

MOCK TEST PAPER NOVEMBER 2019

MOCK TEST PAPER 1

INTERMEDIATE (NEW) COURSE

PAPER – 4: TAXATION

Time Allowed – 3 Hours

Maximum Marks – 100

SECTION – A: INCOME TAX LAW (60 MARKS)

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Question in Division A, working notes are not required.

Your answers should be based on the provisions of Income-tax law as amended by the Finance Act, 2018. The relevant assessment year is A.Y.2019-20.

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

Question I.

(1 Mark)

Neeraj was working as an accountant with the company Ujala Ltd. He died on 30.04.2018 and on account of his death, his wife Neha started receiving a pension of ₹10,000 per month w.e.f. 01.06.2018. Determine under which head of income, the pension received by Neha during F.Y. 2018-19 shall be taxable. Also, compute the taxable amount in her hands.

- (a) Income from other sources: ₹ 1,00,000
- (b) Income from other sources: ₹85,000
- (c) Income from Salary: ₹1,00,000
- (d) Income from Salary: ₹85,000

Answer: (b)

Question II.

(1 Mark)

Neha sold her residential house for ₹85 lakh on 11.08.2018. Value adopted by the Stamp Valuation Authority on the date of registration of the Conveyance Deed i.e., 17.08.2018 was ₹150 lakh. Neha disputed the valuation done by the said authority before the Assessing Officer and filed an application before him to refer her case to the Valuation Officer. The Valuation Officer determined the value of the house on date of registration of Conveyance Deed at ₹160 lakh. In light of these facts, compute the full value of consideration to be taken in case of Neha for the purpose of calculation of capital gains in her hands.

- (a) ₹85 lakh
- (b) ₹150 lakh
- (c) ₹160 lakh
- (d) ₹89.25 lakh

Answer: (b)

Question III.

(1 Mark)

Which of the following incomes are exempt incomes as per the provisions of Income-tax Act, 1961?

- (i) Allowance paid by Government to a citizen of India for rendering services outside India
- (ii) Death-cum-retirement gratuity received by a government employee

(iii) Any sum received under a life insurance policy taken on 01.05.2016, if the premium payable for any of the years exceeds 10% of the actual capital sum assured.

(iv) Any payment from National Pension System Trust to an employee on account of closure of his NPS account.

(a) (i), (ii), (iii), (iv)

(b) (i) & (ii)

(c) (i), (ii) & (iv)

(d) (ii) & (iv)

Answer: (b)

Question IV.

(1 Mark)

Match the following to their respective rate of depreciation -

L.	Pollution control equipment	1.	10%
M.	Commercial building	2.	40%
N.	Oil Wells	3.	100%
		4.	15%

Select the correct answer from the options given below:

	L.	M.	N.
(a)	2	1	4
(b)	4	2	1
(c)	2	4	1
(d)	3	1	4

Answer: (a)

Question V.

(1 Mark)

Suman is a Chartered Accountant practicing in Mumbai since September, 1994. She transfers her practice to another Chartered Accountant Smita on 19.06.2018 and charges ₹14,50,000 towards goodwill. Determine the tax implications that may arise in the hands of Neha on account of transfer of her practice to Smita.

(a) ₹14,50,000 shall be charged to tax as capital gains

(b) ₹14,50,000 shall be charged to tax as income from other sources

(c) ₹14,50,000 shall be charged to tax as income from profession

(d) No tax implications shall arise

Answer: (d)

Question VI.

(1 Mark)

Mr. Kunal is a doctor by profession engaged in his medical practice from last 15 years. His gross receipts from the profession in FY 2015-16, 2016-17, 2017-18 were ₹2,00,000, ₹16,00,000 and ₹18,50,000 respectively. Further, Kunal follows cash system of accounting. Determine which of the following books of accounts and documents are required to be kept and maintained by Kunal.

(i) Cash Book

(ii) Journal

(iii) Inventory of the stock of drugs, medicines, etc.

(iv) A daily case register

- (a) (i) and (ii)
- (b) (i), (ii), (iii) & (iv)
- (c) (i), (iii) & (iv)
- (d) None of the above

Answer: (c)

Question VII.

(2 Marks)

Which of the following statements is/are correct in respect of deduction allowed to an assessee in respect of certain donations for scientific research or rural development u/s 80GGA?

- (i) Deduction is not allowed to an assessee having income from business.
- (ii) The maximum amount of deduction allowed is ₹10,000.
- (iii) 100% deduction is allowed if amount in excess of ₹10,000 donated is paid by any mode other than cash.
- (iv) Deduction is not allowed to an assessee having income from salaries.
- (v) Any sum paid to a University to be used for scientific research is allowed if such University is approved u/s 35(1)(ii).
- (vi) Any sum paid to a notified Urban Development Fund is allowed.

- (a) (i), (iii), (iv), (v), (vi)
- (b) (ii), (iii), (v)
- (c) (i), (ii)
- (d) (i), (iii), (v)

Answer: (d)

Question VIII.

