

MOCK TEST PAPER- 1
INTERMEDIATE (IPC) – GROUP – I
PAPER – 4: TAXATION
SUGGESTED ANSWERS/HINTS

1. (a) Computation of total income and tax liability of Ms. Reema for A.Y.2016-17

Particulars	Working Note Nos.	Rs.
Income from house property	1	1,02,900
Profit and gains of business or profession	2	37,600
Short term capital gains	3	2,20,000
Income from other sources	4	<u>1,81,000</u>
Gross Total Income		5,41,500
Less: Deduction under Chapter VI-A	5	<u>45,000</u>
Total Income		<u>4,96,500</u>
Tax on total income		
Tax on total income		24,650
Less: Rebate under section 87A (since total income does not exceed Rs. 5,00,000)		<u>2,000</u>
		22,650
Add: Education cess @ 2% and SHEC @ 1%		<u>680</u>
Total tax liability		23,330
Less: Tax deducted at source on interest on debentures [Rs. 5,400 × 10/90]		<u>600</u>
Net Tax liability		<u>22,730</u>

Working Notes:

	Particulars	Rs.	Rs.
(1)	Income from House Property		
(i)	Self-occupied portion (25%) As per section 23(2), income from self-occupied portion is Nil.		Nil

(ii) Let-out portion – 50%		
Gross Annual Value		1,65,000
(Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent)		
Less: Municipal taxes paid in respect of let out portion (50% of Rs. 36,000)		<u>18,000</u>
Net Annual Value (NAV)		1,47,000
Less: Deduction under section 24@30% of NAV		<u>44,100</u>
		<u>1,02,900</u>
(2) Profits & Gains of Business or Profession		
Net profit as per profit and loss account		1,34,000
Add: Expenses debited to profit and loss account but not allowable		
(i) Fire Insurance [relating to let-out and self-occupied house property] (75% of Rs.10,000)	7,500	
(ii) Income-tax [disallowed as per section 40(a)(ii)/(iia)]	27,000	
(iii) Household expenses (Under section 37, personal expenses are disallowed)	42,500	
(iv) Contribution to university approved under section 35(1)(ii), considered separately	1,00,000	
(v) Municipal Taxes paid in respect of let-out and self-occupied portions [75% of Rs. 36,000]	<u>27,000</u>	<u>2,04,000</u>
		3,38,000
Less: Weighted deduction@175% for contribution to university approved and notified under section 35(1)(ii) [1,00,000 × 175%]		<u>1,75,000</u>
		1,63,000
Less: Income credited to Profit & Loss Account but not taxable under this head:		
(i) Cash gift	1,20,000	
(ii) Interest on debentures	<u>5,400</u>	<u>1,25,400</u>
		<u>37,600</u>
(3) Capital gains		
Sale consideration of bonus shares		2,20,000
Less: Cost of acquisition [Nil, for bonus shares]		<u>Nil</u>
Short term capital gain [Since unlisted shares are held by Ms. Reema for less than 36 months]		<u>2,20,000</u>

(4)	Income from Other Sources	
	Cash gift on the occasion of marriage is exempt, even if the same is received from a non-relative	Nil
	In case of vacant site received for inadequate consideration, difference between stamp duty value (Rs. 2,80,000) and actual consideration (Rs. 1,05,000) is taxable under section 56(2)(vii), since such difference exceeds Rs. 50,000.	1,75,000
	Interest of Rs. 500 on post-office savings bank account [In case of individual account, a sum upto Rs. 3,500 is exempt under section 10(15)]	Nil
	Interest on debentures (gross) [Rs. 5,400 × 100/90] (The rate of TDS under section 194A is 10%)	<u>6,000</u>
	Income chargeable under this head	<u>1,81,000</u>
(5)	Deduction under Chapter VI-A : Deduction under section 80C	
	LIC Premium paid Rs. 60,000 [Since the policy was taken after 31.3.2013 to insure the life of disabled son, the premium is restricted to 15% of sum assured] [15% of Rs. 3,00,000]	45,000

