

**MOCK TEST PAPER 2
INTERMEDIATE (NEW) COURSE
PAPER – 4: TAXATION
SECTION – A: INCOME TAX LAW
SOLUTIONS**

Division A – Multiple Choice Questions

MCQ No.	Sub-part	Most Appropriate Answer	MCQ No.	Most Appropriate Answer
1.	(i)	(b)	2.	(c)
	(ii)	(c)	3.	(d)
	(iii)	(a)	4.	(d)
	(iv)	(b)	5.	(b)
			6.	(a)

Division B – Descriptive Questions

1. **Computation of Total Income of Mr. Suresh for the A.Y.2021-22**

Particulars	Rs.	Rs.	Rs.
Income from house property			
Annual value (rent received has been taken as annual value, due to absence of information relating to expected rent in the question)		7,20,000	
<i>Less: Deduction u/s 24(a)</i>			
30% of Annual Value		2,16,000	5,04,000
Profits and gains of business or profession			
Net profit as per profit and loss account		73,55,815	
Add: Expenses/Payments debited to profit and loss account but not allowed			
- Depreciation as per books of account	1,82,000		
- Fee for late filing of income-tax return for A.Y. 2020-21 – disallowed	1,000		
- Salary paid to an accountant in cash exceeding Rs. 10,000 – disallowed under section 40A(3)	30,000		
- Interest paid to NBFC on loan which is used for personal purposes (Rs. 1,15,000 x 2,00,000/10,00,000) – not allowed as per section 37	23,000		
- Interest paid to NBFC on which tax is not deducted attracts disallowance @30% of Rs. 92,000 under section 40(a)(ia) [Since Mr. Suresh's turnover for the immediately preceding previous year i.e., P.Y. 2019-20 exceeds Rs. 1 crore, he is required to deduct tax at source. Disallowance@30% of interest is attracted for	27,600		

non-deduction of tax at source]			
- Income-tax paid for F.Y. 2019-20	3,45,000		
- Interest paid on late filing of GST, allowed, since it is not for infraction of law but is compensatory in nature.	Nil		
- Advertisement expenses towards an advertisement in a souvenir published by local political party [under section 37(2B)]	25,000	6,33,600	
Add: Undervaluation of Closing stock		55,000	
		80,44,415	
Less: Income chargeable under other heads and income not chargeable to tax but credited to profit and loss account			
- Dividend from Indian companies (taxable under the head "Income from other sources")	17,20,000		
- Interest on FDs (Net of taxes) (Gross income taxable under the head "Income from other sources")	1,11,000		
- Rent received (taxable under the head "Income from house property")	7,20,000		
- Income-tax refund	19,000	25,70,000	
		54,74,415	
Less: Depreciation as per Income-tax Rules		2,20,000	52,54,415
Income from Other Sources			
Dividend from Indian companies		17,20,000	
Interest on fixed deposits (Rs. 1,11,000 x 100/92.5, since tax was deducted at source @7.5%)		1,20,000	
Interest on income-tax refund		2,500	18,42,500
Gross Total Income			76,00,915
Less: Deduction under Chapter VI-A			
Section 80D			
Health insurance premium paid for self, spouse and his children allowable as deduction to the extent Rs. 25000		25,000	
Section 80GGC			
Expenditure towards advertisement in a souvenir published by local political party not allowable as deduction		Nil	25,000
Total Income			75,75,915
Total Income (Rounded Off)			75,75,920

Computation of tax payable by Mr. Suresh for the A.Y.2021-22

Particulars		Rs.
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000 [i.e., Rs. 2,50,000@5%]	12,500	
Rs. 5,00,001 – Rs.10,00,000 [i.e., Rs. 5,00,000@20%]	1,00,000	
Rs. 10,00,001 above [i.e., Rs. 65,75,920 @30%]	19,72,776	20,85,276
		20,85,276

Add: Surcharge @10%, since total income exceeds Rs. 50,00,000	2,08,528
	22,93,804
Add: Health and Education cess@4%	91,752
Tax Liability	23,85,556
Less: Advance tax	9,00,000
Tax deducted at source on interest on FDs under section 194A	9,000
Tax payable	14,76,556
Tax payable (rounded off)	14,76,560

