

NOVEMBER-2019
SOLUTIONS (FOR NOV 2020 STUDENTS)
TAX (GROUP-1) NEW

AUC2

Roll No.....
Total No. of Questions - 8

Total No. of Printed Pages-24
Maximum Marks - 70

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive type answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to Questions in Part I are to be marked on the OMR answer sheet only. Answers to questions in Part II are to be written on the descriptive type answer book. Answers to MCQs, if written in the descriptive Type answer book, will not be evaluated.
6. OMR answer sheet will be in English only for all candidates, including for Hindi medium candidates.
7. The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive type answer book. No bar code sticker is to be affixed on the OMR answer sheet.
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have Completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit (a) Part I of the question paper containing MCQs, (b) OMR answer sheet thereon and (c) the answer book in respect of descriptive type answer book of the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators will be expelled from the examination and will also be liable for further punitive action.

PART-II

(70 Marks)

1. **Section-A** comprises questions **1-4**. In Section- A, answer Question No. **1** which is compulsory and any **2** questions from question No. **2-4**. All questions in Section-A relate to assessment year 2020-21, unless otherwise stated.
Section-B comprises questions **5-8**. In Section-B, answer Question No. **5** which is compulsory and any **2** Questions from question No. **6-8**.

2. Working notes should from part of the answer.
3. Answers to the 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/her answers in Hindi will not be evaluated.
4. All questions is Section B should be answered on the basis of position of GST law as amended by significant notifications/ circulars issued upto 30th April, 2020.

PART-II
Section-A

Question.1

(14 Marks)

Mrs. Mitul, a resident individual, aged 63 years, is a qualified medical practitioner. She runs her own clinic. Income & Expenditure A/c of Mrs. Mitul for the year ending March 31st 2020 is as under:

Expenditure	₹	Income	₹
To Salary to Staff	1,20,000	By Consultation Fees	12,00,000
To Administrative Exp.	2,90,000	By Salary received from True Care Hospitals (P) Ltd.	1,80,000
To Conveyance Expenses	24,000	By Rental Income from House Property	78,000
To Power & Fuel	24,000	By Dividend from Foreign Companies	10,000
To Interest on Housing Loan	1,00,000		
To Interest on Education Loan for son	26,000		
To Amount paid to scientific research association approved & Notified under Section 35	25,000		
To net profit	8,59,000		
Total	14,68,000	Total	14,68,000

Explanatory Information:

(i) She is working part-time with True Care Hospitals (P) Ltd. Her salary details are as under:

Basic Pay	₹ 13,000 p.m.
Transport Allowance	₹ 2,000 p.m.
Total	₹ 15,000 p.m.

Further, during P.Y. 2019-20, her son had undergone a medical treatment in True Care Hospitals (P) Ltd. free of cost. The hospital would have charged a sum of ₹ 60,000 for a similar treatment to un-related patients.

(ii) She owns a residential house. Ground floor of the house is self-occupied by her while first floor has been rented out since 01/10/2019. The reconstruction of the house was started on 01-04-2019 and was completed on 30-09-2019. The monthly rent is ₹ 10,000. The tenant also pays ₹ 3,000 p.m. as power back-up charges. She took a housing loan of ₹ 12 lakhs on 01-04-2019. Interest on housing loan for the period 01-04-2019 to 30-09-

2019 was 60,000 and for the period 01-10-2019 to 31-03-2020 was ₹ 40,000. During the year, she also paid municipal taxes for the F.Y. 2018-19 ₹ 5,000 and for F.Y. 2019-20 ₹ 5,000.

(iii) Other information:

(a) Conveyance expenses include a sum of ₹ 12,000 incurred for conveyance from house to True Care Hospital (P) Ltd. and vice-versa in relation to her employment.

(b) Power & fuel expenses include a sum of ₹ 6,000 incurred for generator fuel for providing power back-up to the tenant.

(c) Administrative expenses include a sum of ₹ 10,000 paid as Municipal Taxes for her house.

(d) Clinic equipment' details are:

Opening W.D.V. of clinic equipments as on 01-04-2019 was ₹ 1,00,000 and fresh purchase made on 28-08-2019 is ₹ 25,000 which was paid in cash.

(e) She also paid tuition fee of ₹ 40,000 for her grand-daughter, which has been debited to her Capital A/c.

(f) She availed a loan of ₹ 8,00,000 from bank for higher education of her son. She repaid principal of ₹ 50,000 and interest of ₹ 26,000 during P.Y. 2019-20.

You are required to compute her net taxable income and net tax liability for the Assessment Year 2020-21.

Solution:

Computation of taxable income and tax liability of Mrs. Mitul for the Assessment year 2020-21

Income under the head salary

Basic (13,000 x 12)	1,56,000
Transportation allowance (2,000 x 12)	24,000
Cost of treatment for son in True Care Hospitals (P) Ltd. [Exempt, since value of medical treatment provided to an employee's family member in any hospital maintained by the employer is excluded from the definition of perquisite (clause (i) of proviso to section 17(2))]	Nil
Gross salary	1,80,000
Less: standard deduction u/s 16(ia) [Actual salary or 50,000, whichever is less]	(50,000)
Taxable salary	1,30,000
Less: Loss under the head house property	(41,500)
Income under the head salary	88,500

Income under the head house property

First floor (let out)

Gross Annual Value [Rent received is taken as GAV = 10,000 p.m. x 6 months]	60,000
Less: Less: Municipal taxes paid by her in the P.Y.2019- 20 pertaining to let out portion [(₹5,000 + ₹5,000)/2], allowable since it is paid during the year, even if it relates to earlier years	(5,000)
Net Annual Value (NAV)	55,000
Less: 30% of 55,000 standard deduction u/s 24(a)	(16,500)

