

Test Series: October, 2019

MOCK TEST PAPER 1
INTERMEDIATE (NEW) COURSE
PAPER – 4: TAXATION
SECTION – A: INCOME TAX LAW
SOLUTIONS

Division A – Multiple Choice Questions

- I. (b)
- II. (b)
- III. (b)
- IV. (a)
- V. (d)
- VI. (c)
- VII. (d)
- VIII. (a)
- IX. (d)
- X. (c)
- XI. (a)
- XII. (b)

DIVISION B – DESCRIPTIVE QUESTIONS

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

Particulars	Rs.	Rs.
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 [The cost of acquisition of equity shares of C Ltd. would be Rs. 2,500, being higher of actual cost i.e., Rs. 2,500 and Rs. 1,800 (being the lower of FMV of Rs. 1,800 as on 31.1.2018 and actual sale consideration of Rs. 3,200). Accordingly, the long-term capital gains would be Rs. 2,10,000 i.e., [(Rs. 3,200 – Rs. 2,500) x 300].		<u>2,10,000</u>
Gross Total income		13,53,300
<i>Less: Deductions under Chapter VI A</i>		
(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 Rs. 35,000, being 1/3rd of Rs. 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 Rs. 1,00,000		11,000
Tax on winnings from lotteries @ 30%		3,000
Tax on normal income (Rs. 9,58,300)		
Upto Rs. 2,50,000	NIL	
Rs. 2,50,001-Rs. 5,00,000 @ 5%	12,500	
Rs. 4,58,300 (Rs. 5,00,001 – Rs. 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		<u>1,22,886</u>
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	Rs.
Gross Annual Value – Rent received (treated as fair rent)	20,000
Less : Municipal taxes paid	<u>3,000</u>
Net Annual Value (NAV)	17,000
Less : Statutory deduction under section 24 @ 30% of NAV	<u>5,100</u>
Income from House Property	<u>11,900</u>

2. Computation of Profits and gains of business or profession

Particulars	Rs.	Rs.
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	Rs.
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	<u>84,000</u>
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%	<u>45,000</u>
WDV as on 01.4.2019	<u>2,55,000</u>

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 Rs. 350, cannot be allowed as deduction from income from winnings of lotteries.

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

2. (a) 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	-	<u>9 days</u>
Total		<u>177 days</u>

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	Rs.	Rs.
Income from house property		
Flat located in Delhi let-out from 01.05.2018 to 31.03.2019 @ Rs.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>	100
Income from other sources		
- Gold chain worth Rs. 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	Nil	

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.

are not chargeable to tax.		
- Car worth Rs. 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 Rs. 1,72,000 is taxable under section 56(2)(x) since the amount of cash gifts of Rs. 1,72,000 exceeds Rs. 50,000.	<u>1,72,000</u>	<u>1,72,000</u>
Gross Total income		<u>1,72,100</u>

- (b) I. (i) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source @ 10%, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds Rs. 2,50,000.
- In the given case, there is no liability to deduct tax at source as the payment made to Mr. Aarav does not exceed Rs. 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 Rs. 2,00,000, since the same exceeds the threshold limit of Rs. 1,00,000.
- Tax deducted at source = Rs. 40,000 (Rs. 2,00,000 x 20%)
- II. 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 Rs. 50,000 in cash to a hotel Ginger, Rishikesh, since such payment does not exceed Rs. 50,000.
 - (ii) **PAN is mandatorily required to be quoted:** Mr. Suresh is required to quote his PAN while making contract of Rs. 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 Rs. 1,00,000.
 - (iii) **PAN is required to be quoted:** PAN has to be mandatorily quoted while making payment of Rs. 57,000 to Mutual Funds for purchase of its units, since such payment exceeds Rs. 50,000.

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

Particulars	Rs.
Capital Gains on sale of residential house	
Actual sale consideration	Rs. 80 lakhs
Value adopted by Stamp Valuation Authority	Rs. 90 lakhs

Full value of sale consideration [Higher of the above]	90,00,000
<p>[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.</p> <p>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.</p> <p>In this case, since 20% of Rs. 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]</p>	
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
<p>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.</p>	
Long term capital gains chargeable to tax	4,00,000

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

Particulars	Rs.	Rs.
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 Rs.70,000]		1,05,000
Employer's contribution to recognized provident fund in excess of 12% of salary[(18%-12%) x Rs.8,80,000 = 6% of Rs.8,80,000=		52,800
[Salary includes only basic salary, since dearness allowance, in this case, does not form part of salary for retirement benefits]		
Leave travel concession	45,000	
Less: Exempt	<u>45,000</u>	
[Mr. Shivam can avail exemption on the entire amount of Rs.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 Rs. 40,000		<u>40,000</u>
Taxable Salary		<u>14,37,400</u>

4. (a) **Computation of total income of Mr. Satish Sharma for the A.Y.2019-20**

Particulars	Rs.	Rs.
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		Nil
Total income		<u>9,65,000</u>

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

Particulars	Rs.
Loss from house property (Rs. 2,50,000 - Rs. 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 Rs. 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.	

(b)

(i)	<p>Gift received from non-relative by minor daughter Mahi</p> <p>Gift of Rs. 85,000 received by minor daughter Mahi, from non-relative would be taxable, since the amount of gift exceeds Rs. 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 Rs.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>
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(ii)	<p><u>Prize money of Rs. 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 Rs. 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 Rs. 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 Rs.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>
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(c) 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)

SUGGESTED ANSWERS/HINTS

Division A - Multiple Choice Questions Answer

1. (b)
2. (a)
3. (c)
4. (d)
5. (b)
6. (c)
7. (d)
8. (d)
9. (c)
10. (d)

Division B - Descriptive Answer

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

S.No.	Particulars	(Rs.)	GST (Rs.)
(i)	Intra-State supply of goods		
	CGST @9% on Rs. 8,00,000	72,000	
	SGST @ 9% on Rs. 8,00,000	<u>72,000</u>	1,44,000
(ii)	Inter-State supply of goods		
	IGST @ 18% on Rs. 3,00,000		54,000
	Total GST payable		1,98,000

Computation of total ITC

Particulars	CGST @ 9% (Rs.)	SGST @ 9% (Rs.)	IGST @ 18% (Rs.)
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% (Rs.)	SGST @ 9% (Rs.)	IGST @ 18% (Rs.)
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.

2. (a) Computation of value of taxable supply

Particulars	(Rs.)
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:

1. 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.
2. 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.
3. 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.
4. 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.

(b) 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, —

- (i) the spouse and children of the person, and
- (ii) 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.

3. **(a)** (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 Rs. 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.

- (b) 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 Rs. 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.

4. (a) 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.

- (b) 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.

- (c) 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.