

Roll No.

NOV 2013

Total No. of Questions – 7

INTERMEDIATE (IPC)
GROUP I - PAPER 4
TAXATION

Total No. of Printed Pages – 11

Time Allowed – 3 Hours

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 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 assumption may be made and stated clearly by way of note.

All questions pertaining to the Income-tax relate to assessment year 2013-14, unless stated otherwise in the question.

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1. (a) The following is the Profit and Loss Account of Mr. Aditya, aged 58 years, a resident, for the year ended 31.03.2013 : 10

Particulars	₹	Particulars	₹
Rent	60,000	Gross Profit	1,85,000
Repair of car	3,000	Gift of cash from a friend (received on 15.09.2012)	25,000
Wealth tax	5,000	Sale of car	17,000
Medical expenses	4,500	Interest on income-tax refund	3,000
Salary	18,000		
Depreciation on car	3,000		
Advance income-tax	1,500		
Net Profit	1,35,000		
	2,30,000		2,30,000

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Other information :

- (1) Aditya bought a car during the year for ₹ 20,000. He charged depreciation @ 15% on the value of the car. The above car was sold during the year for ₹ 17,000. The use of the car was $\frac{3}{4}$ th for business and $\frac{1}{4}$ th for personal use.
- (2) Medical expenses were incurred for the treatment of Nikita, his wife.
- (3) Salary had been paid on account of car driver.
- (4) Rent includes arrears of rent from April 12 to October 12 @ ₹ 5,000 p.m., paid in cash on 1.11.2012.
- (5) Mr. Aditya had also let out a house property at a monthly rent of ₹ 25,000. The annual letting value is considered to be ₹ 2,50,000. The municipal taxes are ₹ 6,000, out of which ₹ 3,000 are paid by the tenant and ₹ 3,000 are yet to be paid by Mr. Aditya. Interest on loan taken for the house property is ₹ 20,000.
- (6) Mr. Aditya's minor daughter received ₹ 75,000 from stage acting. Interest on company deposits of Mr. Aditya's daughter (deposit was made out of income from stage acting) was ₹ 10,000.
- (7) Aditya incurred an expense of ₹ 50,000 on the medical treatment of his dependant son, who has disability of more than 80%.
- (8) Aditya had taken a loan during the year 2012-13 for the education of his son, who is pursuing B.Com. in Delhi University. Interest paid on the same during the year was ₹ 10,000.

Compute the total income of Mr. Aditya for the assessment year 2013-14.

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- (b) Professionals Ltd. is engaged in providing services which became taxable with effect from July 01, 2012. Compute the service tax payable by Professionals Ltd. on the following amounts (exclusive of service tax) received for the month of March, 2013 :

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Particulars	Amount (₹)
Services performed before such service became taxable (Invoice issued on 28 th June, 2012)	5,00,000
Services by way of renting of residential dwelling for use as residence	1,50,000
Free services rendered to the friends of directors	20,000
Advance received for services to be rendered in July, 2013	5,00,000
Other receipts	12,00,000

Rate of service tax is 12% Education cess is 1% Secondary & Higher Education cess is 1%.

- (c) Compute net VAT liability of Sachin from the following information :

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Particulars	₹	₹
Raw materials from foreign market (includes duty paid on imports @ 20%)		1,20,000
Raw materials purchased from local market		
Cost of raw material	2,50,000	
Add : Excise duty @ 12%	30,000	
	2,80,000	
Add : VAT @ 4%	11,200	2,91,200
Raw materials purchased from neighbouring State (includes CST @ 2%)		51,000
Storage and transportation cost		9,000
Manufacturing expenses		30,000

Sachin sold goods to Madan and earned profit @ 12% on the cost of production. VAT rate on sale of such goods is 4%. There is no opening or closing stock.

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2. (a) Mr. Krishna owns a residential house in Delhi. The house is having two identical units. First unit of the house is self-occupied by Mr. Krishna and another unit is rented for ₹ 12,000 p.m. The rented unit was vacant for three months during the year. The particulars of the house for the previous year 2012-13 are as under :

Standard Rent	₹ 2,20,000 p.a.
Municipal Valuation	₹ 2,44,000 p.a.
Fair Rent	₹ 2,35,000 p.a.
Municipal tax paid by Mr. Krishna	12% of the Municipal Valuation
Light and water charges	₹ 800 p.m.
Interest on borrowed capital	₹ 2,000 p.m.
Insurance charges	₹ 3,500 p.a.
Painting expenses	₹ 16,000 p.a.