Less: Interest u/s 24(b) (60,000 + 40,000/2)	(50,000)
Loss from first floor	(11,500)

Ground floor (Self occupied)

Net Annual Value	Nil
Less: 30% standard deduction u/s 24(a)	Nil
Less: Interest on housing loan for reconstruction u/s 24(b) (1,00,000/2) but limited to 30,000	(30,000)
Loss from first floor	(30,000)
Loss under the head house property	(41,500)

Income under the business profession

Net Profit	8,59,000
Less: Items of income to be treated separately under the respective head of income	
Salary received taxable under other head	(1,80,000)
Rent from house property	(78,000)
Dividend from foreign company	(10,000)
Less: Allowable expenditure	
Depreciation on clinical equipments (1,00,000 x 15%)	(15,000)
On additions during the year 25,000, no depreciation is allowable, since payment was made in cash and hence, it will not form part of actual cost	Nil
Additional deduction of 50% for amount paid to scientific research association (Since weighted deduction of 150% is available in respect of such payment)	(12,500)
Add: Items of expenditure not allowable while computing business income	
Interest on housing loan for reconstruction of residential house	1,00,000
Interest on education loan for son	26,000
Conveyance expense in relation to her employment	12,000
Power & Fuel expenses incurred for power back up to tenant not deductible	6,000
Municipal taxes paid relating to residential house	10,000
Income under the head business profession	7,17,500

Income under the head other sources

Income from power back up facility	
Power backup charges from tenant (3,000 x 6)	18,000
Less: Actual expenditure incurred for providing power back up	(6,000)
	12,000
Dividend from foreign companies (not exempt u/s 10(34))	10,000
Income under the head other sources	22,000

Calculation of Total Income

Income under the head salary	88,500
Income under the head business profession	7,17,500
Income under the head other sources	22,000
Gross total income	8,28,000
Deduction under section 80C – Tuition fee paid for grand child is not allowable	Nil
Less: Deduction under section 80E - Interest on loan taken for higher education of her son is deductible [principal repayment is not deductible]	(26,000)
Total income	8,02,000

Computation of tax payable

Tax on 8,02,000 at slab rate	70,400
Add: HEC @ 4%	2,816
Tax liability	73,216
Rounded off u/s 288B	73,220

Note:

Loss from house property can also be set-off against business income. In such a case, salary income would be ₹ 1,30,000 and business income would be ₹6,76,000 (i.e., ₹7,17,500- ₹41,500). Gross total income, total income and tax liability would remain the same.

Alternative solution: Student can solve business income by taking 44ADA because Mrs. Mitul is a medical practitioner and gross receipts is below 50 lakhs. In such case business income shall be 50% of gross receipts i.e. 50% of 12,00,000 = 6,00,000.

Computation of taxable income and tax liability of Mrs. Mitul for the Assessment year 2020-21

Income under the head salary

Basic (13,000 x 12)	1,56,000
Transportation allowance (2,000 x 12)	24,000
Cost of treatment for son in True Care Hospitals (P) Ltd. [Exempt, since value of medical treatment provided to an employee's family member in any hospital maintained by the employer is excluded from the definition of perquisite (clause (i) of proviso to section 17(2))]	Nil
Gross salary	1,80,000
Less: standard deduction u/s 16(ia) [Actual salary or 50,000, whichever is less]	(50,000)
Taxable salary	1,30,000
Less: Loss under the head house property	(41,500)
Income under the head salary	88,500

Income under the head house property**First floor (let out)**

Gross Annual Value [Rent received is taken as GAV = 10,000 p.m. x 6 months]	60,000
Less: Less: Municipal taxes paid by her in the P.Y.2019- 20 pertaining to let out portion [(₹5,000 + ₹5,000)/2], allowable since it is paid during the year, even if it relates to earlier years	(5,000)
Net Annual Value (NAV)	55,000
Less: 30% of 55,000 standard deduction u/s 24(a)	(16,500)
Less: Interest u/s 24(b) (60,000 + 40,000/2)	(50,000)
Loss from first floor	(11,500)

Ground floor (Self occupied)

Net Annual Value	Nil
Less: 30% standard deduction u/s 24(a)	Nil
Less: Interest on housing loan for reconstruction u/s 24(b) (1,00,000/2) but limited to 30,000	(30,000)
Loss from first floor	(30,000)
Loss under the head house property	(41,500)

Income under the business profession

Consultation fees	12,00,000
Income under the head business profession (50% of 12,00,000 u/s 44ADA)	6,00,000

Income under the head other sources

Income from power back up facility	
Power backup charges from tenant (3,000 x 6)	18,000
Less: Actual expenditure incurred for providing power back up	(6,000)
	12,000
Dividend from foreign companies (not exempt u/s 10(34))	10,000
Income under the head other sources	22,000

Calculation of Total Income

Income under the head salary	88,500
Income under the head business profession	6,00,000
Income under the head other sources	22,000
Gross total income	7,10,500
Less: Deductions u/s 80E	(26,000)
Total income	6,84,500

Computation of tax payable

Tax on 6,84,500 at slab rate	46,900
Add: HEC @ 4%	1,876
Tax liability	48,776
Rounded off u/s 288B	48,780

Notes:

Loss from house property can also be set-off against business income. In such a case, salary income would be ₹ 1,30,000 and business income would be ₹5,58,500 (i.e., ₹6,00,000- ₹41,500). Gross total income, total income and tax liability would remain the same.

