) Bonus shares

(3) Flat in a co-operative society

(4) Transfer of a security by a depository (i.e., demat account)

Marks

(b) How can an assessee adjust the excess payment of service tax against his liability of service tax for subsequent periods ? What is the basic condition for it ? 4

(c) What record should be maintained under VAT system by a registered dealer ? 4

3. (a) Dr. Shuba is medical practitioner. Her age is 64 as on 1 Jan 2010. The receipts and payments account of 2009-10 of her is as under : 8

To		By	
Balance B/f :	10,000	Purchase of commercial vehicle before 30 Sep. 2009.	4,00,000
Receipts from sale of Medicine	2,50,000	Drawing	2,50,000
Consultation fee	50,000	Deposit in bank for 5 years	1,50,000
Visiting fee	2,00,000	Surgical instrument purchased before 30 Sep. 2009	50,000
Lecturers	5,000	Instalment of loan paid (including interest ₹ 22,333)	1,21,000
Family pension	2,80,000		
Saving bank interest	1,000	Medical insurance premium	32,000
Loan from bank	3,00,000	Instalment of housing loan (Principal component ₹ 48,000)	1,08,000
Share from HUF	50,000		
Agriculture income	1,00,000	Advance tax paid	20,000
Income from lottery (net after deduction of TDS @ 30%)	35,000	Purchase of medicine	47,000
		Payment for medical journal	5,000
		Vehicle expenses	50,000
		Balance C/f :	48,000
Total	**12,81,000**	**Total**	**12,81,000**

Mark

Other relevant information is as under :

(i) She resides in her own house which was constructed in 1998 with a loan from LIC Housing of ₹ 10,00,000 out of which 6,00,000 was still due. She got it refinanced from SBI on 01.04.09 at the rate of 10%. One fourth portion of the house is used for clinic purposes.

(ii) She invested in term deposit ₹ 1,50,000 in Bank of Baroda on 01.07.09 for a period of 5 years in the name of her minor daughter at 9% interest p.a.

(iii) She purchased a commercial vehicle on 1 July 2009 at ₹ 4,00,000. A loan of ₹ 3,00,000 was taken to buy the van at 8% interest. One fourth use of vehicle is estimated to be personal.

(iv) She paid medical insurance premium for herself of ₹ 16,000 and for mother ₹ 16,000. Her mother is dependent on her.

(v) She got her share from HUF 's income of ₹ 50,000.

(b) Write a note in brief on provisional payment of service tax. 4

(c) State the Variants of VAT. Present them in schematic diagram and explain each one briefly. 4

4. (a) (i) Explain the consequences of not deducting tax and paying to Govt. account under section 201 of the Income Tax Act, 1961. 4

(ii) Can a political party claim exemption of its income under Section 13A of the Income tax Act, 1961 ? 4

(b) How will a taxable service be valued when the consideration thereof is not wholly or partly in terms of money ? 4

Marks

(c) State with reasons in brief whether the following statements are correct or incorrect with reference to the provision of Value Added Tax. 2×2 =4

(i) It is permitted to issue 'tax invoice' inclusive of VAT i.e. aggregate of sales price & VAT.

(ii) A registered dealer is compulsorily required to get its books of accounts audited under VAT Laws of different states irrespective of limit of turnover.

5. (a) From the following details find out the salary chargeable to tax for the assessment year 2010-11. 8

Mr. X is a regular employee of Rama & Co. in Gurgaon. He was appointed on 01.01.09 in the scale of 20000-1000-30000. He is paid 10% D.A. & Bonus equivalent to one month pay. He contributes 15% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount.

He is provided free housing facility which has been taken on rent by the company at ₹ 10,000 per month. He is also provided with following facilities :

(i) Facility of laptop costing ₹ 50,000.

(ii) Company reimbursed the medical treatment bill of his brother of ₹ 25,000, who is dependent on him.

(iii) The monthly salary of ₹ 1,000 of a house keeper is reimbursed by the company.

(iv) A gift voucher of ₹ 10,000 on the occasion of his marriage anniversary.

(v) Conveyance allowance of ₹ 1,000 per month is given by the company towards actual reimbursement.

Marks

(vi) He is provided personal accident policy for which premium of ₹ 5,000 is paid by the company.

(vii) He is getting telephone allowance @ ₹ 500 per month.

