

PAPER 4: TAXATION

SECTION A: INCOMETAX LAW

PART I: STATUTORY UPDATE

The Income-tax law, as amended by the Finance Act, 2018, including significant notifications/circulars issued upto 31st October, 2018 are applicable for May, 2019 examination. The relevant assessment year for May, 2019 examination is A.Y.2019-20. The July 2018 edition of the Study Material is based on the provisions of income-tax law as amended by the Finance Act, 2018 and significant notifications/circulars issued upto 30th April, 2018.

The significant notifications/circulars made between 1.4.2018 and 31.10.2018 which are relevant for May, 2019 examination are given hereunder.

Chapter 3: Incomes which do not form part of Total Income

Computation of admissible deduction u/s 10AA of the Income-tax Act, 1961 [Circular No. 4/2018, Dated 14-8-2018]

As per the provisions of section 10AA(7), the profits derived from export of articles or things or services (including computer software) shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of such articles or things or services bears to the total turnover of the business carried on by the undertaking.

Further as per clause (i) to *Explanation 1* to section 10AA, "export turnover" means the consideration in respect of export by the undertaking, being the Unit of articles or things or services received in, or brought into, India by the assessee, but does not include freight, telecommunication charges or insurance attributable to the delivery of the articles or things outside India or expenses, if any, incurred in foreign exchange in rendering of services (including computer software) outside India.

The issue of whether freight, telecommunication charges and insurance expenses are to be excluded from both "export turnover" and "total turnover" while working out deduction admissible under section 10AA on the ground that they are attributable to delivery of articles or things outside India has been highly contentious. Similarly, the issue whether charges for rendering services outside India are to be excluded both from "export turnover" and "total turnover" while computing deduction admissible under section 10AA on the ground that such charges are relatable towards expenses incurred in convertible foreign exchange in rendering services outside India has also been highly contentious.

The controversy has been finally settled by the Hon'ble Supreme Court vide its judgment dated 24.4.2018 in the case of Commissioner of Income Tax, Central-III Vs. M/s HCL Technologies Ltd. (CA No. 8489-8490 of 2013, NJRS Citation 2018-LL-0424-40), in relation to section 10A.

The issue had been examined by CBDT and it is clarified, in line with the above decision of the Supreme Court, that **freight, telecommunication charges and insurance expenses are to be excluded both from "export turnover" and "total turnover", while working out deduction admissible under section 10AA to the extent they are attributable to the delivery of articles or things outside India.**

Similarly, **expenses incurred in foreign exchange for rendering services outside India are to be excluded from both "export turnover" and "total turnover" while computing deduction admissible under section 10AA.**

Note: Though this CBDT Circular is issued in relation to erstwhile section 10A, the same is also relevant in the context of section 10AA. Accordingly, the reference to section 10A in the Circular and the relevant sub-section and Explanation number thereto have been modified and given with reference to section 10AA and the corresponding sub-sections, Explanation number and clause of Explanation.

Chapter 9: Advance Tax, Tax Deduction at Source and Introduction to Tax Collection at Source

No tax is required to be deducted at source on interest payable on "Power Finance Corporation Limited 54EC Capital Gains Bond" and "Indian Railway Finance Corporation Limited 54EC Capital Gains Bond" – [Notification No. 27 & 28/2018, dated 18-06-2018]

Section 193 (Interest on securities) provides that the person responsible for paying to a resident any income by way of interest on securities shall, at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct income-tax @ 10%, being the rates in force on the amount of the interest payable.

As per clause (iib) of the proviso to section 193, no tax is required to be deducted at source from any interest payable on such debentures, issued by any institution or authority, or any public sector company, or any co-operative society (including a co-operative land mortgage bank or a co-operative land development bank), as the Central Government may, by notification in the Official Gazette, specify in this behalf.

Accordingly, the Central Government has, vide this notification, specified -

- (i) "Power Finance Corporation Limited 54EC Capital Gains Bond" issued by Power Finance Corporation Limited {PFCL} and
- (ii) "Indian Railway Finance Corporation Limited 54EC Capital Gains Bond" issued by Indian Railway Finance Corporation Limited {IRFCL}

The benefit of this exemption would, however, be admissible in the case of transfer of such bonds by endorsement or delivery, only if the transferee informs PFCL/IRFCL by registered post within a period of sixty days of such transfer.

PART II: QUESTIONS AND ANSWERS

OBJECTIVE TYPE QUESTIONS

- I. Mr. Sumit is an Indian citizen and a member of the crew of an America bound Indian ship engaged in carriage of freight in international traffic departing from Kochi on 25th April, 2018. From the following details for the P.Y. 2018-19, determine the residential status of Mr. Sumit for A.Y. 2019-20, assuming that his stay in India in the last 4 previous years preceding P.Y. 2018-19 is 365 days and last seven previous years preceding P.Y. 2018-19 is 730 days:

Date entered in the Continuous Discharge Certificate in respect of joining the ship by Mr. Sumit: 25th April, 2018

Date entered in the Continuous Discharge Certificate in respect of signing off the ship by Mr. Sumit: 24th October, 2018

Mr. Sumit has been filing his income tax return in India as a Resident for previous 2 years.

What is his residential status for A.Y. 2019-20:

- (a) Resident and ordinarily resident
 - (b) Resident but not-ordinarily resident
 - (c) Non-resident
 - (d) Non-resident till 24.10.2018 and resident till 31.03.2019
- II. Aashish earns the following income during the P.Y. 2018-19:

- Interest on U.K. Development Bonds (1/4th being received in India): ₹4,00,000
- Capital gain on sale of a building in India but received in Holland: ₹ 6,00,000

If Aashish is a resident but not ordinarily resident in India, then what will be amount of income chargeable to tax in India for A.Y. 2019-20?