Question.2. (a)

(7 Marks)

Mr. Jagdish, aged 61 years, has set-up his business in Thailand and is residing in Thailand since last 20 years. He owns a house property in Bangkok, half of which is used as his residence and half is given on rent (such rent received, converted in INR is ₹ 6,00,000). The annual value of the house in Thailand is ₹ 50,00,000 i.e. converted value in INR.

He purchased a flat in Pune during F.Y. 2015-16, which has been given on monthly rent of ₹ 27,500 since 01.07.2018. The annual property tax of Pune flat is ₹ 40,000 which is paid by Mr. Jagdish whenever he comes to India. Mr. Jagdish last visited India in July 2018. He has taken a loan Union Bank of India for purchase of the Pune flat amounting to ₹ 15,00,000. The interest on such loan for the F.Y. 2019-20 was ₹ 84,000. However, interest for March 2020 quarter has not yet been paid by Mr. Jagdish.

He had a house in Jaipur which was sold in May 2015. In respect of this house he received arrear of rent of ₹ 96,000 in Feb. 2020 (not taxed earlier).

He also derived some other incomes during F.Y. 2019-20 which are as follows.

Profit from business in Thailand ₹ 2,75,000

Interest on bonds of a Japanese Co. ₹ 45,000 out of which 50% was received in India.

Income from Apple Orchid in Nepal given on contract and the yearly contract fee of ₹ 5,00,000, for F.Y. 2019-20 was deposited directly by the contractor in Kathmandu branch of Union Bank of India in Mr. Jagdish's bank account maintained with Union Bank of India's Pune Branch.

Compute the total income of Mr. Jagdish for Assessment Year 2020-21 chargeable to income tax in India.

Solution:

Stay in India for a minimum period of 182 days in the relevant previous year or, in the alternative, 60 days in the relevant previous year and 365 days in the four immediately preceding previous years is required to qualify

as a resident. In this case, since Mr. Jagdish has not visited India at any time during the P.Y.2019-20, he would be a non-resident for that year.

Computation of total income of Mr. Jagdish for the A.Y. 2020-21

Income under the head house property

Income from house property at Bangkok Nil

[Income from house property at Bangkok neither accrues or arises in India, nor is it deemed to accrue or arise in India; and it is also not stated to be received in India. Hence, it is not taxable in India, since he is a non-resident]

Income from house property in Pune (taxable in India since it accrues and arises in India)

Gross Annual Value (27,500 x 12) 3,30,000

Less: Municipal taxes (Nil)

(Deduction is not allowable, since no amount has been paid during the previous year 2019-20)

Net Annual Value (NAV) 3,30,000

Less: Standard deduction u/s 24(a) @ 30% of NAV (99,000)

Less: interest due on housing loan u/s 24(b) (84,000)

Income from flat in pune 1,47,000

Arrears of rent in respect of Jaipur house 96,000

(taxable u/s 25A, even if he is not the owner of the house property in the P.Y.2019-20)

Less: Deduction @ 30% (28,800)

67,200

Income from house property 2,14,200

Profits and gains of business or profession

Profit from business in Thailand Nil

(not taxable in the hands of a non-resident, since it neither accrues or arises in India nor is it deemed to accrue or arise in India; and it is also not stated to be received in India)

Income from other sources

Interest on bonds of a Japanese company 22,500

[Only ₹22,500, being 50% of ₹45,000 is taxable in India, since it is stated to be received in India]

Income from Apple Orchid in Nepal 5,00,000

[Contract fee directly credited to bank account in India is taxable in India, since it is received in India]

Income from other sources 5,22,500

Gross total Income

Income under the head house property 2,14,200

Income under the head other sources 5,22,500

Gross Total income 7,36,700

Less: Deductions u/s 80C to 80U Nil

Total Income

7,36,700

Note: Contract fee for Apple Orchid has been stated to have been deposited directly by the contractor **in the Kathmandu branch of UBI** in Mr. Jagdish's bank account maintained with UBI's Pune Branch. Since the deposit is stated to have been made by the contractor directly in UBI's Pune branch, the income is received in India and hence, would be taxable in the hands of Mr. Jagdish. The above solution has been worked out accordingly. However, due to the use of the word "in the Kathmandu branch", a view is taken that such receipt is actually received in Kathmandu and subsequently it is remitted to Indian branch, the amount of ₹5 lakh would not be taxable in India and hence, the total income would be ₹2,36,700.

Question. 2. (b)

(7 Marks)

Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.

(i) Mr. Tandon received a sum of ₹1,75,000 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.

(ii) A sum of ₹ 42,000 has been credited as interest on recurring deposit by a banking company to the account of Mr. Hasan (aged 63 years).

(iii) Ms. Kaul won a lucky draw prize of ₹ 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer.

(iv) Finance Bank Ltd. sanctioned and disbursed a loan of ₹ 10 crores to Borrower Ltd. on 31-3-2020. Borrower Ltd. paid a sum of ₹ 1,00,000 as service fee to Finance Bank Ltd. for processing the loan application.

(v) Mr. Ashok, working in a private company, is on deputation for 3 months (from December, 2019 to February, 2020) at Hyderabad where he pays a monthly house rent of ₹ 52,000 for those three months, totaling to ₹ 1,56,000. Rent is paid by him on the first day of the relevant month.

Answer:

(i) **On pre-mature withdrawal from EPF**

No tax is deductible under section 192A even though the employee, Mr. Tandon, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health. Hence, Rule 8 of Part A of the Fourth Schedule is applicable in this case.

(ii) **On credit of interest on recurring deposit by a banking company**

Since the interest on recurring deposit credited to the account of Mr. Hasan, a senior citizen, does not exceed ₹ 50,000 in the P.Y.2018-19, no tax is deductible at source under section 194A.