(2 Marks)

Mr. Vikesh, a US citizen, came to India for an assignment from 11.01.2015 to 09.10.2015 and went back to his home country on completion of the same. He thereafter, visited India on 05.07.2017 again for an assignment, which ended on 26.05.2018. What is the latest date by which Mr. Vikesh should depart from India after completing the assignment so as to qualify as non-resident for P.Y. 2018-19? (Assume that he shall not be visiting India again during the year)

- (a) 29-05-2018
- (b) 30-05-2018
- (c) 29-09-2018
- (d) 28-09-2018

Answer: (a)

Question IX.

(2 Marks)

Mr. Shahid, a wholesale supplier of dyes, provides you with the details of the following cash payments he made throughout the year –

- 12.06.2018: loan repayment of ₹ 27,000 taken for business purpose from his friend Kunal. The repayment also includes interest of ₹5,000.
- 19.08.2018: Portable dye machinery purchased for ₹ 15,000. The payment was made in cash in three weekly instalments.
- 26.01.2019: Payment of ₹ 10,000 made to electrician due to unforeseen electric circuit at shop
- 28.02.2019: Purchases made from unregistered dealer for ₹ 13,500

What will be disallowance under 40A(3), if any, if Mr. Shahid opts to declare his income as per the provisions of section 44AD?

- (a) ₹ 18,500
- (b) ₹28,500
- (c) ₹13,500
- (d) NIL

Answer: (d)

Question X.

(2 Marks)

Which of the following statements is/are true in respect of taxability of agricultural income under the Income-tax Act, 1961?

- (i) Any income derived from saplings or seedlings grown in a nursery is agricultural income exempt from tax u/s 10(1).
- (ii) 60% of dividend received from shares held in a tea company is agricultural income exempt from tax u/s 10(1).
- (iii) While computing income tax liability of an Assessee aged 50 years, agricultural income is required to be added to total income only if net agricultural income for the P.Y. exceeds ₹5,000 and the total income (including net agricultural income) exceeds ₹2,50,000.
- (iv) While computing income tax liability of an Assessee aged 50 years, agricultural income is required to be added to total income only if net agricultural income for the P.Y. exceeds ₹5,000 and the total income (excluding net agricultural income) exceeds ₹2,50,000.

Choose from the following options:

- (a) (i) and (iii)
- (b) (ii) and (iii)
- (c) (i) and (iv)
- (d) (i), (ii) and (iv)

Answer: (c)

Question XI.

(2 Marks)

X Ltd. files its return of loss for the A.Y. 2019-20 on 01.12.2019. The following data is taken from return submitted by the company:

Business Loss for P.Y. 2018-19 (before depreciation)	₹1,70,000
Depreciation	₹30,000
Short term capital loss	₹45,000
Long term capital gain	₹10,000
Income from other sources	₹23,000
Unabsorbed depreciation pertaining to A.Y. 2017-18 and A.Y. 2018-19 which has been determined in pursuance of return filed	₹75,000

Compute the amount of loss that can be carried forward by X Ltd.

- (a) ₹1,05,000
- (b) ₹30,000
- (c) ₹2,87,000
- (d) Nil

Answer: (a)

- (vi) Received pension of ₹ 84,000 against Life insurance cum pension plan from LIC
- (vii) He paid lumpsum payment of ₹ 1,05,000 by cheque as mediclaim insurance premium for 3 years term for self and his wife medical treatment.
- (viii) He paid LIC premium of ₹ 80,000 for his own life against a policy taken on 01.12.2017. Sum assured is ₹ 10,00,000
- (ix) He has deposited ₹ 1,20,000 in PPF
- (x) He purchased 300 shares in C Ltd. on 12.1.2017 at a cost of ₹2,500 per share. The Fair Market Value (FMV) of the share as on 31.1.2018 is ₹1,800. He sold all the shares of C Ltd. on 15.7.2018 for ₹3,200.

You are required to compute the total income and tax payable thereon by Dr. Saxena for the assessment year 2019-20.

Answer:

Computation of total Income and tax payable by Dr. Saxena for the A.Y. 2019 -20

Particulars	₹	₹
Income from House Property (Note 1)		11,900
Profits and gains of business or profession (Note 2)		8,71,000
Income from other sources (Note 3)		2,60,400
Long-term capital gain under section 112A		<u>2,10,000</u>
[The cost of acquisition of equity shares of C Ltd. would be ₹2,500, being higher of actual cost i.e., ₹ 2,500 and ₹1,800 (being the lower of FMV of ₹1,800 as on 31.1.2018 and actual sale consideration of ₹ 3,200). Accordingly, the long- term capital gains would be ₹2,10,000 i.e., [(Rs.3,200 – ₹ 2,500) x 300].		
Gross Total income		13,53,300
Less: Deductions under Chapter VIA		
(i) Deduction under section 80C		
Investment in PPF	1,20,000	
Life insurance premium paid [Fully allowable since it does not exceed 10% of sum assured]	<u>80,000</u>	
	<u>2,00,000</u>	
Deduction restricted to	1,50,000	
(ii) Deduction under section 80D		
Medical insurance premium for self and his wife, pertaining to the previous year 2018-19 is ₹ 35,000, being 1/3 rd of ₹1,05,000, the lumpsum premium, since the policy would be in force for three previous years. The said deduction would be restricted to	<u>25,000</u>	<u>1,75,000</u>
Total income		<u>11,78,300</u>
Components of Total Income		
Special income :		
Long-term capital gains under section 112A		2,10,000
Winning from lotteries (chargeable at special rate @30% under section 115BB)		10,000
Normal income		<u>9,58,300</u>
		<u>11,78,300</u>
Computation of Tax		
Tax on long-term capital gains under section 112A @10% in excess of ₹1,00,000		11,000