- (a) ₹ 7,00,000
- (b) ₹ 10,00,000
- (c) ₹ 6,00,000
- (d) ₹ 1,00,000

- III. Mr. Anay (aged 25) has agricultural income of ₹ 2,10,000 and business income of ₹ 2,35,000. Which of the following statement is correct?
- (a) Agricultural income always has to be aggregated with business income for rate purposes
 - (b) No aggregation is required since business income which constitutes his total income, is less than basic exemption limit
 - (c) No aggregation is required since agricultural income is less than basic exemption limit
 - (d) Agricultural income is exempt under section 10(1) but the same has to be aggregated with business income, since it exceeds ₹ 5,000
- IV. Miss Riya has started working in a reputed company. This is her first job. She earned total income of ₹8 Lakhs in P.Y. 2018-19. While filing her return of income she had a doubt with respect to deduction of transport allowance. Her father advised her that she cannot claim deduction of transport allowance while her friend told that maximum deduction of ₹1600 p.m. in respect of the said allowance can be claimed. According to you, what is the correct treatment for the same?
- (a) Transport allowance upto a maximum ₹1600 per month can be claimed.
 - (b) Transport allowance upto a maximum ₹800 per month can be claimed.
 - (c) No separate deduction for transport allowance is allowed. However, a standard deduction of ₹ 40,000 is allowed to salaried assesseees.
 - (d) Deduction of transport allowance is allowed without any monetary limit.
- V. In respect of loss from house property, which of the following statements are correct?
- (a) While computing income from any house property, the maximum interest deduction allowable under section 24 is ₹ 2 lakhs
 - (b) Loss from house property relating to a particular year can be set-off against income under any other head during that year only to the extent of ₹ 2 lakhs
 - (c) The loss in excess of ₹ 2 lakh, which is not set-off during the year, can be carried forward for set-off against any head of income in the succeeding year(s)
 - (d) All the above
- VI. M/s ABC, an eligible assessee, following mercantile system of accounting, carrying on eligible business under section 44AD provides the following details:
- ◆ Total turnover for the financial year 2018-19 is ₹ 130 lakh
 - ◆ Out of the above:
 - ₹ 25 lakh received by A/c payee cheque during the financial year 2018-19;
 - ₹ 50 lakh received by cash during the financial year 2018-19;

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- ₹ 25 lakh received by A/c payee bank draft before the due date of filing of return;
- ₹ 30 lakh not received till due date of filing of return.

Compute the amount of deemed profits of M/s ABC under section 44AD(1) for A.Y. 2019-20.

- (a) ₹ 10.4 lakh
 - (b) ₹ 7.0 lakh
 - (c) ₹ 5.5 lakh
 - (d) ₹ 9.4 lakh
- VII. Ram owns 500, 15% debentures of Reliance Industries Ltd. of ₹ 500 each. Annual interest of ₹ 37,500 was declared on these debentures for P.Y. 2018-19. He transfers interest income to his friend Shyam, without transferring the ownership of these debentures. While filing return of income for A.Y. 2019-20, Shyam showed ₹ 37,500 as his income from debentures. As tax advisor of Shyam, do you agree with the tax treatment done by Shyam in his return of income?
- (a) Yes, since interest income was transferred to Shyam therefore, after transfer it becomes his income.
 - (b) No, since Ram has not transferred debentures to Shyam, interest income on the debentures is not taxable income of Shyam.
 - (c) Yes, if debentures are not transferred, interest income on debentures can be declared by anyone, Ram or Shyam, as taxable income depending upon their discretion.
 - (d) No, since Shyam should have shown the income as interest income received from Mr. Ram and not as interest income earned on debentures.
- VIII. Mr. Rajan incurred loss of ₹ 5.3 lakh in the P.Y.2018-19 in toy business. Against which of the following income earned during the same year, can he set-off such loss?
- (a) profit of ₹ 2 lakh from wholesale cloth business
 - (b) speculative business income of ₹ 80,000
 - (c) long-term capital gains of ₹ 1.20 lakhs on sale of land
 - (d) All of the above
- IX. Mr. Ajay is a recently qualified doctor. He joined a reputed hospital in Delhi on 01.01.2019. He earned total income of ₹ 3,40,000 till 31.03.2019. His employer advised him to claim rebate u/s 87A while filing return of income for A.Y. 2019-20. He approached his father to enquire regarding what is rebate u/s 87A of the Act. His father told him:

- (i) An individual who is resident in India and whose total income does not exceed ₹ 3,50,000 is entitled to claim rebate under section 87A.
- (ii) An individual who is resident in India and whose total income does not exceed ₹ 5,00,000 is entitled to claim rebate under section 87A.
- (iii) Maximum rebate allowable under section 87A is ₹ 5,000.
- (iv) Rebate under section 87A is available in the form of exemption from total income.
- (v) Maximum rebate allowable under section 87A is ₹ 2,500.
- (vi) Rebate under section 87A is available in the form of deduction from tax liability.

As a tax expert, do you agree with the explanation given by Mr. Ajay's father? Choose the correct option from the following:

- (a) (ii), (iii), (vi)
 - (b) (i), (v), (vi)
 - (c) (ii), (iii), (iv)
 - (d) (i), (iv), (v)
- X. Mr. P is a professional who is responsible for paying a sum of ₹ 2,00,000 as rent for use of building to Mr. Harshit for the month of February, 2019. The gross receipts of Mr. P are as under:
- From 01.04.2017 to 31.03.2018: ₹ 55,00,000
From 01.04.2018 to 28.02.2019: ₹ 45,00,000
- Find out whether Mr. P is responsible for deducting any tax at source from the rent of ₹ 2,00,000 payable to Mr. Harshit.
- (a) Tax at source is required to be deducted u/s 194-I at the rate of 10%.
 - (b) Tax at source is required to be deducted u/s 194-IB at the rate of 5%.
 - (c) Tax at source is required to be deducted u/s 194-IB at the rate of 10%.
 - (d) No tax is required to be deducted at source.

DESCRIPTIVE QUESTIONS

1. Determine the residential status of Ms. Nicole Kidman, an Australian actress, for the A.Y. 2019-20, from the following information about her stay in India contained in her passport.

| F.Y. | From | To | F.Y. | From | To |
|---------|-----------------------|-------------------------|---------|---------------------|-------------------------|
| 2018-19 | May 3 rd | August 12 th | 2013-14 | May 3 rd | August 12 th |
| 2017-18 | July 23 rd | August 11 ^h | 2012-13 | May 3 rd | August 12 th |

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|---------|---------------------------|----------------------------|---------|---------------------|-------------------------|
| 2016-17 | February 9 th | March 26 th | 2011-12 | May 3 rd | August 12 th |
| 2015-16 | September 8 th | March 26 th | 2010-11 | May 3 rd | August 12 th |
| 2014-15 | May 17 th | September 30 th | - | - | - |

2. Mr. Rana, a resident and ordinarily resident aged 42 years, manufactures rubber from the latex processed from rubber plants grown in Kerala. Thereafter, he sold the rubber for ₹ 47 lakhs. The cost of growing rubber plants was ₹ 25 lakhs and the cost of manufacturing rubber was ₹ 7 lakhs. He has no other income during the previous year 2018-19. Compute his tax liability for the Assessment Year 2019-20.

3. Ms. Aarohi is the HR manager in Shipra limited. She gives you the following particulars:

| | |
|--------------------|--|
| Basic Salary | ₹ 70,000 p.m. |
| Dearness Allowance | ₹ 24,000 p.m. (30% of which forms part of retirement benefits) |
| Bonus | ₹ 21,000 p.m. |

Her employer has provided her with an accommodation on 1st April 2018 at a concessional rent. The house was taken on lease by Shipra Ltd. for ₹ 12,000 p.m. Ms. Aarohi occupied the house from 1st November, 2018, ₹ 4,800 p.m. is recovered from the salary of Ms. Aarohi.

The employer gave her a gift voucher of ₹ 10,000 on her birthday. She contributes 18% of her salary (Basic Pay plus DA) towards recognised provident fund and the company contributes the same amount.