(iii) On payment of prize winnings of ₹21,000

Tax is deductible @ 30% under section 194B by M/s. Maximus Retail Ltd., from the prize money of ₹21,000 payable to the customer, since the winnings exceed ₹10,000

(iv) On payment of service fee to bank

Even though service fee is included in the definition of “interest” as defined under section 2(28A), no tax is deductible at source under section 194A, since the service fee are paid to a banking company, i.e., Finance Bank Ltd.

(v) On payment of rent exceeding ₹50,000 by a salaried individual

Mr. Ashok, a salaried individual, is liable to deduct tax at source @ 5% under section 194-IB on ₹1,56,000 (being rent for 3 months from December 2019 to February 2020) from the rent of ₹52,000 payable on 1st February, 2020, since the monthly rent exceeds ₹50,000

Question.3. (a)

(4 Marks)

Mr. Prakash is in the business of operating goods vehicles. As on 1st April, 2019, he had the following vehicles:

Vehicle	Gross Vehicle Weighted (in Kgs.)	Date of Purchase	Put to use during F.Y. 2019-20
A	8500	2-4-2018	Yes
B	13000	15-5-2018	Yes
C	12000	4-8-2018	No (as under repairs)

During P.Y. 2019-20, he purchased the following vehicles:

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Date on which put to use
D	11000	30-4-2019	10-5-2019
E	15000	15-5-2019	18-5-2019

Compute his income under Section 44AE of the Income Tax Act, 1961 for A.Y. 2020-21.

Solution:

Since Mr. Prakash does not own more than 10 vehicles at any time during the previous year 2019-20, he is eligible to opt for presumptive taxation scheme under section 44AE. As per section 44AE, ₹1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage. Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

Computation of Presumptive Income as per section 44AE

Type of carriage	No. of Months the vehicle is owned by Mr. Prakash	Rate per ton per month	Ton	Amount
(1)	(2)	(3)	(4)	(5) [(2) x (3) x (4)]
Heavy goods vehicle				

Vehicle B (13,000 kgs) held throughout the year	12	1,000	13 (13,000/1,000)	1,56,000
Vehicle E (15,000 kgs) purchased on 15.5.2019	11	1,000	15 (15,000/1,000)	1,65,000
<u>Goods vehicles other than heavy goods vehicle</u>				
Vehicle A held throughout the year	12	7,500	-	90,000
Vehicle C held throughout the year	12	7,500	-	90,000
Vehicle D purchased on 30.4.2019	12	7,500	-	90,000
Total				5,91,000

The “put to use” date of the vehicle is not relevant for the purpose of computation of presumptive income under section 44AE, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. Prakash.

Question.3. (b)

(6 Marks)

Mr. Rajan provides you the following details with regard to sale of certain securities by him during F.Y. 2019-20:

(i) Sold 10000 shares of A Ltd. on 05-04-2019 @ ₹ 650 per share

A Ltd. is a listed company. These shares were acquired by Mr. Rajan on 05-04-2016 @ ₹ 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares which was affected through a recognized stock exchange. On 31-01-2018, the shares of A Ltd. were traded on a recognized stock exchange as under:

Highest price - ₹ 300 per share

Average price - ₹ 290 per share

Lowest price - ₹ 280 per share

(ii) Sold 1000 units of B Mutual Fund on 20-04-2019 @ ₹ 50 unit

B Mutual Fund is an equity oriented fund. These units were acquired by Mr. Rajan on 15-04-2017 @ ₹ 10 per unit. STT was paid only at the time of transfer of such units. On 31-01-2018, the Net Asset Value of the units of B Mutual Fund was ₹ 55 per unit.

(iii) Sold 100 per shares of C Ltd. on 25-04-2019 @ ₹ 200 per share

C Ltd. is an un-listed company. These shares were issued by the company as bonus shares on 30-09-1997. The Fair Value of these shares as on 01-04-2001 was ₹ 50 per share.

Cost Inflation Index for various financial year are as under:

2001-02 - 100

2016-17 - 264

2017-18 - 272

2019-20 - 289

Calculate the amount chargeable to tax under the head 'Capital Gains' and also calculate tax on such gains for A.Y. 2020-21 assuming that the other incomes of Mr. Rajan exceeds the maximum amount not chargeable to tax. (Ignore surcharges and cess).

Solution:

Computation of amount chargeable to tax under the head capital gains in the hands of Mr. Rajan

(i) Sold 10000 shares of A Ltd. on 05-04-2019 @ ₹ 650 per share

Full value of consideration (10,000 x 650)	65,00,000
Cost of acquisition	(30,00,000)
Higher of	
1. Cost of acquisition (10,000 x 100)	10,00,000
2. Lower of	
(a) Fair market value of such asset on 31.01.2018 (10,000 x 300)	30,00,000
(b) Actual sale value	65,00,000
LTCG u/s 112A	35,00,000

(ii) Sold 1000 units of B Mutual Fund on 20-04-2019 @ ₹ 50 unit (Assumed units are not listed as on 31.01.2018)

Full value of consideration (1,000 x 50)	50,000
Cost of acquisition	(50,000)
Higher of	
1. Cost of acquisition (1,000 x 10)	10,000
2. Lower of	
(a) Fair market value of such asset on 31.01.2018 (1,000 x 55)	55,000
(b) Actual sale value (1,000 x 50)	50,000
LTCG u/s 112A	Nil

(iii) Sold 100 per shares of C Ltd. on 25-04-2019 @ ₹ 200 per share

Full value of consideration (100 x 200)	20,000
Less: Indexed Cost of Acquisition (100 x 50 (being FMV on 01.04.2001))/100 x 289	(14,450)
Long Term Capital Gain	5,550
Income under the head capital gains	35,05,550

Computation of Tax Liability

Tax on 34,00,000 (35,00,000 – 1,00,000) @ 10% u/s 112A	3,40,000
Tax on ₹5,550 @ 20% u/s 112	1,110
Tax before health & education cess	3,41,110

Question.3. (c)**(4 Marks)**

MLX Investments (P) Ltd. was incorporated during P.Y. 2017-18 having a paid up capital of ₹ 10 LAKHS. In order to increase its capital, the company further issues, 1,00,000 shares (having face value of ₹ 100 each) during the year at par as on 01-08-2019. The FMV of such share as on 01-08-2019 was ₹ 85.