Tax on winnings from lotteries @ 30%		3,000
Tax on normal income (Rs. 9,58,300)		
Upto ₹ 2,50,000	NIL	
Rs. 2,50,001-Rs. 5,00,000 @ 5%	12,500	
Rs. 4,58,300 (Rs. 5,00,001 – ₹ 9,58,300) @ 20%	<u>91,660</u>	<u>1,04,160</u>
Income tax payable		1,18,160
Add: Health & Education cess @4%		<u>4,726</u>
Total Tax Payable		1,22,886
Less: Tax deducted at source		
From Interest	3,000	
From lottery income	<u>3,000</u>	<u>6,000</u>
		1,16,886
Less : Advance tax paid		<u>1,40,000</u>
Net Tax Refundable		<u>(23,114)</u>
Net Tax Refundable (rounded off)		<u>(23,110)</u>

Notes:**1. Computation of Income from House Property**

Particulars	₹
Gross Annual Value – Rent received (treated as fair rent)	20,000
Less : Municipal taxes paid	3,000
Net Annual Value (NAV)	17,000
Less : Statutory deduction under section 24 @ 30% of NAV	5,100
Income from House Property	11,900

2. Computation of Profits and gains of business or profession

Particulars	₹	₹
Net Profit as per Income & Expenditure Account		6,70,900
Add : Depreciation charged	42,500	
Municipal Taxes paid	3,000	
Advance Tax (See Note-4)	<u>1,40,000</u>	<u>1,85,500</u>
		8,56,400
Less: Rent received	20,000	
Interest on Post Office MIS	86,400	
Interest on Term Deposit with bank (Net of TDS)	27,000	
Winning from lotteries (Net of TDS)	7,000	
Depreciation as per Income-tax Act, 1961	<u>45,000</u>	<u>1,85,400</u>
		6,71,000
Salary from Nursing Home as partner	1,50,000	
Commission from Nursing home as partner	<u>50,000</u>	<u>2,00,000</u>
Income from business		<u>8,71,000</u>

3. Computation of Income from Other Sources

Particulars	₹
Interest Post Office MIS	86,400
Interest on Term Deposit with Bank (Gross)	30,000
Winning from lotteries (Gross) (See Note 7)	10,000
Fees from University of Chennai	50,000

Pension from LIC	84,000
Income from Other Sources	<u>2,60,400</u>

4. Advance Tax is not allowable as deduction.

5. Depreciation of Apparatus : Rs.

WDV as on 1.4.2018	3,00,000
Depreciation @15%	45,000
WDV as on 01.4.2019	2,55,000

6. Any salary, bonus, commission or remuneration by whatever name called due to or received by a partner of a firm from the firm shall not be treated as salary but it shall be treated as income from business or profession for the purposes of section 28.

7. As per section 58(4), no expenditure can be allowed against winnings from lotteries. Therefore, amount spent on lottery tickets being ₹ 350, cannot be allowed as deduction from income from winnings of lotteries.

8. Pension from LIC is taxable as Income from other sources.

Question 2 (a)

(7 Marks)

Determine the residential status of Mrs. Ria Bran and compute her gross total income chargeable to tax for the Assessment Year 2019-20 from the following information gathered from her documents:

Mrs. Ria Bran is an Australian, got married to Mr. Arjun of India in Australia on 2.01.2018 and came to India for the first time on 18.02.2018. She left for Australia on 15.9.2018. She returned to India again on 23.03.2019.

On 01.04.2018, she had purchased a Flat in Delhi, which was let out to Mr. Sahil on a rent of ₹ 28,000 p.m. from 1.5.2018. She had taken loan from an Indian bank for purchase of this flat on which bank had charged interest of ₹ 2,15,500 upto 31.03.2019.

While in India, during the previous year 2018-19, she had received a gold chain from her in-laws worth ₹1,50,000, a Car worth ₹7,50,000 from married sister of her husband and ₹1,72,000 from very close friends of her husband.

Answer:

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. Ria Bran, an Australian, for A.Y.2019-20 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2019 -20 i.e. P.Y.2018-19 and in the preceding four assessment years.

Her stay in India during the previous year 2018-19 and in the preceding four years are as under:

P.Y. 2018-19

01.04.2018 to 15.09.2019	-	168 days
23.03.2019 to 31.03.2019	-	9 days
Total		177 days

Four preceding previous years

P.Y.2017-18 [1.4.2017 to 31.3.2018]	- 42 days
P.Y.2016-17 [1.4.2016 to 31.3.2017]	- Nil
P.Y.2015-16 [1.4.2015 to 31.3.2016]	- Nil
P.Y.2014-15 [1.4.2014 to 31.3.2015]	- <u>Nil</u>
Total	<u>42 days</u>

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 42 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 2019-20.