The company pays medical insurance premium to effect insurance on the health of Ms. Aarohi ₹ 20,000.

Motor car owned by the employer (cubic capacity of engine exceeds 1.6 litres) provided to Ms. Aarohi from 1st November, 2018 which is used for both official and personal purposes. Repair and running expenses of ₹ 70,000 were fully met by the company. The motor car was self-driven by the employee.

Compute the income chargeable to tax under the head "Salaries" in the hands of Ms. Aarohi for the Assessment Year 2019-20.

4. Shraddha has two flats in Mumbai, both of which are self-occupied. The particulars of these are given below:

| Particulars | (Value in ₹) | |
|-------------------------------|------------------|---------------------|
| | Flat at Goregaon | Flat at Navi Mumbai |
| Municipal Valuation per annum | 1,40,000 | 1,35,000 |
| Fair Rent per annum | 1,60,000 | 1,80,000 |

| | | |
|---|-----------|------------|
| Standard rent per annum | 1,40,000 | 1,90,000 |
| Date of completion of construction | 1-02-2012 | 24-08-2006 |
| Municipal taxes payable during the year (paid for Flat at Navi Mumbai only) | 10% | 12% |
| Interest on money borrowed for repair of property during current year | - | 72,000 |

Compute Shraddha's income from house property for the Assessment Year 2019-20. Also, suggest which flat should be opted by Shraddha to be assessed as self-occupied so that her tax liability is minimum.

5. Mr. Jai Prakash commenced the business of operating goods vehicles on 1.4.2018. He purchased the following vehicles during the P.Y.2018-19. Compute his income under section 44AE for A.Y.2019-20.

| | Gross Vehicle Weight (in kilograms) | Number | Date of purchase |
|-----|--|--------|------------------|
| (1) | 8,500 | 3 | 11.05.2018 |
| (2) | 9,500 | 1 | 16.03.2019 |
| (3) | 10,000 | 1 | 21.09.2018 |
| (4) | 11,500 | 2 | 12.01.2019 |
| (5) | 15,000 | 1 | 21.07.2018 |
| (6) | 15,000 | 2 | 23.01.2019 |

Would your answer change if the goods vehicles purchased in January, 2019 were put to use only in July, 2019?

6. Mr. Pratap, a proprietor has transferred his unit RS to Mr. Raj by way of Slump Sale on December 7, 2018. The summarised Balance Sheet of Mr. Pratap as on that date is given below:

| Liabilities | Amount (₹ In lacs) | Assets | Amount (₹ In lacs) |
|--------------------------------------|-----------------------|----------------------|-----------------------|
| Own Capital | 1,850 | Fixed Assets: | |
| Accumulated P & L balance | 870 | Unit PT | 250 |
| Liabilities: | | Unit QL | 170 |
| Unit PT | 190 | Unit RS | 950 |
| Unit QL | 260 | Other Assets: | |
| Unit RS | 340 | Unit PT | 790 |

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|--------------|--------------|--------------|--------------|
| | | Unit QL | 860 |
| | | Unit RS | 490 |
| Total | 3,510 | Total | 3,510 |

Other information:

- (i) Slump sale consideration on transfer of Unit RS was ₹ 1540 lacs.
- (ii) Fixed Assets of Unit RS includes land which was purchased at ₹ 90 lacs in the year 2008 and was revalued at ₹ 180 lacs.
- (iii) Other fixed assets are reflected at ₹ 770 lacs, (i.e., ₹ 950 lacs less value of land) which represents written down value of those assets as per books. The written down value of these assets is ₹ 630 lacs as per Income-tax Act, 1961.
- (iv) Unit RS was set up by Mr. Pratap in December, 2006.

Compute the Capital Gains arising in the hands of Mr. Pratap from slump sale of Unit RS for Assessment year 2019-20.

Note: Cost Inflation Indices for the financial year 2006-07 and financial year 2018-19 are 122 and 280, respectively.

7. Mr. Suraj sold a house to his friend Mr. Ganesh on 18th September, 2018 for a consideration of ₹ 42,00,000. On the date of registration stamp duty value of the said property is ₹ 45,00,000. However, on the date of agreement stamp duty value of the said property was ₹ 44,00,000. Mr. Ganesh had paid 10% of the value of the property by way of A/c payee cheque at the time of agreement. Assume value of land is 70% of the total value of the property.

What are the tax implications in the hands of Mr. Suraj and Mr. Ganesh for the assessment year 2019-20? Mr. Suraj had purchased the land on 19th February, 2013 for ₹ 9,20,000 and completed the construction of house on 18th January, 2017 for ₹ 15,50,000.

Cost Inflation Index: F.Y. 2012-13 – 200; F.Y. 2016-17 – 264; F.Y. 2018-19 - 280.

8. On 10th April, 2018, Mr. Mayur made a gift of ₹ 4,45,000 to his handicapped son, Master Tanmay aged 10 years. He deposited such amount in a fixed deposit account in a Nationalised bank. The bank credited a sum of ₹ 42,500 as interest on fixed deposit on 31st March, 2019.

Mayur's father gifted 10,000 unlisted equity shares of an Indian company to Master Tejas, another son of Mr. Mayur (Date of birth 19th June, 2011) in September 2011 which

were purchased by him on 18th December, 2004 for ₹ 95,000. Tejas received a dividend of ₹ 10,000 on these shares in October 2018. He sold these shares on 1st December, 2018 for ₹ 4,80,000 and deposited ₹ 3,10,000 in a company at 14% interest per annum.

Cost Inflation Index

| Financial Year | Cost Inflation Index |
|----------------|----------------------|
| 2004-05 | 113 |
| 2011-12 | 184 |
| 2018-19 | 280 |

Mr. Mayur has a taxable income of ₹ 4,50,000 from his profession during the financial year 2018-19. Compute his Gross Total Income for the A.Y. 2019-20.

9. Compute the gross total income of Mr. Avinash and show the items eligible for carry forward and the assessment years upto which such losses can be carry forward from the following information furnished by him for the year ended 31-03-2019:

| Particulars | Amount (₹) |
|--|------------|
| Loss from speculative business MNO | 12,000 |
| Income from speculative business BPO | 25,000 |
| Loss from specified business covered under section 35AD | 45,000 |
| Income from salary (computed) | 4,18,000 |
| Loss from house property | 2,20,000 |
| Income from trading business | 2,80,000 |
| Income from owning and maintaining race horses | 8,000 |
| Long-term capital gain from sale of urban land | 2,05,000 |
| Long-term capital loss on sale of equity shares (STT not paid) | 85,000 |
| Long-term capital loss on sale of listed equity shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares) | 1,10,000 |

Following are the brought forward losses:

- (1) Losses from owning and maintaining of race horses pertaining to A.Y. 2017-18 ₹ 12,000.
- (2) Brought forward loss from speculative business MNO 18,000 relating to A.Y. 2016-17.
- (3) Brought forward loss from trading business of ₹ 12,000 relating to A.Y. 2015-16.