(b) Computation of service tax liability of Super-Fit Hospital for the month of September, 20XX

Particulars	Rs. (in lakh)
Pranic healing treatments [Note-1(a)]	90
Mortuary services [Note 2]	-
Naturopathy treatments [Note-1(b)]	-
Hair transplant services [Note-1(c)]	130
Services provided by cord blood bank by way of preservation of stem cells [Note-3]	-
Plastic surgery to restore anatomy of a child affected due to an accident [Note-1(d)]	-
Value of taxable service	2,20
Service tax @ 14% [Rs. 220 lakh × 14%]	30.8

Notes:

- (1) Health care services provided by, inter alia, a clinical establishment in any recognized system of medicines in India is exempt from service tax vide Mega Exemption Notification No. 25/2012 ST dated 20.06.2012.
 - (a) Since pranic healing treatment is not a recognized system of medicine in terms of section 2(h) of the Clinical Establishments Act, 2010, it would not be eligible for exemption.
 - (b) Since naturopathy is a recognized system of medicine in terms of section 2(h) of the Clinical Establishments Act, 2010, it would be eligible for exemption.
 - (c) Hair transplant services are specifically excluded from the health care services, and thus are not eligible for exemption.
 - (d) Health care service does not include *inter alia* cosmetic or plastic surgery, except when undertaken to restore or to reconstruct anatomy or functions of body affected due to congenital defects, developmental abnormalities, injury or trauma. Hence, plastic surgery to restore anatomy of a child affected due to an accident will be eligible for exemption.
- (2) Mortuary services are covered under negative list of services under section 66D of the Finance Act, 1994. Hence, the same are not liable to service tax.
- (3) Services provided by cord blood banks by way of preservation of stem cells or any other service in relation to such preservation are also exempt from service tax vide Mega Exemption Notification No. 25/2012 ST dated 20.06.2012.

Services by way of transportation of the patient to and from a clinical establishment are specifically included in the definition of health care services. Thus, ambulance services to transport critically ill patients from various locations to Super Fit Hospital are eligible for exemption. Furthermore, ambulance services provided by an entity which is not a clinical establishment or an authorised medical practitioner or paramedics are also exempt from service tax vide a separate entry in the Mega Exemption Notification No. 25/2012 ST dated 20.06.2012. Therefore, ambulance services provided by Live Years will also be exempt from service tax. Thus, Live Years will not charge any service tax from Super Fit Hospital on the ambulance services rendered by them.

- (c) No, MNO Manufacturers Ltd. is not liable to pay duty in the given case. If any goods are pilfered after the unloading thereof but before the proper officer has made an order for clearance for home consumption, the importer shall not be liable to pay duty on such goods.

However, where such goods are restored to the importer after the pilferage, the importer becomes liable to pay duty. Thus, MNO Manufacturers Ltd. will be liable to pay duty if goods are restored to it.

2. (a) Computation of Capital Gains chargeable to tax in the hands of Mr. Puneet for the A.Y. 2016-17