Computation of total income of Mrs. Ria Bran for the A.Y. 2019-20

Particulars	₹	₹
Income from house property		
Flat located in Delhi let-out from 01.05.2018 to 31.03.2019 @ ₹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>	
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 ₹7,50,000 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.	Nil	
- 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>1,72,000</u>

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.

Question 2 (b) I.**(4 Marks)**

Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2018-19:

- Rs. 2,00,000 paid to Mr. Aarav, a resident individual, on 18-05-2018 by the State of Bihar on compulsory acquisition of his urban land.
- Payment of ₹ 2,00,000 to Mr. Rakesh a transporter who owns 8 goods carriages throughout the previous year. He does not furnish his PAN.

Answer:

- 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 ₹ 2,50,000.

In the given case, there is no liability to deduct tax at source as the payment made to Mr. Aarav does not exceed ₹ 2,50,000

(ii) As per section 194C, no tax is required to be deducted at source on payment to transporter if the following conditions are satisfied:

- (1) He owns ten or less goods carriages at any time during the previous year.
- (2) He is engaged in the business of plying, hiring or leasing goods carriages;
- (3) He furnishes a declaration to this effect along with his PAN.

In the present case, since Mr. Rakesh has not furnished his PAN, tax is required to be deducted at source @ 20% under section 206AA on ₹ 2,00,000, since the same exceeds the threshold limit of ₹ 1,00,000.

Tax deducted at source = ₹ 40,000 (Rs. 2,00,000 x 20%)

Question 2 (b) II.

(3 Marks)

Examine with reasons, whether quoting of PAN in the following transactions is mandatory or not, as per the provisions of Income-tax Act, 1961 for A.Y. 2019-20:

- (i) Mr. Nihar makes cash payment to a hotel Ginger, Rishikesh of ₹ 50,000 against the bill raised by the hotel.
- (ii) Mr. Suresh, in a single transaction, makes contract of ₹1,85,000 for sale/purchase of securities (other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956.
- (iii) Payment to Mutual Funds of ₹57,000 for purchase of its units.

Answer:

Requirement of quoting PAN in respect of certain transactions [Rule 114B of Income-tax Rules, 1962]

- (i) **PAN not required to be quoted:** Mr. Nihar is not required to quote his PAN while making payment ₹ 50,000 in cash to a hotel Ginger, Rishikesh, since such payment does not exceed ₹ 50,000.
- (ii) **PAN is mandatorily required to be quoted:** Mr. Suresh is required to quote his PAN while making contract of ₹ 1,85,000 for sale/purchase of securities (other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956, since amount of the transaction exceeds ₹ 1,00,000.
- (iii) **PAN is required to be quoted:** PAN has to be mandatorily quoted while making payment of ₹57,000 to Mutual Funds for purchase of its units, since such payment exceeds ₹ 50,000.

Question 3 (a)

(7 Marks)

Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2018 for ₹ 80,00,000.

The sale proceeds were to be paid in the following manner:

- (i) 20% through accountpayee bank draft on the date of agreement.
- (ii) 60% on the date of the possession of the property.
- (iii) Balance after the completion of the registration of the title of the property.

Mr. Jaikumar was handed over the possession of the property on 15.12.2018 and the registration process was completed on 14.01.2019. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority on 16.08.2018 was ₹90,00,000 whereas on 14.01.2019 it was ₹91,50,000.

Mr. Sarthak had acquired the property on 01.04.2001 for ₹ 20,00,000. After recovering the sale proceeds from Jaikumar, he purchased another residential house property for ₹ 20,00,000 on 24.3.2019.

Compute the income under the head "Capital Gains" for the Assessment Year 2019 -20.

Cost Inflation Index for Financial Year(s)

2001-02- 100; 2018-19 - 280

Answer:

Computation of income chargeable under the head "Capital Gains" for A.Y. 2019 -20

Particulars	₹
Capital Gains on sale of residential house	
Actual sale consideration	₹ 80 lakhs
Value adopted by Stamp Valuation Authority	₹ 90 lakhs
Full value of sale consideration [Higher of the above]	90,00,000
[As per section 50C, where the actual sale consideration declared by the assessee on the date is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 105% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.	
In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement.	
In this case, since 20% of ₹ 80 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement can be adopted as the full value of consideration]	
Less: Indexed cost of acquisition of residential house	
[Rs. 20 lakhs x 280/100]	<u>56,00,000</u>
Long-term capital gains [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer]	24,00,000
Less: Exemption u/s 54	20,00,000
The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India within one year before or two years after the date of transfer of original asset.	
Long term capital gains chargeable to tax	4,00,000

Question 3 (b)

(7 Marks)

Mr. Shivam, employed as Finance Executive in Tej Pratap Industries Pvt. Ltd., furnishes you the following information for the year ended 31-03-2019 :

(i) Basic salary ₹70,000 p.m. From 1st December 2018, basic salary increased to 80,000 p.m.

Note: Salary is due and paid on the last day of every month.

(ii) Dearness allowance @50% of basic salary (not forming part of salary for retirement benefits).

(iii) Bonus equal to one month salary. This was paid in November, 2018 on basic salary plus dearness allowance applicable for that month.

(iv) Contribution of employer to recognized provident fund account of the employee @ 18% of basic salary, employee also contributing an equivalent amount.