Assume Mr. Avinash has furnished his return of income on or before the due date specified under section 139(1) in all the above previous years.

10. Mr. Darshan aged 61 years, working with G Ltd., submits the following particulars of investments and payments made by him during the previous year 2018-19:
- Deposit of ₹ 1,50,000 in public provident fund
 - Payment of life insurance premium of ₹ 62,000 on the policy taken on 01.4.2017 to insure his life (Sum assured – ₹ 3,00,000).
 - Deposit of ₹ 55,000 in a five year term deposit with bank.
 - Contributed ₹ 1,95,000, being 15% of his salary (basic salary plus dearness allowance, which forms part of retirement benefits) to the NPS of the Central Government. A matching contribution was made by G Ltd.
 - On 1.4.2018, mediclaim premium of ₹ 1,08,000 and ₹ 80,000 paid as lumpsum to insure his and his wife (aged 58 years) health, respectively for four years medical insurance and incurred ₹ 46,000 towards medical expenditure of his father, aged 90 years, not dependent on him. No insurance policy taken for his father.
 - He spent ₹ 6,000 for the preventive health-check up of his wife.
 - He has incurred an expenditure of ₹ 90,000 for the medical treatment of his mother, being a person with severe disability.

His income comprises of income from salary of ₹ 18,50,000 and interest on fixed deposits of ₹ 75,000.

Compute the deduction available to Mr. Darshan under Chapter VI-A for A.Y.2019-20.

Would your answer be different, if Mr. Darshan contributed ₹ 1,30,000 (being, 10% of his salary) towards NPS of the Central Government?

11. Mr. Krishan, aged 58 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2018-19.

Receipts and Payments Account

| Receipts | ₹ | Payments | ₹ |
|--|-----------|---|-----------|
| Opening Balance (01-04-2018) | | Staff salary, bonus and stipend to articled clerks | 17,50,000 |
| Cash & Bank | 80,000 | Other general and administrative expenses | 22,00,000 |
| Fee from professional services | 49,60,000 | Office rent | 1,48,000 |
| Motor car loan from ICICI @12% interest per annum | 5,00,000 | Life Insurance Premium (Sum Assured ₹ 5,00,000] | 49,000 |

| | | | |
|---|------------------|--|------------------|
| Sale receipts of 5,800 listed equity shares (sold on 31 st January 2019) | 5,95,000 | Motor car (Acquired in January 2019 by way of online payment) | 9,50,000 |
| | | Books bought by way of A/c payee cheque in the month of May, June and September 2018 (annual publications) | 80,000 |
| | | Computer acquired on 1-11-2018 for professional use (payment made by A/c payee cheque) | 52,000 |
| | | Domestic drawings | 6,23,000 |
| | | Motor car maintenance | 72,000 |
| | | Public Provident Fund subscription | 1,50,000 |
| | | Closing balances (31-03-2019) | |
| | | Cash & Bank | <u>61,000</u> |
| | 61,35,000 | | 61,35,000 |

Other information:

- (i) Listed equity shares on which STT was paid were acquired in August 2016 for ₹ 1,21,800. The fair market value of such shares as on 31st January 2018 and on 1st April 2018 was ₹ 75 per share and ₹ 85 per share, respectively.
- (ii) Motor car was put to use for both official and personal purposes. 1/5th of the motor car is for personal purpose. No interest on car loan was paid during the previous year 2018-19.
- (ii) Mr. Krishan purchased a flat in Gwalior for ₹ 35,00,000 in July 2012 cost of which was partly financed by a loan from Punjab National Housing Finance Limited of ₹ 25,00,000, his own-savings ₹ 1,00,000 and a deposit from Canara Bank for ₹ 9,00,000. The flat was given to Canara Bank on lease for 10 years @ ₹ 35,000 per month. The following particulars are relevant:
 - (a) Municipal taxes paid by Mr. Krishan ₹ 8,200 per annum
 - (b) House insurance ₹ 11,000

As per interest certificate issued by Punjab National Housing Finance Limited for the financial year 2018-19, he paid ₹ 1,80,000 towards principal and ₹ 2,01,500 as interest.
- (iii) He earned ₹ 1,20,000 in share speculation business and lost ₹ 1,80,000 in commodity speculation business.

- (iv) Mr. Krishan received a gift of ₹ 21,000 each from four of his family friends.
- (v) He contributed ₹ 1,21,000 to Prime Minister's Drought Relief Fund by way of bank draft.
- (vi) He donated to a registered political party ₹ 3,50,000 by way of cheque.
- (vii) He follows cash system of accounting.
- (viii) Cost Inflation Index : F.Y. 2016-17 – 264; F.Y. 2018-19 - 280

Compute the total income of Mr. Krishan and the tax payable for the Assessment year 2019-20.

12. (a) Mr. Narayan is engaged in the retail business of groceries. During the previous year 2018-19 his turnover was ₹ 1.65 crores. Out of this, receipt of ₹ 1.30 crore represents online transactions and ₹ 35 lakhs cash transactions. He opted for paying tax as per presumptive taxation scheme laid down in section 44AD. He has no other income during the previous year.

Is he liable to pay advance tax and if so, what is the minimum amount of advance tax to be paid and the due date for payment of such advance tax?

- (b) Mr. Shivpal, a very senior citizen, has reported a Total Income ₹ 4,90,000 and the deductions eligible under Chapter VI-A amounting to ₹ 1,70,000 for the previous year 2018-19. Is he liable to file his return of income under section 139(1) for the Assessment year 2019-20? If so why?

SUGGESTED ANSWERS

OBJECTIVE TYPE QUESTIONS

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

DESCRIPTIVE QUESTIONS

1. The residential status of Ms. Nicole Kidman, a foreign national, would be determined in the following manner -

| Previous Year | 2018-19 | 2017-18 | 2016-17 | 2015-16 | 2014-15 | 2013-14 | 2012-13 | 2011-12 | 2010-11 |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| No. of days of stay in India | 102 | 20 | 46 | 201 | 137 | 102 | 102 | 102 | 102 |

Ms. Nicole Kidman is said to be resident if she satisfies any one of the following basic conditions:

- (i) Has been in India during the previous year for a total period of 182 days or more
(or)
(ii) 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 during the previous year.

Ms. Nicole Kidman's stay in India during the P.Y.2018-19 is less than 182 days. However, her stay in India during the P.Y.2018-19 is 102 days, which exceeds 60 days; and her stay in India during the four previous years prior to P.Y.2018-19 is 404 days [20 + 46 + 201 + 137], which exceeds 365 days. Hence, she is a resident for P.Y.2018-19.

Further, Ms. Nicole Kidman would be "Resident but not ordinarily resident" in India in during the previous year 2018-19, if she:

- (a) has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or
(b) has during the 7 previous years immediately preceding the relevant previous year been in India for less than 730 days.