(i) Determine the tax implications of the above transaction in the hands of company, assuming it is the only transaction made during the year.

(ii) Will your answer change, if shares were issued at ₹ 105 each?

(iii) What will be your answer, if shares were issued at ₹ 105 and FMV of the share was ₹ 120 as on 01-08-2019?

Answer:

The provisions of section 56(2)(viib) would be attracted, where consideration is received from a resident person by a company, other than a company in which public are substantially interested, in excess of the face value of shares i.e., where shares are issued at a premium. In such a case, the difference between the consideration received and the fair market value would be chargeable to tax under the head “Income from Other Sources”.

(i)

In this case, since MLX Investments (P) Ltd., a closely held company issued 1,00,000 shares (having face value of ₹100 each) at par i.e., ₹100 each, though issue price is greater than FMV, no amount would be chargeable to tax as income from other sources.

(ii)

In this case, since shares are issued at a premium, the amount by which the issue price of ₹105 each exceeds the FMV of ₹85 each would be chargeable to tax under the head “Income from other sources”. Hence, ₹20 lakh, being ₹20 (i.e., ₹105 - ₹85) x 1,00,000 shares, would be chargeable under section 56(2)(viib).

(iii)

If shares are issued at ₹105 each and FMV of share is ₹120 each, no amount would be chargeable to tax even though the shares were issued at a premium, since shares are issued at a price which is less than the fair market value.

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

Mr. Mahadev, a noted bhajan singer of Rajasthan and his wife Mrs. Dariya furnish the following information relating to the Assessment Year 2020-21.

		₹
1	Income of Mr. Mahadev- professional bhajan singer (computed)	5,65,000
2	Salary income of Mrs. Dariya (computed)	3,80,000
3	Loan received by Mrs. Dariya from Ramu & Jay (Pvt) Ltd. (Mrs. Dariya holds 35% shares of the Co. has incurred losses since its inception 2 years back)	2,50,000
4	Income of their minor son Golu winning signing reality show on T.V.	2,50,000
5	Cash gift received by Golu from friend of Mr. Mahadev on winning the show	21,000
6	Interest income received by minor married daughter Gudia from deposit with Ramu & Jay Pvt Ltd.	40,000

Compute total taxable income of Mr. Mahadev & Mrs. Dariya for the Assessment Year 2020-21.

Solution:

Computation of Taxable income of Mr. Mahadev for the A.Y. 2020-21

Income under the head business profession

Professional income (computed) 5,65,000

Income under the head other sources

Income of minor son – Golu

- Income from winning singing reality show on T.V. Nil

Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of parent. Hence, ₹2,50,000 earned by minor son Golu from reality show on TV would not be included in the income of either parent.

- Cash gift received by Golu from friend of Mr. Mahadev on winning the show Nil

The cash gift received by his minor son Golu (not on account of her skill) from his friends would not be taxable, since its value does not exceed ₹50,000.

Income of minor married daughter – Gudia

Interest income on deposit with Ramu & Jay Pvt. Ltd. 40,000

Less: exemption u/s 10(32) (1,500)

Income under the head other sources 38,500

(Income of minor daughter would be included in the hands of Mr. Mahadev, since his income, before including minor daughter's income, is higher than his wife's income).

Gross Total Income 6,03,500

Less: Deduction u/s 80C to 80U Nil

Total Income 6,03,500

Computation of Taxable income of Mrs. Dariya for the A.Y. 2020-21

Income under the head salary

Salary income (computed) 3,80,000

Loan received from Ramu & Jay (Pvt.) Ltd.	Nil
[Such loan amount would not be considered as deemed dividend under section 2(22)(e), even though Mrs. Dariya has substantial interest (holding 20% shares or more) in the Ramu & Jay (Pvt.) Ltd., a closely held company, since the company does not have any accumulated profits on account of losses incurred in last 2 years from inception]	
Gross Total Income	3,80,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	3,80,000

Question.4. (b)

(5 Marks)

Following are the details of incomes/ losses of Mr. Rishi for the F.Y. 2019-20:

(Figures in brackets represents losses)	₹
Taxable salary income (computed)	3,60,000
Taxable income from house property (computed)	
- from rented house property X	1,20,000
- from rented house property Y	(3,40,000)
Taxable profit from business (computed)	
- business P	2,30,000
- business Q	(12,000)
- business R (speculative business)	15,000
- business T (speculative business)	(25,000)
Taxable Income from other sources:	
- from card games	16,000
- from owning & maintenance of race horses	(7,000)
- interest on securities	5,000

You are required to determine the Gross total income of Mr. Rishi for Assessment year 2020-21.

Solution:

Computation of Gross Total Income for the A.Y. 2020-21

Income under the head Salary

Salary income (computed)	3,60,000
Less: Set-off of Loss from house property 2,20,000 restricted to	(2,00,000)
Income under the head salary	1,60,000

Income from House property

Income from Property X	1,20,000
Less: Loss from property Y [inter-source set-off is permitted under section 70(1)]	(3,40,000)
Loss from house property	2,20,000
Less: Loss eligible for set-off against salary income as per section 71(3A) restricted to	2,00,000

Loss to be carried forward to A.Y. 2021-22 as per section 71B, (20,000)
for set-off against income from house property, if any, in that year.