(v) Profession tax paid ₹2,200 of which ₹1,800 was paid by the employer.

- (vi) Facility of laptop was provided to Shivam for both official and personal use. Cost of laptop ₹65,000 and was purchased by the company on 11-10-2018
- (vii) Leave travel concession given to Shivam, his wife and three children (one daughter aged 6 and twin sons aged 4). Cost of air tickets (economy class) reimbursed by the employer ₹20,000 for adults and lumpsum of ₹25,000 for three children. Shivam is eligible for availing exemption this year to the extent it is permissible under the Income-tax Act, 1961.

Compute the taxable salary of Mr. Shivam.

Answer:

Computation of taxable salary of Mr. Shivam for the A.Y. 2019-20

Particulars	₹	₹
Basic Salary [(Rs.70,000 x 8) + (Rs.80,000 x 4)]		8,80,000
Dearness allowance [50% of basic salary]		4,40,000
Bonus [Rs.70,000 + 50% of ₹70,000]		1,05,000
Employer's contribution to recognized provident fund in excess of 12% of salary [(18%-12%) x ₹8,80,000 = 6% of ₹8,80,000= [Salary includes only basic salary, since dearness allowance, in this case, does not form part of salary for retirement benefits]		52,800
Leave travel concession	45,000	
Less: Exempt	<u>45,000</u>	
[Mr. Shivam can avail exemption on the entire amount of ₹45,000 reimbursed by the employer towards leave travel concession since the leave travel concession was availed for himself, wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple birth which take place after the first child.]		
Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]		1,800
Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both]		—
Gross Salary		14,79,600
Less: Deduction under section 16		
Professional tax paid		2,200
Standard Deduction, lower of salary or ₹ 40,000		<u>40,000</u>
Taxable Salary		14,37,400

Question 4 (a)

(5 Marks)

Mr. Satish Sharma has derived the following income/loss, as computed below, for the previous year 2018-19:

Particulars	₹
Loss from let out house property	2,50,000
Loss from non-speculation business	3,20,000
Income from speculation business	12,45,000
Loss from specified business covered u/s 35AD	4,10,000
Winnings from lotteries (Gross)	1,50,000
Winnings from bettings (Gross)	90,000
Loss from card games	3,40,000

You are required to compute the total income of the assessee for the assessment year 2019 -20, showing clearly the manner of set-off and the items eligible for carry forward. The return of income has been filed on 30-7-2019.

Answer:

Computation of total income of Mr. Satish Sharma for the A.Y.2019-20

Particulars	₹	₹
Profits and gains of business or profession		
Income from speculation business	12,45,000	
Less: Set-off of loss from non-speculation business	<u>3,20,000</u>	
	9,25,000	
Less: Set-off of loss from house property, restricted to	<u>2,00,000</u>	7,25,000
Income from other sources		
Winnings from lotteries	1,50,000	
Winnings from bettings	<u>90,000</u>	<u>2,40,000</u>
Gross Total Income		9,65,000
Less: Deduction under Chapter VI-A		<u>Nil</u>
Total income		<u>9,65,000</u>

Losses to be carried forward to A.Y.2020-21:

Particulars	₹
Loss from house property (Rs. 2,50,000 - ₹ 2,00,000) As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only. Balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year.	50,000
Loss from specified business covered by section 35AD Loss from specified business under section 35AD can be set-off only against profits of any other specified business. As per section 73A(2), if loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. Since the return has been filed before the due date, such loss can be carried forward.	4,10,000
Loss from card games Loss from card games can neither be set off against any other income, nor can it be carried forward.	

Question 4 (b)

(5 Marks)

Mrs. and Mr. Naresh Yadav have two minor children Mahi and Nonu. The following are the receipts in the hands of Mahi and Nonu during the year ended 31-3-2019:

- (i) Mahi received a gift of ₹85,000 from her friend's father on the occasion of her birthday.
- (ii) Nonu won a prize money of ₹3,00,000 in National Sports competition.

This was invested in debentures of a company, from which interest of ₹25,000 (gross) accrued during the year.

Mr. Naresh's income before considering clubbing provisions is higher than that of his wife.

Explain how these items will be considered for taxation under the provisions of the Income Tax Act, 1961. Detailed computation of income is not required.

Answer:

(i)	<p><u>Gift received from non -relative by minor daughter Mahi</u></p> <p>Gift of ₹ 85,000 received by minor daughter Mahi, from non-relative would be taxable, since the amount of gift exceeds ₹ 50,000. It would be included in the hands of her father, Mr. Naresh Yadav, since his income before considering clubbing provisions is higher than that of his wife.</p> <p>Exemption of ₹1,500 would be allowed in respect of the aggregate income of minor daughter Mahi so included in the hands of Mr. Naresh Yadav under section 10(32)</p>
(ii)	<p><u>Prize money of ₹ 3,00,000 in National Sports Competition/Interest on debentures received by minor son Nonu</u></p> <p>Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be included in the hands of parent. Hence, the prize money of ₹ 3,00,000 won in National Sports Competition by minor son Nonu from exercise of special talent would not be included in the income of either parent.</p> <p>However, interest of ₹ 25,000 on debentures has to be included in the hands of her father, Mr. Naresh Yadav, even if the investment is made out of income arising from application of special talent.</p> <p>Exemption of ₹1,500 would be allowed in respect of the aggregate income of minor son Nonu so included in the hands of Mr. Naresh Yadav under section 10(32).</p>

Question 4 (c)**(4 Marks)**

Briefly mention the provisions of Income-tax Act, 1961 with regard to quoting Aadhar Number under section 139AA of the Act.