If she does not satisfy both of these conditions, she would be a resident and ordinarily resident.

In the present case, her stay in India in the last seven previous years prior to P.Y.2018-19 is 710 days [20 +46 +201+137 +102 +102 +102], which is less than 730 days. Therefore, she is resident but not ordinarily resident for the P.Y.2018-19 even if she is resident in the two assessment years i.e., A.Y.2016-17 and A.Y.2015-16 as per the information given in the question.

2. In cases where the assessee himself grows rubber plants and manufactures rubber processed from latex obtained from rubber plants in India, then, as per Rule 7A, 35% of profit on sale of rubber is taxable as business income under the head "Profits and gains

from business or profession”, and the balance 65% is agricultural income, which is exempt from tax.

Profits from manufacture and sale of rubber processed from latex = ₹ 47 lakhs – ₹ 25 lakhs – ₹ 7 lakhs = ₹ 15 lakhs

Agricultural Income = 65% of ₹ 15 lakhs = ₹ 9.75 lakhs

Business Income = 35% of ₹ 15 lakhs = ₹ 5.25 lakhs.

The tax liability of Mr. Rana has to be computed applying the concept of partial integration, since his total income comprises of both agricultural income and non-agricultural income and his agricultural income exceeds ₹ 5,000 p.a and his non-agricultural income exceeds the basic exemption limit i.e., ₹ 2,50,000 (applicable, in his case).

Accordingly, his tax liability would be computed in the following manner:

Computation of tax liability of Mr. Rana for the A.Y. 2019-20

| Particulars | ₹ |
|---|-----------------|
| Tax on total income of ₹ 15,00,000, being agricultural income and non-agricultural income | 2,62,500 |
| Less: Tax on agricultural income and basic exemption limit i.e., ₹ 12,25,000 [₹ 9,75,000 plus ₹ 2,50,000] | <u>1,80,000</u> |
| | 82,500 |
| Add: Health and Education cess@4% | <u>3,300</u> |
| Total Tax liability | 85,800 |

3. Computation of income chargeable to tax under the head “Salaries” in the hands of Ms. Aarohi for A.Y.2019-20

| Particulars | ₹ |
|--|----------|
| Basic Salary [₹ 70,000 x 12] | 8,40,000 |
| Dearness allowance [₹ 24,000 x 12] | 2,88,000 |
| Bonus [₹ 21,000 x 12] | 2,52,000 |
| Perquisite value in respect of concessional rent [See Working Note below] | 36,000 |
| Gift voucher given by employer on Ms. Aarohi’s birthday (entire amount is taxable since the perquisite value exceeds ₹5,000) [See Note for Alternative view] | 10,000 |
| Employer’s contribution to recognized provident fund in excess of 12% of salary | 91,872 |

| | |
|--|------------------|
| = 18% x [(₹ 70,000 + ₹ 24,000) x 12] – 12% x {(₹ 70,000 + ₹ 7,200 (being 30% of ₹ 24,000)) x 12} = 2,03,040 – 1,11,168 [Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits] | |
| Medical insurance premium of ₹ 20,000 paid by the employer to effect an insurance on the health of an employee is an exempt perquisite | - |
| Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employer - the perquisite value would be ₹2400/- p.m. [₹2,400 x 5 months] | 12,000 |
| Gross salary | 15,29,872 |
| Less: Standard deduction under section 16(ia) | 40,000 |
| Salary chargeable to tax | 14,89,872 |

Working Note:

Where the accommodation is taken on lease or rent by the employer, the actual amount of lease rent paid or payable by the employer or 15% of salary, whichever is lower, **in respect of the period during which the house is occupied by the employee**, as reduced by the rent recoverable from the employee, is the value of the perquisite.

Actual rent paid by the employer from 1.11.2018 to 31.3.2019 = ₹ 60,000 [₹ 12,000 x 5 months]

15% of salary = ₹ 73,650 [15% x (₹ 70,000 + ₹ 7,200 + ₹ 21,000) x 5 months]

Salary = Basic Salary + Dearness Allowance, to the extent it forms part of pay for retirement benefits + Bonus

Lower of the above is ₹ 60,000 which is to be reduced by the rent recovered from the employee.

Hence, the perquisite value of concessional rent = ₹ 60,000 – ₹24,000 [₹ 4,800 x 5 months] = ₹ 36,000

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv).

In this case, the gift voucher of ₹ 10,000 was received by Ms. Aarohi from her employer on the occasion of her birthday. Since the value of the gift voucher exceeds the limit of

₹ 5,000, the entire amount of ₹ 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

Alternative view - An alternate view is also possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. The salary chargeable to tax, in this case, would be ₹ 14,84,872.

4. In this case, Shraddha has more than one house property for self-occupation. As per section 23(4), Shraddha can avail the benefit of self-occupation (i.e., benefit of “Nil” Annual Value) only in respect of one of the house properties, at her option. The other house property would be treated as “deemed let-out” property, in respect of which the expected rent would be the gross annual value. Shraddha should, therefore, consider the most beneficial option while deciding which flat should be treated by her as self-occupied.

OPTION 1 [Flat at Goregaon – Self-occupied and Flat at Navi Mumbai – Deemed to be let out]

If Flat at Goregaon is opted to be self-occupied, Shraddha's income from house property for A.Y.2019-20 would be –

| Particulars | Amount in ₹ |
|--|---------------|
| Flat at Goregaon (Self-occupied) [Annual value is Nil] | Nil |
| Flat at Navi Mumbai (Deemed to be let-out) [See Working Note below] | 42,660 |
| Income from house property | 42,660 |

OPTION 2 [Flat at Goregaon – Deemed to be let out and Flat at Navi Mumbai – Self-occupied]

If Flat at Navi Mumbai is opted to be self-occupied, Shraddha's income from house property for A.Y.2019-20 would be –

| Particulars | Amount in ₹ |
|---|---------------|
| Flat at Goregaon (Deemed to be let-out) [See Working Note below] | 98,000 |
| Flat at Navi Mumbai (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for repair of self-occupied property , the interest deduction would be restricted to ₹ 30,000, irrespective of the date of borrowal]. | (30,000) |
| Income from house property | 68,000 |

Since Option 1 is more beneficial, Shradha should opt to treat Flat at Goregaon as Self-occupied and Flat at Navi Mumbai as Deemed to be let out, in which case, her income from house property would be ₹ 42,660 for the A.Y. 2019-20.