Income under the head business profession

Income from Business P	2,30,000
Less: Loss from Business Q [inter source set-off is permitted]	(12,000)
Income from normal business	2,18,000
Income from Business R (speculative)	15,000
Less: Loss from speculation business T	(25,000)
(can be set-off only against income from speculation business as per section 73(1))	
Loss to be carried forward to A.Y. 2021-22 for set-off against speculation	(10,000)
business income of that year by virtue of section 73(2)	
Income under the head business profession	2,18,000

Income under the head other sources

Income from card games	16,000
Interest income	5,000
Income under the head other sources	21,000
Loss from owning and maintaining race horses (7,000)	
[Not allowed to be set-off against any other income under this head or under any other head. Thus, such loss has to be carried forward to A.Y. 2021-22 for set-off against income, if any, from owning and maintaining race horses in that year by virtue of section 74A(3)]	

Gross total income

Income under the head salary	1,60,000
Income under the head business profession	2,18,000
Income under the head other sources	21,000
Gross total income	3,99,000

Note: Loss from house property of ₹2 lakh can also be set-off against business income instead of salary income. In such a case, salary income would be ₹3,60,000 and business income would be ₹18,000. Gross total income would remain the same.

Any other permutation for set-off of house property (other than income from card games), including partial set-off against one head and the remaining against another, is also possible

Question.4. (c)

(4 Marks)

What are the clarifications made by CBDT with respect to Section 206 C (1F) relating to following issues:

(i) Whether TCS on sale of motor vehicle is applicable only to luxury car?

- (ii) Whether TCS is applicable on each sale or aggregate value of sale motor vehicle, exceeding ₹ 10 lakhs?
- (iii) Whether TCS is applicable in case of an individual?
- (iv) Whether TCS on sale of motor vehicle is at retail level or only by manufacturer to distributor or dealer?

Answer:

- (i) No, as per section 206C(1F), the seller shall collect tax @ 1% from the purchaser on sale of any motor vehicle of the value exceeding ₹10 lakhs.
- (ii) Tax is to be collected at source @ 1% on sale consideration of a motor vehicle exceeding ₹10 lakhs. It is applicable to each sale and not to aggregate value of sale made during the year.
- (iii) The term “seller” includes inter alia, an individual who is liable to audit as per the provisions of section 44AB during the financial year immediately preceding the financial year in which the motor vehicle is sold. Thus, an individual shall be liable for collection of tax at source on sale of motor vehicle by him.
- (iv) TCS on sale of motor vehicle is applicable on all transactions of retail sales only. Accordingly, it will not apply on sale of motor vehicles by manufacturers to dealers/distributors.

OR

Elaborate the conditions, non-fulfilment of which would render a return of income filed by an assessee not maintaining regular books of accounts, defective.

Answer:

Where regular books of account are not maintained by the assessee, the return should be accompanied by –

- (i) a statement indicating –
 - (1) the amount of turnover or gross receipts,
 - (2) gross profit,
 - (3) expenses; and
 - (4) net profit of the business or profession;
- (ii) the basis on which such amounts mentioned in (i) above have been computed,
- (iii) the amounts of total sundry debtors, sundry creditors, stock-in-trade and cash balance as at the end of the previous year.

Note: The above answer is based on the provisions of section 139(9) of the Income -tax Act, 1961. However, since returns are now required to be e-filed, many of the details need to be incorporated as part of the relevant return form itself.

Section-B

Question.5.

(8 Marks)

M/s Grey, a registered taxable person under regular scheme provides following information in respect of supplies made by it during the month of April 2019:

	(All amount in rupees)
(i) Inter- state supply of goods	1,00,000
(ii) Intra- state supply of 500 packets of detergent @ ₹400 each alongwith a plastic bucket worth ₹ 100 each with each packet, being a mixed supply. (Rate of GST on detergent is 18% and on plastic bucket is 28%)	
(iii) Supply of online educational journals to M/s Pinnacle, a private coaching centre providing tuitions to students of Class X-XII, being intra-state supply.	50,000

M/s Grey has also received the following inward supplies:

(iv) Inter-state supply of goods (out of which invoice for goods worth ₹ 20,000 is missing and no other tax paying document is available)	70,000
(v) Repairing of bus with seating capacity of 20 passengers used to transport its employees from their residence, being intra-state supply,	50,000

Details of opening balances of ITC as on 1-4-2019 are as

Follows:

	(₹)
CGST	5,000
SGST	5,000
IGST	40,000

Following additional information is provided:

(a) Rate of GST in respect of all inward and outward supplies except item (ii) above is 18% i.e. CGST and SGST @ 9% and IGST @ 18%.

(b) All figures mentioned above are exclusive of taxes.

(c) All the conditions for availing the ITC have been fulfilled except specifically given and M/s. Grey is not eligible for any threshold exemption.

Compute the maximum net GST payable in cash by M/s. Grey for the month of April 2019.