Computation of tax liability of Mr. Suresh as per section 115BAC for A.Y.2021-22

Particulars	Rs.
Gross total Income as per regular provisions of the Act	76,00,915
Less: Deduction u/s 10AA/ Deduction under Chapter VI-A [No deduction under section 10AA or under Chapter VI-A is allowed]	-
Total Income as per section 115BAC	76,00,915
Total Income as per section 115BAC (rounded off)	76,00,920
Tax on total income of 76,00,920	
Upto Rs.2,50,000	Nil
Rs.2,50,001 – Rs.5,00,000[@5% of Rs.2.50 lakh]	12,500
Rs.5,00,001 – Rs.7,50,000[@10% of Rs.2.50 lakh]	25,000
Rs.7,50,001 – Rs.10,00,000[@15% of Rs.2.50 lakh]	37,500
Rs.10,00,001 – Rs.12,50,000[@20% of Rs.2.50 lakh]	50,000
Rs.12,50,001 – Rs.15,00,000[@25% of Rs.2.50 lakh]	62,500
Rs.15,00,001 – Rs.76,00,920[@30% of Rs.61,00,920]	18,30,276
	20,17,776
Add: Surcharge @10%, since total income exceeds Rs. 50,00,000	2,01,778
	22,19,554
Add: Health and education cess@4%	88,782
Total tax liability	23,08,336
Less: Advance tax	9,00,000
Tax deducted at source on interest on FDs under section 194A	9,000
Tax payable	13,99,336
Tax payable (rounded off)	13,99,340
<p>Since tax liability as per section 115BAC is lower than the tax liability under normal provisions of the Act, it is beneficial for Mr. Suresh to exercise option under section 115BAC. He has to exercise this option on or before the due date of furnishing the return of income. Further, he is having income from business or profession during the P.Y.2020-21, if he opts for section 115BAC for this previous year, the said provisions would apply for subsequent assessment years as well.</p>	

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.

During the previous year 2020-21, Mr. Thomas was in India for 75 days and during the 4 years preceding the previous year 2020-21, he was in India for 360 days (i.e. 50+ 65+ 95+ 150 days).

The total stay of the Mr. Thomas during the previous year in India was less than 182 days and during the four years preceding this year was for 360 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, he would be treated as non-resident for the Assessment Year 2021-22.

- (1) Not taxable, since interest payable by a non-resident to another non-resident would be deemed to accrue or arise in India only if the borrowed fund is used for the purposes of business or profession carried on by him in India. In this case, it is used for investing in Indian company's debt fund for earning interest and not for the purposes of business or profession. Hence, it is not taxable in India.
- (2) No income shall be deemed to accrue or arise to Mr. Thomas through or from activities which are confined to the collection of news and views in India for transmission outside India. Hence, Rs. 10 lakhs is not taxable in India in the hands of Mr. Thomas.
- (3) Rs. 10 lakhs is deemed to accrue or arise in India to Mr. Thomas, a non-resident, since it represents royalty/fees for technical services paid for services utilized in India, in this case, for setting up a Steel manufacturing plant in India. Hence, the same would be taxable in India in the hands of Mr. Thomas.

(b)

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of Rs. 40,000 in the F.Y.2020-21 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed Rs. 50,000 in the F.Y.2020-21.
2.	Payment of Rs. 1,10,000 to RBI for acquiring its bonds	Yes, since the amount paid exceeds Rs. 50,000
3.	Applied to SBI for issue of credit card.	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.
4.	Payment of Rs. 1,00,000 by account payee cheque to travel agent for travel to Dubai for 3 days to visit	No, since the amount was paid by account payee cheque, quoting of PAN is not mandatory even though the payment exceeds Rs. 50,000

(c) **Computation of advance tax of Ms. Soha under Presumptive Income scheme as per section 44AD**

The total turnover of Ms. Soha, a dealer of scooter, is ₹ 110 lakhs. Since her total turnover from such business is less than Rs. 200 lakhs and she does not wish to get his books of account audited, she can opt for presumptive tax scheme under section 44AD.