Answer:**Provisions of Income-tax Act, 1961 relating to quoting of Aadhar Number under section 139AA**

Every person who is eligible to obtain Aadhar Number is required to mandatorily quote Aadhar Number, on or after 1st July, 2017:

- (a) in the application form for allotment of Permanent Account Number (PAN)
- (b) in the return of income

The provisions of section 139AA relating to quoting of Aadhar Number would, however, not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

- (i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;
- (ii) a non-resident as per Income-tax Act, 1961;
- (iii) of the age of 80 years or more at any time during the previous year;
- (iv) not a citizen of India.

If a person does not have Aadhar Number, he is required to quote Enrolment ID of Aadhar application form issued to him at the time of enrolment in the application form for allotment of PAN or in the return of income furnished by him.

SECTION B - INDIRECT TAXES (40 MARKS)

QUESTIONS

- (i) Working Notes should form part of the answers. However, in answers to Question in Division A, working notes are not required.
- (ii) Wherever necessary, suitable assumptions may be made by the candidates, and disclosed by way of note.
- (iii) All questions should be answered on the basis of the position of GST law as amended up to 30 th April, 2019.
- (iv) 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.

Division A - Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

Total Marks: 12 Marks

Question Nos. 1 and 2 carries 2 Marks each

Question 1

(2 Marks)

GST is payable by recipient of services in the following cases:-

- (i) Services provided by way of sponsorship to ABC Ltd.
- (ii) Services supplied by a director of Galaxy Ltd. to Mr. Krishna.
- (iii) Services by Department of Posts by way of speed post to MNO Ltd.
- (iv) Services supplied by a recovering agent to SNSP Bank

- (a) (i) & (iii)
- (b) (i) & (iv)
- (c) (ii) & (iii)
- (d) (ii) & (iv)

Answer: (b)

Question 2

(2 Marks)

Which of the following statements are correct?

- (i) Revocation of cancellation of registration under CGST/SGST Act shall be deemed to be a revocation of cancellation of registration under SGST/CGST Act.
- (ii) Cancellation of registration under CGST/SGST Act shall be deemed to be a cancellation of registration under SGST/CGST Act.
- (iii) Revocation of cancellation of registration under CGST/SGST Act shall not be deemed to be a revocation of cancellation of registration under SGST/CGST Act.
- (iv) Cancellation of registration under CGST/SGST Act shall not be deemed to be a cancellation of registration under SGST/CGST Act.

- (a) (i) and (ii)
- (b) (i) and (iv)

- (c) (ii) and (iii)
- (d) (iii) and (iv)

Answer: (a)

Question Nos. 3 to 13 are of 1 mark each.

Question 3

(1 Mark)

Which of the following is not eligible for opting composition scheme under GST?

- (a) M/s ABC, a firm selling garments having annual turnover of ₹ 78 lakh.
- (b) A startup company operating restaurant in Delhi having a annual turnover of ₹ 98 lakh.
- (c) A courier service company operating solely in Mumbai having annual turnover of ₹ 90 lakh.
- (d) A trader selling grocery items having an annual turnover of ₹ 95 lakh.

Answer: (c)

Question 4

(1 Marks)

Which of the following is not a supply of services?

- (a) Renting of Commercial Office Complex
- (b) Payment of Non-Compete Fee by an ex-employee to his previous employer
- (c) Repairing of Mobile Phone
- (d) Permanent transfer of business assets on which ITC is availed

Answer: (d)

Question 5

(1 Mark)

Which of the following services is exempt under health care services provided by clinical establishments?

- (a) Chemist shop in the hospital selling medicines to public at large
- (b) Food supplied from an outsourced canteen to in-patients as per diet prescribed by the hospital dietitian
- (c) Advertisement services provided by the hospital to a pharmaceutical company for their asthma pump by displaying it prominently in the hospital building
- (d) All of the above

Answer: (b)

Question 6

(1 Mark)

Alcoholic liquor for human consumption is subjected to

- (a) State excise duty
- (b) Central Sales Tax/Value Added Tax
- (c) Both (a) and (b)
- (d) GST

Answer: (c)

Question 7

(1 Mark)

Which of the following persons is not eligible for composition scheme even though their aggregate turnover does not exceed ₹1 crore in preceding FY, in Uttar Pradesh?

- (a) A person supplying restaurant services
- (b) A person supplying restaurant services and earning bank interest

- (c) A person supplying restaurant services and warehousing of rice
 (d) A person supplying restaurant services and warehousing of processed tea

Answer: (d)

Question 8

(1 Mark)

Can a registered person opting for composition scheme collect GST on his outward supplies?