Solution: Computation of Net GST Payable in cash for the month of April 2019

₹

Output Tax

(i) Inter state supply of goods	1,00,000
Add: IGST @ 18%	18,000
 (ii) Intra State Sale of Taxable goods	
Detergent (500 x 400)	2,00,000
Add: CGST @ 14%	28,000
Add: SGST @ 14%	28,000

(iii) Intra State Sale of educational journal	
Value	50,000
Add: CGST @ 9%	4,500
Add: SGST @ 9%	4,500

Input Tax

Inter state purchase	50,000
Add: IGST @ 18%	9,000

Repairing of bus with seating capacity of 20 passengers	50,000
Add: CGST @ 9%	4,500
Add: SGST @ 9%	4,500

Computation of Minimum net GST payable in cash

	CGST
Output Tax (28,000+4,500)	32,500
Less: ITC -IGST	(23,000)
Less: ITC -CGST	(9,500)
Net Tax Liability	Nil

	SGST
Output Tax (28,000+4,500)	32,500
Less: ITC -IGST	(8,000)
Less: ITC -SGST	(9,500)
Net Tax Liability	15,000

	IGST
Output Tax	18,000
Less: ITC -IGST	(18,000)
Net Tax Liability	Nil

Notes:-

1. Supply of detergent and bucket together with a single price of ₹400 is a mixed supply. Being a mixed supply comprising of two supplies, it shall be treated as supply of that particular supply that attracts highest rate of tax (28%).
2. Supply of online educational journal is exempt only when the same is provided to an educational institution which provides a qualification recognised by law. Since, the private coaching centre does not provide any recognised qualification, the supply of online educational journals to the same will be taxable.
3. ITC can be taken only on the basis of a valid tax paying document. Thus, ITC will not be available on goods for which the invoice is missing.
4. ITC on motor vehicles for transportation of persons with seating capacity > 13 persons (including the driver) used for any purpose is allowed. Further, ITC is allowed on repair and maintenance services relating to motor vehicles, ITC on which is allowed.

Note: Under the amended position of law, the IGST credit, after being set off against IGST liability, can be utilised against CGST and SGST liability in any order and in any proportion. Thus, there cannot be one answer for the minimum net CGST and SGST payable in cash [i.e. GST liability] as the amount of CGST and SGST liabilities are the same as also the amount of ITC for CGST and SGST is also the same.

Question.6. (a)

(6 Marks)

Mr. Zafar of Assam, provides the following information for the preceding financial year 2018-19. You are required to find out the aggregate turnover for the purpose of eligibility of composition levy scheme and determine whether he is eligible for composition levy scheme or not, for the F.Y. 2019-20.

Particulars	Amount (₹ in lakhs)
Value of taxable outward supplies (out of above ₹10 lakhs was in course of inter-state transactions).	50.00
Value of exempt supplies (which include ₹ 30 lakhs was received as a interest on loans & advances).	70.00
Value of inward supplies on which he is liable to pay tax under reverse charge	5.00
Value of exports	5.00
All the amounts are exclusive of GST.	

Solution:

Computation of aggregate turnover of Mr. Zafar for F.Y. 2018-19 for the purpose of eligibility of composition levy scheme

Particulars	Amount (₹ in lakhs)
Value of taxable outward supplies [Value of all taxable supplies including inter-State supplies are includible in aggregate turnover]	50.00
Value of exempt supplies [Value of exempt supplies is includible in aggregate turnover. However, value of supply of exempt services by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount, though exempt, is not includible in aggregate turnover for determining eligibility for composition scheme]	40.00
Value of inward supplies on which Mr. Zafar is liable to pay tax under reverse charge [Excludible from aggregate turnover]	Nil
Value of exports [Includible in aggregate turnover]	5.00
Aggregate turnover for determining eligibility for composition scheme	95.00

A registered person of Assam is eligible to opt for composition levy if his aggregate turnover does not exceed ₹ 1.5 crore in the preceding financial year provided he is not engaged in inter-State outward supplies of goods. Therefore, in the given case, assuming that he is not engaged in making any inter-State outward supply of goods in FY 2019-20, Mr. Zafar is eligible to opt for composition levy for FY 2019-20 since his aggregate turnover does not exceed ₹ 1.5 crore in FY 2018-19.

Question.6. (b)

(4 Marks)

Know & Grow Publishers, a registered dealer in India, paid an advance ₹ 50,000 to Mr. Ganatra, an author, for the copyright covered under Section 13(1) (a) of the Copyright Act, 1957, of his original literary work on 5-9-2019. It made the balance payment ₹ 1,50,000 on 12-12-2019. You are required to determine the time of supply, if Mr. Ganatra raised the invoice on:

(i) 6-10-2019

(ii) 17-12-2019

Answer:

GST on supply of services by an author by way of transfer or permitting the use or enjoyment of a copyright covered under section 13(1)(a) of the Copyright Act, 1957 relating to original literary works to a publisher is payable under reverse charge by such publisher, i.e. Know & Grow Publishers.

The time of supply of service, on which GST is payable under reverse charge, is earlier of the following:

(a) Date of payment as entered in the books of account of the recipient or date on which payment is debited from the bank account, whichever is earlier or

(b) 61st day from the date of issue of invoice by the supplier

(i) If the invoice is issued on 06.10.2019, time of supply is as under:

- For the payment of ₹50,000: 05.09.2019 [earlier of date of payment and 61st day from date of issue of invoice]
- For the payment of ₹1,50,000: 06.12.2019 [earlier of date of payment and 61st day from date of issue of invoice]

(ii) If the invoice is issued on 17.12.2019, time of supply is as under:

- For the payment of ₹50,000: 05.09.2019 [earlier of date of payment and 61st day from date of issue of invoice]
- For the payment of ₹1,50,000: 12.12.2019 [earlier of date of payment and 61st day from date of issue of invoice]

Question.7. (a)

(5 Marks)

Explain the registration requirements under GST law in the following independent cases

(i) Mr. Ahmad of Jammu engaged in the business of supplying tobacco based Pan Masala with an aggregate turnover of ₹ 24 lacs.

(ii) Mr. Lepcha of Mizoram is engaged in the supply of papers with an aggregate turnover of ₹ 13 lacs.

Will your answer be different if Mr. Lepcha is located in Meghalaya?