Particulars	Rs.	Rs.
Gross Sale Consideration on transfer of residential house [As per section 50C, in case the actual sale consideration is lower than the stamp duty value fixed by the stamp valuation authority, the stamp duty value shall be deemed as the full value of consideration]		65,00,000
Less: Brokerage@2% of actual sale consideration of Rs. 53,00,000		<u>1,06,000</u>
Net Sale Consideration		63,94,000
Less: Indexed cost of acquisition [Rs. 6,00,000 x 1081/140]		<u>46,32,857</u>
Long-term capital gain		17,61,143
Less: Exemption under section 54		
- Acquisition of residential house property at Chennai on 10.12.2015 (i.e., within the prescribed time of two years from 4.11.2015, being the date of transfer of residential house at Gurgaon).	7,00,000	
- Amount deposited in Capital Gains Accounts Scheme on or before the due date of filing return of income for construction of additional floor on the residential house property at Chennai. Since Mr. Puneet has no other source of income, his due date for filing return of income is 31 st July, 2016 [Therefore, Rs. 4,00,000 deposited on 17.05.2016 will be eligible for exemption whereas Rs. 3,00,000 deposited on 02.12.2016 will not be eligible for exemption under section 54]	<u>4,00,000</u>	11,00,000
Exemption under section 54EC Amount deposited in capital gains bonds of RECL within six months from the date of transfer (i.e., on or before 3.5.2016) would qualify for exemption. [Therefore, in this case, Rs. 3,00,000 deposited in capital gains bonds of RECL on 27.4.2016 would be eligible for exemption under section 54EC, whereas Rs. 5,00,000 deposited on 30.07.2016 would not qualify for exemption]		3,00,000
Long-term capital gain		3,61,143

Computation of tax liability of Mr. Puneet for A.Y. 2016-17

Particulars	Rs.
Tax on Rs. 1,11,143 (i.e Long term capital gain Rs. 3,61,143 less basic exemption limit of Rs. 2,50,000) is charged @ 20% [Section 112] (Since long-term capital gains is the only source of income, the entire basic exemption limit can be exhausted against this income)	22,229
<i>Less: Rebate under section 87A</i>	<u>2,000</u>
	20,229
<i>Add: Education cess@2% and Secondary & higher education cess @ 1%</i>	607
Total tax liability	20,836
Total tax liability (rounded off)	20,840

Note: As per the decision of Gauhati High Court in CIT vs Rajesh Kumar Jalan 286 ITR 274 and Haryana High Court in CIT vs Jagriti Agarwal 245 CTR 629, exemption under section 54 is allowable even if the amount of capital gain is deposited in Capital Gains Accounts Scheme within the period specified for filing a belated return under section 139(4) [i.e., on or before 31.3.2018, being one year from the end of A.Y.2016-17].

If we apply the above interpretation in this case, Mr. Puneet would be eligible for exemption under section 54 in respect of Rs. 3,00,000 deposited in Capital Gains Accounts Scheme on 06.12.2016 also, since the said date falls within the time specified under section 139(4). On the basis of this interpretation, the long term capital gain chargeable to tax in the hands of Mr. Puneet would be Nil and the consequent tax liability would also be Nil.

- (b) Since Legal Metrology Act, 2009 requires declaration of retail sale price on the package of toothbrush and toothbrush is also notified under section 4A of Central Excise Act, 1944 (RSP based valuation provisions), excise duty will be payable on the basis of RSP less abatement.

Particulars	Rs.
MRP marked on the pack of a toothbrush	50
<i>Less: Abatement @ 30% of RSP [30% of Rs. 50]</i>	<u>15</u>
Value for purpose of excise duty	35
Excise duty @ 12.5% [12.5% of Rs. 35]	4.38
Excise duty payable (rounded off)	4

(c) **Computation of interest on delayed payment of service tax**

Name of the service provider	ABC Ltd.	Mr. Manan
Service tax liability	Rs. 1,50,000	Rs. 2,50,000
Delay in payment of service tax	10 days	15 days
Value of taxable services in previous financial year	Rs. 55,00,000	Rs. 65,00,000
Rate of interest	15% per annum	18% per annum
Interest (rounded off)	[Rs. 1,50,000x (15/100) x (10/365)] =Rs. 616	[Rs. 2,50,000 x (18/100) x (15/365)] =Rs. 1,849

Note: As per section 75 of Finance Act, 1994 read with *Notification No. 12/2014 ST dated 11.07.2014*, delay in payment of service tax upto six months attracts interest @ 18% per annum. However, the applicable rate gets reduced by 3% for service providers whose turnover of services does not exceed Rs. 60 lakh in the preceding financial year.