Working Note:

Computation of income from Flats at Goregaon & Navi Mumbai assuming that both are deemed to be let out

| Particulars | Amount in Rupees | |
|--|------------------|---------------------|
| | Flat at Goregaon | Flat at Navi Mumbai |
| Gross Annual Value (GAV) Expected Rent is the GAV of house property Expected Rent = Higher of Municipal Value and Fair Rent but restricted to Standard Rent | 1,40,000 | 1,80,000 |
| Less: Municipal taxes (paid by the owner during the previous year) | Nil | 16,200 |
| Net Annual Value (NAV) | 1,40,000 | 1,63,800 |
| Less: Deductions under section 24 | | |
| (a) 30% of NAV | 42,000 | 49,140 |
| (b) Interest on borrowed capital (allowed in full in case of deemed let out property) | - | 72,000 |
| Income from deemed to be let-out house property | 98,000 | 42,660 |

5. Since Mr. Jai Prakash does not own more than 10 vehicles at any time during the previous year 2018-19, he is eligible to opt for presumptive taxation scheme under section 44AE. ₹ 1,000 per ton of gross vehicle weight or unladen weight 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.

| (1) | (2) | (3) | (4) |
|--------------------------------|------------------|--|--|
| Number of Vehicles | Date of purchase | No. of months for which vehicle is owned | No. of months × No. of vehicles [(1) × (3)] |
| For Heavy goods vehicle | | | |
| 1 | 21.07.2018 | 9 | 9 |

| | | | |
|---|------------|----|----------------|
| 2 | 23.01.2019 | 3 | <u>6</u> 15 |
| For goods vehicle other than heavy goods vehicle | | | |
| 3 | 11.5.2018 | 11 | 33 |
| 1 | 16.3.2019 | 1 | 1 |
| 1 | 21.9.2018 | 7 | 7 |
| 2 | 12.1.2019 | 3 | <u>6</u> 47 |

The presumptive income of Mr. Jai Prakash under section 44AE for A.Y.2019-20 would be-

₹ 5,77,500, i.e., ₹ 3,52,500 (47 × ₹ 7,500, being for other than heavy goods vehicle) + ₹ 2,25,000 (15 × ₹ 1,000 × 15 ton, being for heavy goods vehicle).

The answer would remain the same even if the two vehicles purchased in January, 2019 were put to use only in July, 2019, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. Jai Prakash.

6. Computation of capital gain on slump sale of Unit RS for A.Y. 2019-20

| Particulars | ₹ |
|---|---------------------------|
| Full value of consideration | 15,40,00,000 |
| Less: Deemed cost of acquisition (Net worth is deemed to be the cost of acquisition) [Refer Working Note below] | <u>8,70,00,000</u> |
| Long-term capital gain [Since the Unit is held for more than 36 months] | <u>6,70,00,000</u> |

Working Note: Net worth of Unit-RS

| Particulars | ₹ |
|---|---------------------------|
| Cost of Land (Revaluation not to be considered) | 90,00,000 |
| WDV of other depreciable fixed assets as per the Income-tax Act, 1961 | 6,30,00,000 |
| Other Assets (book value) | <u>4,90,00,000</u> |
| | 12,10,00,000 |
| Less: Liabilities | <u>3,40,00,000</u> |
| Net worth | <u>8,70,00,000</u> |

Notes:

- (1) In case of slump sale, net worth of the undertaking transferred shall be deemed to be the cost of acquisition and cost of improvement as per section 50B.

- (2) "Net worth" of the undertaking shall be the aggregate value of total assets of the undertaking or division as reduced by the value of liabilities of such undertaking or division as appearing in the books of accounts.

However, any change in the value of assets on account of revaluation shall not be considered for this purpose.

- (3) For calculating aggregate value of total assets of the undertaking or division in case of slump sale in case of depreciable assets, the written down value of block of assets determined in accordance with the provisions contained in section 43(6) of Income-tax Act, 1961 is to be considered and for all other assets, book value is to be considered.
- (4) Since Unit RS is held by the assessee for more than 36 months, the capital gain arising from slump sale is a long-term capital gain.
- (5) Indexation benefit is not available in case of slump sale

7. In the hands of the seller, Mr. Suraj

As per section 50C, where the consideration received or accruing as a result of transfer of land or building or both, is less than the value adopted or assessed or assessable by the stamp valuation authority, the value adopted or assessed or assessable by the stamp valuation authority shall be deemed to be the full value of consideration received or accruing as a result of transfer.

However, where the date of registration and date of agreement are not the same and part or whole of the consideration is received by way of A/c payee cheque or A/c payee bank draft or by use of ECS on or before the date of agreement, then stamp duty value on the date of agreement may be taken to be the full value of consideration.

Further, where the stamp duty value on the date of agreement or registration, as the case may be, does not exceed 105% of the amount of consideration received or receivable then the consideration so received would be deemed to be the full value of the consideration.

In the present case, since Mr. Suraj has received 10% of the consideration by way of A/c payee cheque on the date of agreement, the stamp duty value of ₹ 44,00,000 on the date of agreement would be taken for the purpose of computing full value of consideration.

Further, since the stamp duty of land and building of ₹ 44,00,000 does not exceed ₹ 44,10,000 i.e., 105% of ₹ 42,00,000, the consideration received i.e., ₹ 42,00,000 in respect of land and building would be deemed to be the full value of consideration.

In the given problem, land has been held for a period exceeding 24 months and building for a period less than 24 months immediately preceding the date of transfer. So land is a long-term capital asset, while building is a short-term capital asset.

Accordingly, capital gains would be determined in the following manner:

| Particulars | ₹ |
|---|--------------------------|
| Long term capital gain on sale of land | |
| Consideration received or accruing as a result of transfer of land [70% of ₹ 42,00,000] | 29,40,000 |
| Less: Indexed cost of acquisition ₹ 9,20,000 x 280/200 | <u>12,88,000</u> |
| Long-term capital gain (A) | <u>16,52,000</u> |
| Short-term capital loss on sale of building | |
| Consideration received or accruing from transfer of building [30% of ₹ 42,00,000] | 12,60,000 |
| Less: Cost of acquisition | <u>15,50,000</u> |
| Short term capital loss (B) | <u>(2,90,000)</u> |

As per section 70(2), short-term capital loss can be set-off against long-term capital gains. Therefore, the net taxable long-term capital gains would be ₹ 13,62,000 (i.e., ₹ 16,52,000 – ₹ 2,90,000). The same would be taxable @ 20% under section 112, after adjusting un-exhausted basic exemption limit, if any, against such long term capital gain.

In the hands of the buyer Mr. Ganesh

As per section 56(2)(x), where any person receives from a non-relative, any immovable property for a consideration which is less than the stamp duty value on the date of agreement or date of registration as the case may be, and the difference between actual consideration and stamp duty value so considered is more than the higher of ₹ 50,000 or 5% of the consideration so received, then the difference between such value and actual consideration of such property is chargeable to tax as income from other sources.

Where the date of registration and date of agreement are not the same and part or whole of the consideration is paid by way of A/c payee cheque or A/c payee bank draft or by use of ECS on or before the date of agreement, then stamp duty value on the date of agreement may be taken for the purpose of determining income taxable under the head "Income from other sources".