- (a) Yes, in all cases
 (b) Yes, only on such goods as may be notified by the Central Government
 (c) Yes, only on such services as may be notified by the Central Government
 (d) No

Answer: (d)

Question 9

(1 Mark)

What is the due date for payment of tax for a normal taxpayer?

- (a) Last day of the month to which payment relates
 (b) Within 10 days of the subsequent month
 (c) Within 20 days of the subsequent month
 (d) Within 15 days of the subsequent month

Answer: (c)

Question 10

(1 Mark)

An exempt supply includes-

- (a) Supply of goods or services or both which attracts Nil rate of tax
 (b) Non-taxable supply
 (c) Supply of goods or services or both which are wholly exempt from tax under section 11 of the CGST Act or under section 6 of IGST Act
 (d) All of the above

Answer: (d)

Division B - Descriptive Questions

Question No. 1 is compulsory.

Attempt any three questions out of remaining four questions.

Total Marks: 38 Marks

Question 1

(8 Marks)

Mr. X, a supplier of goods, pays GST under regular scheme. He has made the following outward taxable supplies in a tax period:

Particulars	(₹)
Intra-State supply of goods	8,00,000
Inter-State supply of goods	3,00,000

He has also furnished the following information in respect of purchases made by him in that tax period:

Particulars	₹
Intra-State purchases of goods	2,00,000
Inter-State purchases of goods	50,000

Mr. X has following ITCs with him at the beginning of the tax period:

Particulars	₹
CGST	57,000
SGST	Nil
IGST	70,000

Note:

- Rate of CGST, SGST and IGST to be 9%, 9% and 18% respectively.
- Both inward and outward supplies are exclusive of taxes, wherever applicable.
- All the conditions necessary for availing the ITC have been fulfilled.

Compute the minimum GST, payable in cash, by Mr. X during the tax period. Make suitable assumptions as required.

Answer:

Computation of minimum GST payable in cash by Mr. X on outward supplies

S.No.	Particulars	(₹)	GST (₹)
(i)	Intra-State supply of goods		
	CGST @ 9% on ₹ 8,00,000	72,000	
	SGST @ 9% on ₹ 8,00,000	<u>72,000</u>	1,44,000
(ii)	Inter-State supply of goods		
	IGST @ 18% on ₹ 3,00,000		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 Rs. 2,00,000	18,000	18,000	Nil
Add: ITC on Inter-State purchases of goods valuing Rs. 50,000	Nil	Nil	9,000
Total ITC	75,000	18,000	79,000

Computation of minimum GST payable from cash ledger

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
GST payable	72,000	72,000	54,000
Less: ITC	(Nil)-IGST	(25,000)-IGST	(54,000)-IGST
	(72,000)-CGST	(18,000) – SGST	
Minimum GST payable in cash	Nil	29,000	Nil

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.

Question 2 (a)

(4 Marks)

Determine taxable value of supply under GST law with respect to each of the following independent services provided by the registered persons:

Particulars	Gross amount charged (₹)
Fees charged for yoga camp conducted by a charitable trust registered under section 12AA of the Income-tax Act, 1961	50,000
Amount charged by business correspondent from banking company for the services provided to the rural branch of a bank with respect to Savings Bank Accounts	1,00,000
Amount charged by cord blood bank for preservation of stem cells	5,00,000
Amount charged for service provided by commentator to a recognized sports body	5,20,000

Answer:

Computation of value of taxable supply

Particulars	(₹)
Fees charged for yoga camp conducted by a charitable trust registered under section 12AA of the Income-tax Act, 1961 [Note-1]	Nil
Amount charged by business correspondent for the services provided to the rural branch of a bank with respect to Savings Bank Accounts [Note-2]	Nil
Amount charged by cord blood bank for preservation of stem cells [Note-3]	Nil
Service provided by commentator to a recognized sports body [Note-4]	5,20,000

Notes:

- Services by an entity registered under section 12AA of the Income-tax Act, 1961 by way of charitable activities are exempt from GST. The activities relating to advancement of yoga are included in the definition of charitable activities. So, such activities are exempt from GST.
- Services by business facilitator or a business correspondent to a banking company with respect to accounts in its rural area branch have been exempted from GST.
- Services provided by cord blood banks by way of preservation of stem cells or any other service in relation to such preservation are exempt from GST.
- Services provided to a recognized sports body only by an individual as a player, referee, umpire, coach or team manager for participation in a sporting event organized by a recognized sports body are exempt from GST. Thus, services provided by commentators are liable to GST.

Question 2 (b)

(6 Marks)

Raman is an architect in Chennai. His brother who is settled in London is a well-known lawyer. Raman has taken legal advice from him free of cost with regard to his family dispute. Examine whether the said activity would amount to supply under section 7 read with Schedule I of the CGST Act

Would your answer be different if in the above case, Raman has taken advice in respect of his business unit in Chennai?

Answer:

Schedule I of CGST Act, inter alia, stipulates that import of services by a taxable person from a related person located outside India, without consideration is treated as supply if it is provided in the course or furtherance of business. Explanation to section 15, inter alia, provides that persons shall be deemed to be “related persons” if they are members of the same family. Further, as per section 2(49) of the CGST Act, 2017, family means, —

- the spouse and children of the person, and
- the parents, grand-parents, brothers and sisters of the person if they are wholly or mainly dependent on the said person.