Answer:

(i) A person is eligible for enhanced threshold limit of ₹40 lakh in the State of Jammu and Kashmir if he is engaged exclusively in intra-State supply of goods. However, the enhanced threshold limit is not applicable if the person is engaged, inter alia, in the supply of pan masala and all goods of chapter 24 i.e. Tobacco and manufactured tobacco substitutes. In that case, the normal threshold limit of ₹20 lakh will be applicable. In view of said provisions, in the given case, Mr. Ahmad is liable to register since his aggregate turnover (₹24 lakh) exceeds the applicable threshold limit for registration of ₹20 lakh.

(ii) The enhanced threshold limit of ₹40 lakh as applicable to a person engaged exclusively in intra-State supply of goods, is not applicable to Mizoram [a specified Special Category State]. Instead, a lower threshold limit of ₹10 lakh for registration is applicable for Mizoram. Thus, in the given case, Mr. Lepcha of Mizoram is liable to register since his aggregate turnover (₹13 lakh) exceeds the applicable threshold limit for registration of ₹10 lakh.

The enhanced threshold limit of ₹40 lakh is also specifically not applicable in the State of Meghalaya. Instead, the normal threshold limit of ₹20 lakh for registration is applicable to it. Therefore, if Mr. Lepcha is located in Meghalaya, he is not liable to register since his aggregate turnover (₹13 lakh) does not exceed the applicable threshold limit for registration of ₹20 lakh.

Question.7. (b)

(5 Marks)

Mr. Shah, a consignor is required to move goods from Ahmedabad (Gujarat) to Nadiad (Gujarat). He appoints Mehta Transporter for movement of goods. Mehta Transporter moves the goods from Ahmedabad (Gujarat) to Kheda (Gujarat). For completing the movement of goods from Kheda (Gujarat) to Nadiad (Gujarat), Mehta Transporter now hands over the goods to Parikh Transporter.

Explain the procedure regarding e-way bill to be followed by consignor and transporter as per provisions of GST law and rules made thereunder.

Answer:

In the given scenario, only one e-way bill is required to be issued.

Part A can be filled by either Mr. Shah or recipient of goods or Mehta Transporter on the appropriate authorisation.

Where the goods are transferred from one conveyance to another, the consignor or the recipient, who has provided information in Part A, or the transporter shall, before such transfer and further movement of goods, update the details of conveyance in the e-way bill on the common portal in Part B.

Thus, on reaching Kheda, Mr. Shah or the recipient of the goods, who has filled Part A of the e-way bill, or Mehta Transporter can, before the transfer and further movement of goods, update the details of conveyance in Part B of the e-way bill.

Further, the consignor or the recipient, who has furnished the information in Part A, or the transporter, may assign the e-way bill number to another registered or enrolled transporter for updating the information in Part B for further movement of the consignment.

Thus, on reaching Kheda, Mr. Shah or the recipient of the goods, or Mehta Transporter can assign the said e-way bill to Parikh Transporter who will thereafter update the details of conveyance in Part B.

However, upon updation of the details of the conveyance by Parikh transporter in Part B, Mr. Shah or recipient, as the case may be, who has furnished the information in Part A shall not be allowed to assign the e-way bill number to another transporter.

Question.8. (a) (5 Marks)

Explain in brief the conditions to be fulfilled by a registered person under GST law for availing the option to pay concessional tax @ 3% (effective rate 6%) under GST as per the provisions of notification number 2/2019 CT(R) dt. 7-3-2019 as amended, with effect from 1st April, 2019.

Answer:

The scheme in Notification no. 2/2019 has now been shifted to section 10(2A) of the CGST Act.

Question.8. (b) (5 Marks)

Discuss the provisions of Section 39(9) of the CGST Act, 2017, relating to rectification of errors/ omissions in GST returns already filed and also state its exceptions. State the time limit for making such rectification.

Answer:

Omission or incorrect particulars discovered in the returns filed under section 39 can be rectified in the return to be filed for the month/quarter during which such omission or incorrect particulars are noticed.

Any tax payable as a result of such error or omission will be required to be paid along with interest.

Exception

Section 39(9) of the CGST Act does not permit rectification of error/omission discovered on account of scrutiny, audit, inspection or enforcement activities by tax authorities.

The time limit for making such rectification is earlier of the following dates:

- (i) Due date for filing return for September month of next financial year or
- (ii) Actual date of filing annual return

OR

Question.8. (c) (i) (2 Marks)

Explain the consequence, if the taxable person under GST law files the GST return under Section 39(1) of the CGST Act, 2017, but does not make payment of self-assessment tax.

Answer:

As per section 2(117), valid return means a return furnished under section 39(1) on which self - assessed tax has been paid in full otherwise it will be an invalid return.

If the taxable person under GST law files the GST return under section 39(1) of the CGST Act, 2017, but does not pay the self-assessment tax, the return is not considered as a valid return. Since the input tax credit can be availed only on the basis of a valid return, the taxable person, in the given case, will not be able to claim any input tax credit. He shall pay interest, penalty, fees or any other amount payable under the CGST Act for filing return without payment of tax.

Question.8. (c) (ii)

(3 Marks)

State the items which are to be debited to electronic liability register of the taxable person under the CGST Act, 2017 and rules thereunder.

Answer:

The items to be debited to electronic liability register of the taxable person are as under:-

- (a) all amounts payable towards tax, interest, late fee and any other amount as per return filed
- (b) all amounts payable towards tax, interest, penalty and any other amount determined in a proceeding by an Assessing authority or as ascertained by the taxable person;
- (c) the amount of tax and interest as a result of mismatch.
- (d) any interest amount that may accrue from time to time.

Note: Any three points may be mentioned out of the above mentioned four points.