Since in the present case, Mr. Ganesh has paid 10% of the consideration by way of A/c payee cheque, the stamp duty value on the date of agreement has to be taken. Further, since the difference of ₹ 2,00,000 is not more than ₹ 2,10,000 being higher of ₹ 50,000 and ₹ 2,10,000 (5% of ₹ 42,00,000), no income would be chargeable to tax as income from other sources in the hands of Mr. Ganesh.

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INTERMEDIATE (NEW) EXAMINATION: MAY, 2019

8. **Computation of Gross Total Income of Mr. Mayur for the A.Y. 2019-20**

| Particulars | ₹ | ₹ | ₹ |
|--|-----------------|---------------|------------------------|
| Income from profession | | | 4,50,000 |
| Income of minor son Tejas | | | |
| Capital gains | | | |
| Full value of consideration | 4,80,000 | | |
| Less: Indexed Cost of Acquisition [₹ 95,000 x 280/184] | <u>1,44,565</u> | 3,35,435 | |
| Income from Other Sources | | | |
| Dividend of ₹ 10,000 on equity shares [Exempt u/s 10(34)] | - | | |
| Interest on company deposit [₹ 3,10,000 x 14% x 4/12] | <u>14,467</u> | <u>14,467</u> | |
| | | 3,49,902 | |
| Less: Exemption u/s 10(32) in respect of income of minor child | | <u>1,500</u> | |
| | | | <u>3,48,402</u> |
| Gross Total Income | | | <u>7,98,402</u> |

Notes:

- (1) As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, interest income of ₹ 42,500 arising to handicapped son, Master Tanmay, would not be clubbed with the income of Mr. Mayur.
- (2) Income of the other minor child, Master Tejas, is includible in the hands of Mr. Mayur, assuming that Mr. Mayur's income is higher than that of his wife.
- (3) In the above solution, the indexed cost of acquisition has been computed by taking into consideration the first year in which Master Tejas held the asset, i.e., F.Y.2011-12, as per the definition given in *clause (iii) of Explanation below section 48*. However, as per the view expressed by *Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42*, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is considered, the indexed cost of acquisition would have to be calculated by considering the Cost Inflation Index of

F.Y.2004-05. The solution based on alternate view is given as under:

Computation of gross total income of Mr. Mayur for the A.Y. 2019-20

| Particulars | ₹ | ₹ | ₹ |
|--|-----------------|---------------|------------------------|
| Income from profession | | | 4,50,000 |
| Income of minor son Tejas | | | |
| Capital gains | | | |
| Full value of consideration | 4,80,000 | | |
| Less: Indexed Cost of Acquisition [₹ 95,000 x 280/113] | <u>2,35,398</u> | 2,44,602 | |
| Income from Other Sources | | | |
| Dividend on equity shares [Exempt u/s 10(34)] | - | | |
| Interest on company deposit [₹ 3,10,000 x 14% x 4/12] | <u>14,467</u> | <u>14,467</u> | |
| | | 2,59,069 | |
| Less: Exemption u/s 10(32) in respect of income of minor child | | <u>1,500</u> | |
| | | | <u>2,57,569</u> |
| Gross Total Income | | | <u>7,07,569</u> |

9. **Computation of Gross total income of Mr. Avinash for the A.Y.2019-20**

| Particulars | ₹ | ₹ |
|--|-------------------|----------|
| Salaries | | |
| Income from Salary | 4,18,000 | |
| Less: Loss from house property set-off against salary [As per section 71(3A), loss from house property to the extent of ₹ 2,00,000 can be set-off against any other head of income. In case of Mr. Avinash, it is more beneficial to set-off the loss from house property against long-term capital gains, since LTCG would be taxable @ 20%. Accordingly, loss to the extent of ₹ 10,000 is set-off against LTCG (shown below) and ₹ 1,90,000 set-off against income under the head "Salaries"] | <u>(1,90,000)</u> | 2,28,000 |
| Profits and gains of business or profession | | |
| Income from trading business | 2,80,000 | |

| | | |
|--|------------|-----------------|
| Less: Brought forward loss from trading business of A.Y. 2015-16 can be set off against current year income from trading business as per section 72(1), since the eight-year time limit as specified under section 72(3), within which set-off is permitted, has not expired. | (12,000) | 2,68,000 |
| Income from speculative business BPO | 25,000 | |
| Less: Loss from speculative business MNO set-off as per section 73(1) | (12,000) | |
| Loss from speculative business MNO brought forward from A.Y. 2016-17 as per section 73(2), can be set off to the extent of | (13,000) | - |
| Capital Gains | | |
| Long term capital gain on sale of urban land | 2,05,000 | |
| Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1) | (85,000) | |
| Less: Long-term capital loss on sale of listed equity shares on which STT is paid can also be set-off as per section 74(1), since long-term capital arising on sale of such shares is taxable under section 112A | (1,10,000) | |
| Less: Loss from house property | (10,000) | - |
| Income from owning and maintaining race horses | 8,000 | |
| Less: Set-off of brought forward losses from owning and maintaining race horses as per section 74A(3) | (8,000) | - |
| Gross Total Income | | 4,96,000 |

Items eligible for carried forward to A.Y.2020-21

| Particulars | ₹ |
|---|--------|
| <u>Loss from house property</u> As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y. 2027-28, in this case. | 20,000 |
| <u>Loss from speculative business MNO</u> Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried | 5,000 |

| | |
|--|--------|
| forward for a maximum of four assessment years i.e., upto A.Y. 2020-21, in this case, as specified under section 73(4). | |
| Loss from specified business under section 35AD Loss from specified business under section 35AD can be set-off only against profits of any other specified business. 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. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business . | 45,000 |
| Loss from the activity of owning and maintaining race horses Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto A.Y.2021-22, in this case, as specified under section 74A(3). | 4,000 |

10. (i) Deduction available to Mr. Darshan under Chapter VI-A for A.Y.2019-20

| Section | Particulars | ₹ | ₹ |
|-----------|---|----------|----------|
| 80C | Deposit in public provident fund | 1,50,000 | |
| | Life insurance premium paid ₹ 62,000 (deduction restricted to ₹ 30,000, being 10% of ₹ 3,00,000, which is the sum assured, since the policy was taken on or after 01.04.2012) | 30,000 | |
| | Five year term deposit with bank | 55,000 | |
| | | 2,35,000 | |
| | Restricted to | | 1,50,000 |
| 80CCD(1) | Contribution to NPS of the Central Government, ₹ 1,45,000 [₹ 1,95,000 – ₹ 50,000, being deduction under section 80CCD(1B)], restricted to 10% of salary [₹ 1,95,000 x 10/15] [See Note 1] | | 1,30,000 |
| | | | 2,80,000 |
| 80CCE | Aggregate deduction under section 80C and 80CCD(1), ₹ 2,80,000, but restricted to | | 1,50,000 |
| 80CCD(1B) | ₹ 50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government | | 50,000 |