3. (a) **Computation of depreciation under section 32 for A.Y.2016-17**

Particulars	Rs.	Rs.
Normal Depreciation		
Depreciation@15% on Rs. 51,00,000, being machinery (put to use for more than 180 days) [Opening WDV of Rs. 42,00,000 + Purchase cost of imported machinery of Rs. 9,00,000]	7,65,000	
<u>Depreciation@7.5%</u> on Rs.10,00,000, being new machinery put to use for less than 180 days	75,000	
	8,40,000	
Depreciation@60% on computers purchased Rs. 2,00,000	1,20,000	9,60,000
Additional Depreciation (Refer Note below)		
Additional Depreciation @ 10% of Rs. 10,00,000 [being actual cost of new machinery purchased on 12-10-2015]	1,00,000	
Additional Depreciation@20% on new computer installed in generation wing of the unit [20% of Rs. 2,00,000]	<u>40,000</u>	<u>1,40,000</u>
Depreciation on Plant and Machinery		<u>11,00,000</u>

Note: The benefit of additional depreciation is available to new plant and machinery acquired and installed in power sector undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, *inter alia*, in the business of generation or generation and distribution of power, at the rate of 20% of the actual cost of such machinery or plant.

Therefore, new computer installed in generation wing of the unit is eligible for additional depreciation @ 20%.

Since the new machinery was purchased only on 12.10.2015, it was put to use for less than 180 days during the previous year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the A.Y. 2016-17. The balance additional depreciation would be allowed in the next year.

However, additional depreciation shall not be allowed in respect of, *inter alia*, any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person. Therefore, additional depreciation is not allowable in respect of imported machinery, since it was used in Colombo, before its installation by the assessee.

(b) Computation of income from house property of Madhur for A.Y. 2016-17

Particulars		Amount in Rs.	
Computation of Gross Annual Value (GAV)			
Step 1	Compute Expected Rent (ER) ER = Higher of Municipal Value of Rs. 2,50,000 p.a. and Fair Rent of Rs. 2,00,000 p.a., but restricted to Standard Rent of Rs. 2,10,000 p.a.	2,10,000	
Step 2	Compute Actual rent received/receivable Actual rent received/receivable for let out period less unrealized rent as per Rule 4 = Rs. 2,00,000 - Rs. 20,000	1,80,000	
Step 3	Compare ER and Actual rent received/receivable		
Step 4	In this case the actual rent of Rs. 1,80,000 is lower than ER of Rs. 2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would have been Rs. 2,20,000 (Rs. 1,80,000 + Rs. 40,000). Therefore, actual rent is the GAV.	1,80,000	
Gross Annual Value (GAV)			1,80,000

<i>Less:</i>	Municipal taxes (paid by the owner during the previous year) = 8% of Rs. 2,50,000		20,000
Net Annual Value (NAV)			1,60,000
<i>Less:</i>	Deductions under section 24		
	(a) 30% of NAV = 30% of Rs. 1,60,000	48,000	
	(b) Interest on borrowed capital (actual without any ceiling limit)	65,000	1,13,000
Income from house property			47,000

- (c) (i) For a currency, when exchanged from, or to, Indian Rupees (INR), the value shall be equal to the difference in the buying rate or the selling rate, as the case may be, and the Reserve Bank of India (RBI) reference rate for that currency at that time, multiplied by the total units of currency.

Hence, in the given case, value of taxable service would be as follows:-

(RBI reference rate for \$ – Selling rate for \$) × Total units of US \$

=Rs. (62-61) × 10,000

=Rs. 10,000

- (ii) If the RBI reference rate for a currency is not available, the value shall be 1% of the gross amount of Indian Rupees provided or received, by the person changing the money.

Hence, in the given case, value of taxable service would be as follows:-

1% of Rs. (61 × 10,000)

=Rs. 6,100

In case neither of the currencies exchanged is Indian Rupee:

The value shall be equal to 1% of the lesser of the two amounts the person changing the money would have received by converting any of the two currencies into Indian Rupee on that day at the reference rate provided by RBI.