Less: Rebate under section 87A - Lower of Rs. 12,500 or income-tax of Rs. 12,300, since total income does not exceed Rs. 5,00,000	12,300	Nil
	Nil	12,900
Add: Health and Education cess@4%	Nil	516
Total tax payable	Nil	13,416
Tax Payable (Rounded off)	Nil	13,420

Cash Flow Statement

Particulars	Option I – HRA	Option II – RFA
Inflow: Salary	5,76,000	4,80,000
Less: Outflow: Rent paid	(78,000)	-
Tax on total income	Nil	(13,420)
Net Inflow	4,98,000	4,66,580

Since the net cash inflow under Option I (HRA) is higher than in Option II (RFA), it is beneficial for Mr. Kashyap to avail Option I, i.e., House Rent Allowance

(b) Computation of total income of Mr. Veer for A.Y.2021-22

Particulars	Rs.	Rs.
Income from house property		
Income from let out house property	3,50,000	
Less: Set-off of loss from self-occupied house property by virtue of section 70(1) [Whole of interest i.e., Rs. 2,00,000 allowable as deduction, since it is within the permissible limit applicable to self-occupied property; The said amount represents loss from self-occupied property]	<u>(2,00,000)</u>	1,50,000
Profits and gains of business or profession		
Income from textile business	5,75,000	
[As per section 80, brought forward business loss of Rs. 1,05,000 of assessment year 2017-18 cannot be set-off, since return of income for that year was filed after the expiry of due date specified under section 139(1)]	<u>Nil</u>	5,75,000
Capital Gains		
Long-term capital gains on sale of house	75,000	
Less: Short-term capital loss can be set-off against long-term capital gains [section 70(2)]	<u>70,000</u>	
	5,000	
Less: Brought forward long- term capital loss of Rs. 90,000 from A.Y. 2019-20, set-off to the extent of Rs. 5,000	<u>5,000</u>	Nil
Income from Other Sources		
Interest on enhanced compensation from Government	5,00,000	
Less: Deduction @50%	<u>2,50,000</u>	
	2,50,000	
Dividend from ABC Ltd.	<u>15,000</u>	<u>2,65,000</u>

Gross Total Income		9,90,000
Less: Deduction under section 80C – Deposit in PPF		<u>75,000</u>
Total Income		9,15,000
Losses to be carried forward to A.Y.2022-23		
Long-term capital loss of A.Y. 2019-20 (Rs. 90,000 – Rs. 5,000) to be set-off against long-term capital gains, if any, in that year	85,000	
Loss from owning and maintaining racehorse of the A.Y. 2020-21 to be set-off against income, if any, from owning and maintaining race horses in that year.	20,000	
Loss from gambling (it can neither be set-off against any income during the previous year nor can it be carried forward for set-off against any income in the subsequent assessment years).		

4. (a) As per section 45(1A), where any person receives any money or other assets under an insurance from an insurer on account of damage to or destruction of capital asset as a result of, inter alia, accidental fire then, any profits and gains arising from the receipt of such money or other assets, shall be chargeable to income tax under the head “Capital Gains” and shall be deemed to be the income of such person of the previous year in which such money or asset was received.

For the purpose of section 48, the money received or the market value of the asset shall be deemed to be the full value of the consideration accruing as a result of the transfer of such capital asset. Since the asset was destroyed and the money from the insurance company was received in the previous year, there will be a liability to compute capital gains in respect of the insurance moneys received by the assessee.

Under section 45(1A) any profits and gains arising from receipt of insurance moneys is chargeable under the head “Capital gains”. For the purpose of section 48, the moneys received shall be deemed to be the full value of the consideration accruing or arising. Under section 50 the capital gains in respect of depreciable assets had to be computed in the following manner (assuming it was the only asset in the block).

The computation of capital gain and tax implication is given below:

Full value of the consideration	Rs. 4,00,000
Less: Written down value as on April 1st, 2020	Rs. <u>1,87,850</u>
Short term capital gains	Rs. <u>2,12,150</u>

- (b) (i) **Royalty & Fee for technical services**

Tax is not required to be deducted at source under section 194J on payment of royalty of Rs. 20,000 and fee for technical services of Rs. 24,000 to Mr. A, since the limit of Rs. 30,000 for non-deduction of tax at source is applicable for royalty and fees for technical services, separately.

- (ii) **Director’s sitting fees**

Kiara Ltd. is required deduct tax at source @10% (7.5% for the period between 14.5.2020 to 31.3.2021) under section 194J, on the amount of sitting fees of Rs. 18,000 paid to a director, since the threshold limit of Rs. 30,000 is not applicable in respect of sum paid to a director.

Therefore, tax to be deducted at source = Rs. 18,000 @7.5% = Rs. 1,350

(iii) Compensation on compulsory acquisition of urban land

As per section 194LA, no tax is required to be deducted at source on the amount of Rs. 2,35,000 paid to Mr. Sumit by State Government on compulsory acquisition of his urban land, since amount does not exceed Rs. 2,50,000.