Compute income from house property of Mr. Krishna for the assessment year 2013-14.

- (b) (i) What will be the obligation of service provider in respect of excess service tax collected from the recipient under the service tax law ? 4
- (ii) Can a multiple service provider use a single challan for payment of service tax for various services rendered by it ?

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- (c) Mayank, a dealer, furnished the following details for the month of January, 2013 : 4

Inputs purchased within the State	₹ 1,00,000
Finished goods sold within the State	₹ 2,00,000
Goods sold in the course of inter-State trade	₹ 1,00,000
Capital goods procured during the month	₹ 1,00,000
VAT paid on capital goods	12.5%
Input VAT rate	12.5%
Output VAT rate	4%
Central Sales Tax rate	2%

Compute the total tax liability under the State VAT law.

Note : The capital goods are not goods included in the negative list. Input tax credit on capital goods is available in full in the year of purchase.

3. (a) From the following details, find out the salary chargeable to tax of Mr. Anand for the assessment year 2013-14 : 8

Mr. Anand is a regular employee of Malpani Ltd. in Mumbai. He was appointed on 01-03-2012 in the scale of 25,000-2,500-35,000. He is paid dearness allowance (which forms part of salary for retirement benefits) @ 15% of basic pay and bonus equivalent to one and a half month's basic pay as at the end of the year. He contributes 18% of his salary (basic pay plus dearness allowance) towards recognized provident fund and the Company contributes the same amount.

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He is provided free housing facility which has been taken on rent by the Company at ₹ 15,000 per month. He is also provided with following facilities :

- (i) The Company reimbursed the medical treatment bill of ₹ 40,000 of his daughter, who is dependent on him.
- (ii) The monthly salary of ₹ 2,000 of a house keeper is reimbursed by the Company.
- (iii) He is getting telephone allowance @ ₹ 1,000 per month.
- (iv) A gift voucher of ₹ 4,700 was given on the occasion of his marriage anniversary.
- (v) The Company pays medical insurance premium to effect an insurance on the health of Mr. Anand ₹ 12,000.
- (vi) Motor car running and maintenance charges fully paid by employer of ₹ 36,600. (The motor car is owned and driven by Mr. Anand. The engine cubic capacity is below 1.60 litres. The motor car is used for both official and personal purpose by the employee.)
- (vii) Value of free lunch provided during office hours is ₹ 2,200.

- (b) List out the documents to be submitted along with the first service tax return. 4
- (c) What happens to VAT chain when a seller opts for composition scheme ? 4
Who are not eligible for composition scheme under the VAT regime ?
Discuss briefly.

4. (a) Mr. Vaibhav sold a house, held as a capital asset, to his friend Mr. Dhanush on 1st December, 2012 for a consideration of ₹ 25,00,000. The Sub-Registrar refused to register the document for the said value, as according to him, stamp duty valuation based on State Government guidelines was ₹ 45,00,000. Mr. Vaibhav preferred an appeal to the Revenue Divisional Officer, who fixed the value of the house as ₹ 35,00,000 (₹ 22,00,000 for land and the balance for building portion). The differential stamp duty was paid, accepting the said value determined. Mr. Vaibhav had purchased the land on 1st June, 2006 for ₹ 5,19,000 and completed the construction of the house on 1st October, 2010 for ₹ 14,00,000. 4

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Cost inflation indices may be taken as 519 for the financial year 2006-07, 711 for the financial year 2010-11 and 852 for the financial year 2012-13.

Briefly discuss the tax implications in the hands of Mr. Vaibhav for the assessment year 2013-14 and compute the capital gains chargeable to tax.

- (b) State *with brief reasoning* whether the following receipts are chargeable to income-tax or are exempt (if chargeable, the amount taxable is to be mentioned) for the assessment year 2013-14 :

Nature of receipt	Amount (₹)
Interest on enhanced compensation received on 12-3-2013 for acquisition of urban land, of which 40% relates to the earlier year.	96,000
Rent received for letting out agricultural land for a movie shooting.	72,000

Computation is NOT required.

- (c) Mr. Suresh Karthik, a service provider, received an advance of ₹ 3 lakhs from Mr. Dinesh Raina on 12-4-2012. Even when the advance was received, there was some doubt as to whether any service will be rendered. No services were rendered to Mr. Dinesh Raina and ultimately on 12-3-2013, Mr. Suresh Karthik refunded the amount to him. Mr. Suresh Karthik wants to know whether :

- Any service tax is payable when the advance was received, and
- He can make self adjustment of service tax while remitting service tax due for the quarter ended 31-3-2013.