Hence, in the given case, value of taxable service would be 1% of the lower of the following:-

(a) US dollar converted into Indian rupees = \$ 10,000 × Rs. 63 = Rs. 6,30,000

(b) UK pound converted into Indian rupees = £ 5,000 × Rs. 101 = Rs. 5,05,000

Value of taxable service = 1% of Rs. 5,05,000 = Rs. 5,050

- (d) The first sale by C to D is chargeable to central sales tax. However, sale of goods by D to B is exempt as it is a subsequent sale by transfer of documents of title to the goods during their movement provided subsequent sale is made to a registered

dealer (in the given case, B is a registered dealer), Form C is furnished by the buying dealer, B to D of Delhi and D has collected Form E1 from C of Chennai.

4. (a) **Computation of total income of Mr. Gaurav for the Assessment Year 2016-17**

Particulars	Rs.	Rs.	Rs.
Professional Income (computed)			5,50,000
Interest on saving bank deposit			<u>14,500</u>
Gross Total Income			5,64,500
<i>Less: Deduction under Chapter VIA</i>			
Under section 80C (See Note 1)			
Life insurance premium paid for life insurance of:			
- major son	20,000		
- self Rs. 22,500 restricted to 10% of Rs. 2,00,000	<u>20,000</u>	40,000	
Under section 80D (See Note 2)			
Premium paid for health insurance of self and wife by cheque	22,000		
Payment made for health check-up:			
- Self Rs. 1,500			
- His Parents Rs. <u>5,000</u>			
Rs. <u>6,500</u> restricted to	<u>5,000</u>	27,000	
Under section 80E			
For payment of interest on loan taken from bank for MBA course of his daughter		8,000	
Under section 80TTA (See Note 3)			
Interest on savings bank account Rs. 14,500 restricted to		<u>10,000</u>	<u>85,000</u>
Total Income			<u>4,79,500</u>

Notes:

- (1) As per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents whether they are dependent or not. Therefore, no deduction is allowable in respect of Rs. 25,000 paid as premium for life insurance of dependent parents of Mr. Gaurav.

In respect of insurance policy issued after 01.04.2012, deduction shall be allowed for life insurance premium paid only to the extent of 10% of sum assured. In case the insurance policy is issued before 01.04.2012, deduction

of premium paid on life insurance policy shall be allowed up to 20% of sum assured.

Therefore, in the present case, deduction of Rs. 20,000 is allowable in respect of life insurance of Mr. Gaurav's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of Rs. 1,75,000. However, in respect of premium paid for life insurance policy of Mr. Gaurav himself, deduction is allowable only up to 10% of Rs. 2,00,000 since, the policy was issued after 01.04.2012 and the premium amount exceeds 10% of sum assured.

- (2) As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person, deduction shall be allowed up to Rs. 25,000. Further, deduction up to Rs. 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-check up can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash.

Therefore, in the present case, deduction of Rs. 22,000 is allowed in respect of premium paid for health insurance of self and wife. Also, the aggregate value of premium paid for health insurance and the payment for health check-up is Rs. 23,500 (Rs. 22,000 + Rs. 1,500), which is less than Rs. 25,000. Further, deduction up to a maximum of Rs. 5,000 is allowable in respect of health check-up of self and his parents. This implies that Rs. 3,500 is allowable for health check-up of parents which falls within the additional limit of Rs. 30,000 for mediclaim premium and expenditure on preventive health check-up of parents who are senior citizens.

- (3) As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of Rs. 10,000. Therefore, a deduction of Rs. 10,000 is allowable from the gross total income of Mr. Gaurav, though the interest from savings bank account is Rs. 14,500.
- (4) No deduction shall be allowed under section 80G in case the donation is made in cash of a sum exceeding Rs. 10,000. Therefore, no deduction is allowed under section 80G in respect of donation made to institution approved therein.
- (b) (i) **Invalid.** Services by way of carrying out any process amounting to manufacture or production of goods excluding alcoholic liquor for human consumption are contained in the negative list of services. Also, Mega Exemption Notification No. 25/2012 ST dated 20.06.2012 has been amended to withdraw exemption pertaining to intermediate production of alcoholic liquor

for human consumption. Therefore, services by way of carrying out any process amounting to manufacture of potable liquor is not covered under negative list of services and thus, be liable to service tax.