In the given case, Raman has received free of cost legal services from his brother. However, in view of section 2(49)(ii) above, Raman and his brother cannot be considered to be related as Raman's brother is a well-known lawyer and is not wholly/mainly dependent on Raman. Further, Raman has taken legal advice from him in personal matter and not in course or furtherance of business. Consequently, services provided by Raman's brother to him would not be treated as supply under section 7 read with Schedule I of the CGST Act.

In the above case, if Raman has taken advice with regard to his business unit, services provided by Raman's brother to him would still not be treated as supply under section 7 of the CGST Act read with Schedule I as although the same are provided in course or furtherance of business, such services have not been received from a related person.

Question 3 (a)**(4 Marks)**

Determine the effective date of registration in following cases:

- (i) The aggregate turnover of Dhampur Footwear Industries of Delhi has exceeded the applicable threshold limit of ₹ 40 lakh on 1st September. It submits the application for registration on 20th September. Registration certificate is granted to it on 25th September.
- (ii) Mehta Teleservices is an architect in Lucknow. Its aggregate turnover exceeds ₹ 20 lakh on 25th October. It submits the application for registration on 27th November. Registration certificate is granted to it on 5th December.

Answer:

- (i) Every supplier becomes liable to registration if his turnover exceeds the applicable threshold limit [Rs. 40 lakh in this case] in a financial year [Section 22 read with Notification No. 10/2019 CT dated 07.03.2019]. Since in the given case, the turnover of Dhampur Industries exceeded ₹ 40 lakh on 1st September, it becomes liable to registration on said date.

Further, since the application for registration has been submitted within 30 days from such date, the registration shall be effective from the date on which the person becomes liable to registration [Section 25 read with rule 10 of the CGST Rules, 2017]. Therefore, the effective date of registration is 1st September.

- (ii) Since in the given case, the turnover of Mehta Teleservices exceeds the applicable threshold limit [Rs.20 lakh] on 25th October, it becomes liable to registration on said date.

Further, since the application for registration has been submitted after 30 days from the date such person becomes liable to registration, the registration shall be effective from the date of grant of registration. Therefore, the effective date of registration is 5th December.

Question 3 (b)**(6 Marks)**

The aggregate turnover of Sangri Services Ltd., Delhi, exceeded ₹ 20 lakh on 12th August. He applied for registration on 3rd September and was granted the registration certificate on 6th September. You are required to advise Sangri Services Ltd. as to what is the effective date of registration in its case. It has also sought your advice regarding period for issuance of Revised Tax Invoices.

Answer:

As per section 25 read with CGST Rules, 2017, where an applicant submits application for registration within 30 days from the date he becomes liable to registration, effective date of registration is the date on which he becomes liable to registration. Since, Sangri Services Ltd.'s turnover exceeded ₹ 20 lakh on 12th August, it became liable to registration on same day. Further, it applied for registration within 30 days of so becoming liable to registration, the effective date of registration is the date on which he becomes liable to registration, i.e. 12th August.

As per section 31 read with CGST Rules, 2017, every registered person who has been granted registration with effect from a date earlier than the date of issuance of certificate of registration to him, may issue

Revised Tax Invoices. Revised Tax Invoices shall be issued within 1 month from the date of issuance of certificate of registration. Revised Tax Invoices shall be issued within 1 month from the date of issuance of registration in respect of taxable supplies effected during the period starting from the effective date of registration till the date of issuance of certificate of registration.

Therefore, in the given case, Sangri Services Ltd. has to issue the Revised Tax Invoices in respect of taxable supplies effected during the period starting from the effective date of registration (12th August) till the date of issuance of certificate of registration (6th September) within 1 month from the date of issuance of certificate of registration, i.e. on or before 6th October.

Question 4 (a)**(5 Marks)**

Discuss the provisions relating to time of supply of goods that are taxable under reverse charge?

Answer:

The time of supply of goods on which GST is payable on reverse charge basis under sub-sections (3) and (4) of section 9 of CGST Act is determined in terms of section 12(3)(a), (b) and (c), as follows:

The time of supply for such goods will be the earliest of the following dates:

- Date on which the goods are received, or
- Date on which payment is recorded in the books of account of the recipient, or the date on which the same is debited in his bank account, whichever is earlier, or
- Date immediately following 30 days from the date of issue of invoice (or document by some other name in lieu of invoice) by the supplier.

If it is not possible to determine the time of supply by using these parameters, then the time of supply will be the date of entry of goods in the books of account of the recipient of supply.

Question 4 (b)**(3 Marks)**

Mr. X, a regular tax payer, did not make any taxable supply during the month of July. Is he required to file any goods and service tax return?

Answer:

A regular tax payer is required to furnish a return u/s 39 for every month even if no supplies have been effected during such period. In other words, filing of Nil return is also mandatory.

Therefore, Mr. X is required to file monthly return even if he did not make any taxable supply during the month of July.

Question 4 (c)**(2 Marks)**

What could be the liabilities (in so far as registration is concerned) on transfer of a business?

Answer:

The transferee or the successor shall be liable to be registered with effect from such transfer or succession and he will have to obtain a fresh registration with effect from the date of such transfer or succession.