- (d) (i) What are the items aggregated in the Addition Method to calculate the VAT payable ? When is this method mainly used ?
- (ii) Is any threshold exemption limit fixed for dealers to obtain VAT registration, as per the White Paper ? If yes, why is the same provided ?

5. (a) Briefly explain the exemption available under section 10(48) of the Income-tax Act, 1961 in respect of income received by certain foreign companies from sale of crude oil. 4
- (b) Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He always opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the assessment year 2013-14 : 4

(₹ in lacs)

- | | |
|---|----|
| (i) Opening WDV of block (15% rate) | 42 |
| (ii) New machinery purchased on 12-10-2012 | 10 |
| (iii) Machinery imported from Colombo on 12-4-2012. This machine had been used only in Colombo earlier and the assessee is the first user in India. | 9 |
| (iv) New computer installed in generation wing of the unit on 15-7-2012 | 2 |
- (c) Mr. Visvakshena, who has been regularly assessed to service tax for the past four years, with taxable service tax receipts of ₹ 21 lacs in the earlier financial year, furnishes the following details for the quarter ended 31-3-2013 : 4

Nature of receipts	Amount (₹ in lacs)
Accounting services rendered to charitable trusts	26
Selling time slots for T.V. advertisements	32
Selling time slots for advertisements in newspapers	24

Compute the value of taxable services and the total service tax payable by him.

Is he required to e-file his service tax return for the half year ended on 31-3-2013 ?

(d) Fill up the blanks for the following items in the context of VAT :

4

- (i) The most commonly used method for computing VAT is the _____ method.
- (ii) The most widely used variant amongst the various ones is the _____ variant.
- (iii) When a dealer opts for Composition Scheme, the VAT chain _____ (continues/gets broken).
- (iv) _____ amongst the following is not an applicable VAT rate : 0, 1, 8 and 12.5

6. (a) Compute the total income of Mr. Krishna for the assessment year 2013-14 from the following particulars :

8

Particulars	Amount (₹)
Income from business before adjusting the following items :	1,75,000
(a) Business loss brought forward from assessment year 2011-12	70,000
(b) Current depreciation	40,000
(c) Unabsorbed depreciation of earlier year	1,55,000
Income from house property (Gross annual value)	4,32,000
Municipal taxes paid	32,000
Mr. Krishna sold a plot at Noida on 12 th Sep., 2012 for a consideration of ₹ 6,40,000, which had been purchased by him on 20 th Dec., 2009 at a cost of ₹ 4,10,000.	
Long-term capital loss on sale of shares sold through recognized stock exchange (STT paid)	75,000
Long-term capital gain on sale of debentures	60,000
Dividend on shares held as stock in trade	22,000
Dividend from a company carrying on agri business	10,000

During the previous year 2012-13, Mr. Krishna has repaid ₹ 1,67,000 towards housing loan from a scheduled bank. Out of ₹ 1,67,000, ₹ 97,000 was towards payment of interest and rest towards principal payments. Cost inflation indices are as under :

Financial Year	Index
2009-10	632
2012-13	852

- (b) In the context of chargeability of service tax, what are the implications of the term "provided or agreed to be provided" ? 4
- (c) List the purchases which are not eligible for input tax credit under VAT legislation. 4

7. (a) Define the term "assessee" as per the Income-tax Act, 1961. 4
- (b) (EITHER) 4

Mr. Pranay is running two industrial undertakings, one in a SEZ (Unit A) and another in a DTA (Unit B). The brief details for the year ended 31.03.2013 are as under :

Particulars	Amount (₹ in lacs)	
	Unit A	Unit B
Domestic turnover	10	100
Export turnover	120	Nil
Gross Profit	20	10
Less : Expenses and depreciation	07	06
Profits derived from the units	13	5

The brought forward business loss pertaining to assessment year 2010-11 for Unit B is ₹ 3.2 lacs. Briefly compute the business income of the assessee.

(OR)

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|-----|---|---|
| (b) | What are the conditions to be fulfilled by a charitable trust under section 12A for applicability of exemption provisions contained in sections 11 and 12 of the Income-tax Act, 1961 ? | 4 |
| (c) | Describe briefly the manner of determination of value for service tax purposes, when consideration is not wholly/partly consisting of money. | 4 |
| (d) | What are the deficiencies of VAT system ? | 4 |
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