- (ii) **Invalid.** Services provided by Government and local authorities are covered in negative list of services with a few exceptions. Health care services provided to general public are not covered in such exceptions and Municipality is a local authority.
- (iii) **Invalid.** Only services provided by Reserve bank of India, and not to Reserve Bank of India are covered in negative list of services.
- (iv) **Valid.** Services relating to agriculture are covered in negative list of services. Agriculture means the cultivation of plants and rearing of all **life-forms of animals**, except the rearing of horses, for food, fibre, fuel, raw material or other similar products. Therefore, cultivation of ornamental flowers, being agriculture, would be covered under negative list of services and thus, be not liable to service tax.

5. (a) **Computation of total income of Ms. Esha for the A.Y. 2016-17**

Particulars	Rs.	Rs.
Profit of business of consumer and house-hold products	70,000	
Less: Loss of business of readymade garments for the year adjusted under section 70(1)	<u>10,000</u>	
	60,000	
Less: Brought forward loss of catering business closed in A.Y. 2015-16 set off against business income for the current year as per section 72(1)	<u>15,000</u>	45,000
Profit of speculative transaction		<u>7,500</u>
Total Income		<u>52,500</u>

Notes:

- Loss of speculative transaction of A.Y. 2011-12 is not allowed to be set off against the profit of speculative transaction of the A.Y.2016-17, since, as per the provisions of section 73(4), such loss can be carried forward for set-off for a maximum period of 4 years only i.e. up to A.Y.2015-16.
- Short term capital loss of Rs. 18,000 on sale of securities and shares has to be carried forward as per section 74 since there is no income under the head Capital Gains for the A.Y.2016-17. The loss is to be carried forward for set off in future years against income chargeable under the head Capital Gains. Such loss can be carried forward for a maximum period of 8 assessment years

(b) Computation of total Income of Mr. Lalit for the A.Y. 2016-17

Particulars	Resident and ordinarily resident	Resident but not ordinarily resident	Non-resident
	Rs.	Rs.	Rs.
Interest on debentures in an Indian company received in Australia.	12,000	12,000	12,000
Pension for services rendered in India but received in Canada	4,000	4,000	4,000
Income from agricultural land in Bhutan received there and then brought to India	18,000	-	-
Income from profession in Malaysia which was set up in India, received there but spent in India	5,000	5,000	-
Gross Total Income	39,000	21,000	16,000

- (c) As per charging section 3 of the Central Excise Act, 1944, excise duty is levied on all excisable goods which are produced or manufactured in India. However, as per rule 5 of the Central Excise Rules, 2002, the rate of duty applicable to any excisable goods is the rate in force on the date when such goods are removed from the factory.

In the given case, the goods were non-excisable at the time of manufacture. Hence, excise duty liability will not arise even though such goods have been made excisable by bringing them under Tariff prior to their removal.

- (d) Computation of service tax leviable on services received/availed by Ms. Sakshi Kothari

Particulars	Value of services received (Rs.)	Service tax @ 14% (Rs.)
Visit to a neurosurgeon on account of accident (Note-1)	-	-
Services of mobile network operator (Note-2)	2,000	280
Amount deposited in the saving bank account and interest earned (Note-3)	-	-
Beauty treatment services (Note-2)	6,000	840
Total service tax leviable on services availed/received		<u>1120</u>

Notes:

1. Health care service provided, *inter alia*, by an authorized medical practitioner is exempt vide mega exemption *Notification No. 25/2012 ST dated 20.06.2012*. Health care service means any service by way of diagnosis or treatment or care for *inter alia* any illness in any recognized system of medicines in India. Allopathy is a recognized system of medicine in India and a MBBS, MS doctor is an authorized medical practitioner. So, visit to a neurosurgeon on account of accident is not taxable.
2. Service tax is leviable on services of a mobile network operator and beauty treatment services received from a beauty salon as such services are neither covered under negative list of services nor under any exemption notification.
3. Amount of Rs. 3,00,000 deposited in Savings Bank Account is a transaction in money which is specifically excluded from the definition of service under section 65B(44) of the Finance Act, 1994. Further, Rs. 24,000 received by Sakshi kothari as interest on deposits will not be liable to service tax as services by way of extending deposits in so far as the consideration is represented by way of interest are covered in the negative list of services [Section 66D of the Finance Act, 1994].

6. (a) Computation of gross salary of Mr. Suraj for A.Y. 2016-17

Particulars	Rs.
Basic salary [(Rs.12,000 × 10) + (Rs.13,200 × 2)]	1,46,400
Dearness Allowance (100% of basic salary)	1,46,400
House Rent Allowance (See Note below)	<u>24,560</u>
Gross Salary	<u>3,17,360</u>

Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May (Rs.)	June-Oct (Rs.)	Nov-Dec (Rs.)	Jan (Rs.)	Feb- March (Rs.)
Basic salary per month	12,000	12,000	12,000	12,000	13,200
Dearness allowance (included in salary as per terms of employment) (50% of basic salary)	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>	<u>6,600</u>
Salary per month for the purpose of computation of house rent allowance	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>19,800</u>

Relevant period (in months)	2	5	2	1	2
Salary for the relevant period (Salary per month × relevant period)	36,000	90,000	36,000	18,000	39,600
Rent paid for the relevant period	Nil	32,500 (6,500×5)	17,000 (8,500×2)	8,500 (8,500×1)	17,000 (8,500×2)
House rent allowance (HRA) received during the relevant period (A)	13,200 (6,600×2)	33,000 (6,600×5)	13,200 (6,600×2)	7,200 (7,200×1)	14,400 (7,200×2)
Least of the following is exempt [u/s 10(13A)]					
1. Actual HRA received	13,200	33,000	13,200	7,200	14,400
2. Rent paid – 10% of salary	N.A.	23,500	13,400	6,700	13,040
3. 40% of salary	14,400	36,000 (40% × Rs. 90,000)	14,400 (40% × Rs. 36,000)	7,200 (40% × Rs. 18,000)	15,840 (40% × Rs. 39,600)
Exempt HRA (B)	Nil	23,500	13,200	6,700	13,040
Taxable HRA (Actual HRA – Exempt HRA) (A-B)	13,200	9,500	Nil	500	1,360

Taxable HRA (total) = Rs.13,200 + Rs.9,500 + Nil + Rs.500 + Rs.1,360 = Rs.24,560

- (b) If a tax has been levied on sale or purchase of any declared goods inside a State and the same goods are subsequently sold in the course of inter-state trade or commerce and is subjected to tax under the CST Act, sales tax paid has to be reimbursed to the dealer. However, sales tax paid within the state can be reimbursed only when the CST has been paid subsequently and not otherwise.

Hence, in this case, Mr. Govinda can claim refund of tax paid within the State after payment of central sales tax in respect of such declared goods.

- (c) (i) In respect of services provided or agreed to be provided by way of security services by any individual, HUF or partnership firm including association of persons to a business entity registered as body corporate, 100% service tax would be payable by the person liable for paying service tax other than the service provider (service recipient in this case). Thus, XYZ Ltd. is liable to pay service tax in this case.

- (ii) Service tax is payable under full reverse charge in case of taxable services provided or agreed to be provided by a person involving an aggregator in any manner. Thus, 100% service tax to be paid by the person liable for paying service tax other than the service provider. Therefore, aggregator is the person liable for paying service tax in this case. In case, the aggregator does not have a physical presence in the taxable territory, any person representing the aggregator for any purpose in the taxable territory will be liable for paying service tax.