- (c) (i) Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds Rs. 50,000.

Thus, share received by M/s XYZ (P) Ltd. from Mrs. Neha for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of Rs. 2,00,000.

As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of ABC (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of ABC (P) Ltd are unquoted shares.

The full value of consideration (Rs. 5,00,000) less the indexed cost of acquisition (Rs. 4,30,000) would result in a long term capital gains of Rs. 70,000 in the hands of Mrs. Neha.

- (ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AA. Therefore, the cash gift of Rs. 1 lakh received from Atma Charitable Trust, being a trust registered under section 12AA, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chetan.
- (d) Since Mrs. Rinky is not professionally qualified for the job, the clubbing provisions shall be applicable.

Computation of Gross total income of Mr. Vikas

Particulars	Rs.
Income from Salary of Mrs. Rinky (Computed)	4,60,000
Income from other sources	
- Interest on securities	35,000
	4,95,000

Computation of gross total income of Mrs. Rinky

Particulars	Rs.	Rs.
Income from Salary [clubbed in the hands of Mr. Vikas]		Nil
Income from house property		
Gross Annual Value [Rs. 6,000 × 12]	72,000	
Less: Municipal taxes paid	-	
Net Annual Value (NAV)	72,000	
Less: Deductions under section 24		
- 30% of NAV i.e., 30% of Rs. 72,000	21,600	
- Interest on loan	-	50,400
Gross total income		50,400

SECTION B - INDIRECT TAXES

SUGGESTED ANSWERS

Division A - Multiple Choice Questions

Question No.	Answer
1.1	(a) 30 th June
1.2	(d) 25 th August
1.3	(c) CGST ₹ 56,250 & SGST ₹ 56,250
1.4	(a) 7 th August
1.5	(c) CGST ₹ 18,000 & SGST ₹ 18,000
2	(c) ₹ 23,00,000/-

Division B - Descriptive Questions

1. Computation of GST payable on outward supplies

S.No.	Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)	Total (₹)
(i)	Intra-State supply of goods for ₹ 10,00,000	90,000	90,000		1,80,000
(ii)	Inter-State supply of goods for ₹ 8,00,000			1,44,000	1,44,000
	Total GST payable				3,24,000
Computation of total ITC					
Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)		
Opening ITC	57,000	60,000	1,40,000		
Add: ITC on Intra-State purchases of goods valuing ₹ 3,00,000	27,000	27,000	Nil		
Add: ITC on Inter-State purchases of goods valuing ₹ 2,50,000	Nil	Nil	45,000		
Total ITC	84,000	87,000	1,85,000		

Computation of minimum GST payable from electronic cash ledger

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)	Total (₹)
GST payable	90,000	90,000	1,44,000	3,24,000
Less: ITC [First ITC of IGST should be utilized in full - first against IGST liability and then against CGST and SGST liabilities in a manner to minimize cash outflow]	(38,000) IGST	(3,000) IGST	(1,44,000) IGST	1,85,000
	(52,000) CGST	(87,000) SGST		1,39,000

Minimum GST payable in cash	Nil	Nil	Nil	Nil
ITC balance to be carried forward next month	32,000	Nil	Nil	32,000

Note : The above computation is one of the many ways to set off the ITC of IGST (₹ 41,000-after set off against IGST liability) against CGST and SGST liability to compute minimum GST payable in cash. To illustrate, IGST of ₹ 10,000 can be set off against SGST payable and IGST of ₹ 31,000 can be set off against CGST payable. In this situation also, the net GST payable will be nil but the ITC of CGST and SGST to be carried forward will be ₹ 25,000 and ₹ 7,000 (totaling to ₹ 32,000) respectively. However, if the entire ITC of ₹ 41,000 is set off against CGST payable, then SGST of ₹ 3,000 will be payable in cash thus, increasing the cash outflow. Therefore, such a set off would not be advisable for computing the minimum GST payable.

2. (a) Computation of value of taxable supply made by Shri Krishna Pvt. Ltd. to Shri Balram Pvt. Ltd.