(viii) Company pays medical insurance premium of his family of ₹ 10,000.

(b) What do you mean by e-filing of returns ? Is there any facility of e-filing of service tax returns ? If yes, then which of the services are eligible for this facility ? 4

(c) What are the conditions to be fulfilled by the dealer accepting the composition scheme under the Value Added Tax ? 4

6. (a) Sai Ltd. has a block of assets carrying 15% rate of depreciation, whose written down value on 01.04.2009 was ₹ 40 lacs. It purchased another asset of the same block on 01.11.2009 for ₹ 14.40 lacs and put to use on the same day. Sai Ltd. was amalgamated with Shirdi Ltd. with effect from 01.01.2010. 8

You are required to compute the depreciation allowable to Sai Ltd. & Shirdi Ltd. for the previous year ended on 31.03.2010 assuming the assets transferred to Shirdi *Ltd. at ₹ 60 lacs.*

(b) State with reasons in brief whether the following statements are correct or incorrect with reference to the provisions of Service Tax. 2×2 =4

(i) The scope of taxable service shall include any service provided or to be provided to business entity, by any other business entity, in relation to advice, consultancy or assistance in any branch of law including service provided by way of appearance before any court, tribunal or authority.

Marks

(ii) Service tax provisions are not applicable in Jammu and Kashmir because State Government concurrence was not obtained in respect of Finance Act, 1944.

(c) Mention the purchases which are not eligible for input tax credit (any **eight** items) under Value Added Tax. 4

7. (a) Answer any **two** sub-parts out of **three** sub-parts of the question. 2×4 =8

(i) Mr. Shah, an Accounts Manager, has retired from JK Ltd. on 15.1.2010 after rendering services for 30 years 7 months. His salary is ₹ 25,000/- p.m. upto 30.9.2009 and ₹ 27,000/- thereafter. He also gets ₹ 2,000/- p.m. as dearness allowance (55% of it is a part of salary for computing retirement benefits). He is not covered by the Payments of Gratuity Act, 1972. He has received ₹ 8 Lacs as gratuity from the employer company.

(ii) State under which heads the following incomes are taxable :

(i) Rental income in case of dealer in property

(ii) Dividend on shares in case of a dealer in shares

(iii) Salary by a partner from his partnership firm

(iv) Rental income of machinery

(v) Winnings from lotteries by a person having the same as business activity

(vi) Salaries payable to a Member of Parliament

(vii) Receipts without consideration

(viii) In case of retirement, interest on employee's contribution if provident fund is unrecognized.

Marks

(iii) Explain briefly the applicability of Section 22 for chargeability of income tax for :

(i) House property situated in foreign country and

(ii) House property with disputed ownership.

(b) Shashwat Hotels Pvt. Ltd has given the following information for F.Y. 2009-10. You are required to compute the taxable services under Service Tax Act and the tax thereon for FY 2009-10 without assigning any reason for the treatment. 4

(i) Reception room and vehicle parking space were let out for a film shooting for 3 months. The charges received for this ₹ 5 Lacs.

(ii) The conference hall was let out to a Gujarati Samaj Trust for a week for a music competition for ₹ 50,000/-

(iii) The hotel was booked by a customer for 3 days for a marriage function. The room booking charges were received in advance (excluding service tax) in the same year of ₹ 50,000/-. The electricity charges separately billed ₹ 20,000/-, hire charges including catering charges for 3 days billed of ₹ 3,25,000/- after deducting the advance.

(iv) During the year, the conference hall was let out to MNO Ltd. The charges received were as under :

Hall rent ₹ 4 Lacs, computer & projector systems charges ₹ 25,000/-, electricity charges ₹ 30,000/-. Hall rent includes charges for snacks and cold drinks ₹ 50,000/-

(v) The hotel garden was let out to a political party for 2 days for a meeting. The charges received ₹ 25,000/-

The hotel charges 10% service charges which are later distributes as tips to employees.

The above charges are excluding service tax. All the charges have been received in FY 2009-10.

The hotel has already.been registered under Service Tax Act in F.Y. 2008-09.

Marks

(c) Compute the VAT amount payable by Mr. Shyam, who purchased goods from a manufacturer on payment of ₹ 4,16,000 (including VAT) and earned 20% profit on purchase price. VAT rate on both purchases and sales is 4%. 4