However, if the aggregator neither has a physical presence nor does it have a representative for any purpose in the taxable territory, it will have to appoint a person in the taxable territory for the purpose of paying service tax and such person will be the person liable for paying service tax.

7. (a) (i) As per section 194-I, tax is to be deducted @ 2% on payment of rent for plant and machinery, only if the payment exceeds Rs.1,80,000 during the financial year. Since rent of Rs.1,50,000 paid by a partnership firm does not exceed Rs.1,80,000, tax is not deductible.
- (ii) As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if it is subject to tax audit under section 44AB in the financial year preceding the current financial year.

However, if such payment made for professional services is exclusively for the personal purpose of any member of Hindu Undivided Family, then, the liability to deduct tax is not attracted.

Therefore, in the given case, even if Batra (HUF) is liable to tax audit in the immediately preceding financial year, the liability to deduct tax at source is not attracted in this case since, the fees for professional service to Doctor Mohit Batra is paid for a personal purpose i.e. the surgery of a member of the family.

- (iii) Provisions for tax deduction at source under section 194BB @ 30% are attracted if the amount exceeds Rs. 5,000 in respect of income arising by way of winning a jackpot in horse races.

Tax to be deducted = Rs.70,000 x 30% = Rs.21,000

- (iv) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source @ 10%, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds Rs. 2,00,000.

In the given case, there is no liability to deduct tax at source as the payment made to Mr. Samarth does not exceed Rs.2,00,000.

(b) (i) Disagree

The return of income of LLP should be verified by a designated partner.

Any other partner can verify the Return of Income of LLP **only in** the following cases:-

- (i) where for any unavoidable reason such designated partner is not able to verify the return, or,
- (ii) where there is no designated partner.

(ii) Disagree

In case Mr. Aman opts to offer his income as per the presumptive taxation provisions of section 44AD, then, the due date under section 139(1) for filing of return of income for the year ended 31.03.2016, shall be 31st July, 2016.

It is only in case Mr. Aman does not opt for presumptive taxation provisions under section 44AD and offers income to be lower than 8% of total turnover and his total income exceeds the basic exemption limit, he has to keep books of account as per section 44AA and get his accounts audited under section 44AB, in which case the due date for filing return would be 30th September, 2016.

- (c)** In the given case, since the invoice is issued within the prescribed period of 30 days from the date of completion of provision of service, the point of taxation, as per rule 3 of the Point of Taxation Rules, 2011 shall be the:

- (a) date of invoice (i.e. 20.08.20XX)

or

- (b) date of receipt of payment (i.e. 15.08.20XX) [Refer note below]

whichever is earlier, i.e. 15.08.20XX.

Note: Date of payment is:-

- (1) date on which the payment is entered in the books of account (i.e. 15.08.20XX)

or

- (2) date on which the payment is credited to the bank account of the person liable to pay tax (i.e. 25.08.20XX)

whichever is earlier, i.e. 15.08.20XX [Rule 2A of the Point of Taxation Rules, 2011].

- (d) (i)** The said statement is incorrect. Rule 4(1) of CENVAT Credit Rules, 2004 allows CENVAT credit in respect of inputs immediately on receipt of the same in the premises of job worker where the same are sent directly to the job worker on the direction of the manufacturer or the provider of output service, as the case may be.

- (ii) The said statement is incorrect. Rule 4(5)(a) of CENVAT Credit Rules, 2004 provides that CENVAT credit on capital goods will be allowed even if any capital goods as such are sent to a job worker for further processing, testing, repair, re-conditioning or for the manufacture of intermediate goods necessary for the manufacture of final products or any other purpose only if it is established from the records, challans or memos or any other document produced by the manufacturer /output service provider taking the CENVAT credit that the capital goods are received back by the manufacturer /output service provider, as the case may be, within 2 years of their being so sent.