Particulars	Amount (₹)
Price of the goods	1,00,000
Municipal tax [Includible in the value as per section 15(2)(a)]	2,000
Inspection charges [Any amount charged for anything done by the supplier in respect of the supply of goods at the time of/before delivery of goods is includible in the value as per section 15(2)(c)]	15,000
Subsidy received from Shri Ram Trust [Since the subsidy is received from a non-Government body and directly linked to the supply, the same is includible in the value in terms of section 15(2)(e)]	50,000
Late fees for delayed payment [Not includible since the same is waived off]	Nil
Weighment charges paid to Radhe Pvt. Ltd. on behalf of Shri Krishna Pvt. Ltd. [Any amount that the supplier is liable to pay in relation to the supply but has been incurred by the recipient and not included in the price actually paid or payable for the goods, is includible in the value of supply in terms of section 15(2)(b)]	<u>2,000</u>
Value of taxable supply	1,69,000

(b) A registered person with an aggregate turnover in a preceding financial year up to ₹ 1.5 crore is eligible for composition levy, under section 10(1) & 10(2), in Delhi. Since the aggregate turnover of Subramanian Enterprises does not exceed ₹ 1.5 crore, it is eligible for composition levy in the current year. However, all registered persons having the same Permanent Account Number (PAN) have to opt for composition scheme. If one such registered person opts for normal scheme, others become ineligible for composition scheme. Thus, Subramanian Enterprises either have to opt for composition levy for both the places of business or under normal levy for both the places of business.

3. (a) As per section 22 read with Notification No. 10/2019 CT dated 07.03.2019, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra-State taxable supplies of goods is as under:-
- (a) ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.
 - (b) ₹ 20 lakh for the States, namely, States of Arunachal Pradesh, Meghalaya, Puducherry, Sikkim, Telangana and Uttarakhand.
 - (c) ₹ 40 lakh for rest of India except persons engaged in making supplies of ice cream and other edible ice, whether or not containing cocoa, Pan masala and Tobacco and manufactured tobacco substitutes.

In the light of the afore-mentioned provisions, the answer to the independent cases is as under:-

- (i) Raghav is eligible for higher threshold limit of turnover for registration, i.e. ₹ 40 lakh as he is exclusively engaged in intra-State supply of goods. However, since Raghav is engaged in supplying readymade garments from a Special Category State i.e. Tripura, the threshold limit gets reduced to ₹ 10 lakh. Thus, Raghav is liable to get registered under GST as his turnover exceeds ₹10 lakh. Further, he is required to obtain registration in both Assam and Tripura as he is making taxable supplies from both the States.
 - (ii) The applicable threshold limit for registration for Pulkit in the given case is ₹ 40 lakh as he is exclusively engaged in intra-State taxable supply of goods in Goa. Thus, he is not liable to get registered under GST as his turnover is less than the threshold limit.
 - (iii) Harshit being exclusively engaged in supply of pan masala is not eligible for higher threshold limit of ₹40 lakh. The applicable threshold limit for registration in this case is ₹20 lakh. Thus, Harshit is liable to get registered under GST.
- (b) Provisions of Section 49(10) of CGST Act, 2017 permit a registered person for transferring the amount deposited under any of the minor head i.e. tax, interest, penalty, fees or others to any of the heads under IGST/CGST/SGST/UTGST and make the payment of taxes there upon. Accordingly, Mr. A need not deposit the tax amount under head "tax" and claim a refund for the remittance of amount deposited under head "interest. Rather, using the Form GST PMT 09, such amount can be transferred suo-moto on the common portal from "interest" to "tax" head and tax liability be paid
4. (a) GST is a simplified tax structure. The statement is justified. Simpler tax regime with fewer exemptions along with reduction in multiplicity of taxes under GST has led to simplification and uniformity in tax structure. The uniformity in laws, procedures and tax rates across the country makes doing business easier. Common system of classification of goods and services across the country ensures certainty in tax administration across India.
- (b) (i) A registered person shall not be allowed to furnish the details of outward supplies in Form GSTR-1, if he has not furnished the return in Form GSTR-3B for preceding two months.
- (ii) A registered person, opting for QRMP scheme shall not be allowed to furnish the details of outward supplies in Form GSTR-1 or using IFF, if he has not furnished the return in Form GSTR-3B for preceding tax period.
- (iii) A registered person, who is restricted from using the amount available in electronic credit ledger to discharge his liability towards tax in excess of 99% of such tax liability under rule 86B of the CGST Rules, shall not be allowed to furnish the details of outward supplies in Form GSTR-1 or using IFF, if he has not furnished the return in Form GSTR-3B for preceding tax period.