| | | | |
|-------------------------------------|--|---------------|-----------------|
| 80CCD(2) | Employer contribution to NPS, restricted to 10% of salary [See Note 2] | | 1,30,000 |
| 80D | (i) (a) Medical insurance premium for self and his wife, deduction would be equal to ₹ 47,000 (₹ 27,000 + ₹ 20,000), being 1/4 th of lumpsum premium, since policies would be in force for four previous years. | 47,000 | |
| | (b) Preventive health check up ₹ 6,000 for wife restricted to ₹ 3,000 (₹ 50,000 - ₹ 47,000, since maximum allowable deduction is ₹ 50,000 in case assessee or one of the family member is senior citizen) | <u>3,000</u> | |
| | | 50,000 | |
| | (ii) Medical Expenditure for his father would be fully allowed as deduction, since no insurance policy is taken on his name | 46,000 | |
| | Total of (i) and (ii) | | 96,000 |
| 80DD | Deduction of ₹ 1,25,000 in respect of expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is ₹ 90,000 | | 1,25,000 |
| 80TTB | Interest on fixed deposits with bank of ₹ 75,000, deduction restricted to | | 50,000 |
| Deduction under Chapter VI-A | | | 6,01,000 |

Notes:

- (1) The deduction under section 80CCD(1B) would not be subject to overall limit of ₹ 1.50 lakh under section 80CCE. Therefore, it is more beneficial for Mr. Darshan to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of ₹ 1,45,000 can be claimed as deduction under section 80CCD(1), subject to a maximum limit of 10% of salary i.e. ₹ 1,30,000.
- (2) The entire employer's contribution to notified pension scheme has to be first included under the head "Salaries" while computing gross total income and thereafter, deduction under section 80CCD(2) would be allowed, subject to a maximum of 10% of salary. Deduction under section 80CCD(2) is also not subject to the overall limit of ₹ 1,50,000 under section 80CCE

- (ii) If the contribution towards NPS is ₹ 1,30,000, here again, it is beneficial for Mr. Darshan to first claim deduction of ₹ 50,000 under section 80CCD(1B) and the balance of ₹ 80,000 can be claimed under section 80CCD(1), since the deduction available under section 80CCD(1B) is over and above the aggregate limit of ₹ 1,50,000 under section 80CCE. In any case, the aggregate deduction of ₹ 2,30,000 [i.e., ₹ 1,50,000 under section 80C and ₹ 80,000 under section 80CCD(1)] cannot exceed the overall limit of ₹ 1,50,000 under section 80CCE. The total deduction under Chapter VIA would remain the same i.e., ₹ 6,01,000.

11. Computation of total income and tax liability of Mr. Krishan for A.Y. 2019-20

| Particulars | ₹ | ₹ | ₹ |
|---|-----------|------------------|----------|
| Income from house property | | | |
| Gross annual value ¹ (₹ 35,000 x 12) | | 4,20,000 | |
| Less: Municipal taxes paid by Mr. Krishan | | <u>8,200</u> | |
| Net annual value | | 4,11,800 | |
| Less: Deductions under section 24 | | | |
| (a) 30% of Net Annual Value | | 1,23,540 | |
| (b) Interest on house borrowing (allowed in full in case of let out property) | | <u>2,01,500</u> | |
| | | | 86,760 |
| Profits and gains of business or profession | | | |
| Income from profession | | | |
| Fees from professional services | | 49,60,000 | |
| Less: Expenses allowable as deduction | | | |
| - Staff salary, bonus and stipend | 17,50,000 | | |
| - Other general and administrative expenses | 22,00,000 | | |
| - Office rent | 1,48,000 | | |
| - Motor car maintenance (₹ 72,000 x 4/5) | 57,600 | | |
| - Car loan interest – not allowable, since Mr. Krishan follows cash system of accounting and no interest is paid during the previous year) | - | <u>41,55,600</u> | |
| | | | 8,04,400 |
| Less: Depreciation u/s 32 | | | |
| - Motor car ₹ 9,50,000 x 15% x 50% x 4/5, being put to use for less than 180 days | 57,000 | | |

¹ Rent receivable has been taken as the gross annual value in the absence of other information

| | | | |
|--|-----------------|-----------------|------------------|
| - Books being annual publications [₹ 80,000 x 40%] | 32,000 | | |
| - Computer @40% of ₹ 52,000 x 50%, since the same is put to use for less than 180 days | <u>10,400</u> | <u>99,400</u> | |
| For the P.Y. 2018-19, the gross receipts of Mr. Krishan is ₹ 49,60,000. Since, it does not exceed ₹ 50,00,000, he is eligible to opt for presumptive tax scheme under section 44ADA. In such case, his professional income would be ₹ 24,80,000, being 50% of ₹ 49,60,000. It is more beneficial for Mr. Krishan to declare profit of ₹ 7,05,000 as per books of accounts which is lower than the profits computed on presumptive basis under section 44ADA. However, for declaring lower profits, he has to maintain books of account under section 44AA and get the same audited under section 44AB. | | 7,05,000 | |
| Income from share speculation business | 1,20,000 | | |
| Less: Loss from commodity speculation business set off against income from share speculation business. Balance loss of ₹ 60,000 from commodity speculation business to be carried forward to A.Y. 2020-21 | <u>1,20,000</u> | <u>Nil</u> | 7,05,000 |
| Capital Gains | | | |
| Long-term capital gains on sale of 5800 listed shares | | | |
| Sale consideration | | 5,95,000 | |
| Less: Cost of acquisition is higher of | | <u>4,35,000</u> | 1,60,000 |
| - Cost of acquisition | 1,21,800 | | |
| - Lower of ₹ 4,35,000 (₹ 75 x 5800), being fair market value as on 31.1.2018 and ₹ 5,95,000, being full value of consideration on transfer | <u>4,35,000</u> | | |
| Income from other sources | | | |
| Cash Gift of ₹ 84,000 i.e., ₹ 21,000 x 4, received from his four friends is taxable u/s 56(2)(x), since aggregate amount of cash gifts exceeds ₹ 50,000 | | | <u>84,000</u> |
| Gross Total Income | | | 10,35,760 |

| | | | |
|---|-----------------|-----------------|------------------------|
| Less: Deductions under Chapter VI-A | | | |
| Section 80C | | | |
| Life insurance premium | 49,000 | | |
| Repayment of housing loan | 1,80,000 | | |
| PPF subscription | <u>1,50,000</u> | | |
| | 3,79,000 | | |
| Restricted to ₹ 1,50,000 | | 1,50,000 | |
| Section 80G | | | |
| Contribution to Prime Minister's Drought Relief Fund (50% of ₹ 1,21,000) by way of bank draft | | 60,500 | |
| Section 80GGC | | | |
| Donation to registered political party made by way of cheque | | <u>3,50,000</u> | |
| | | | <u>5,60,500</u> |
| Total Income | | | <u>4,75,260</u> |
| Tax liability | | | |
| Tax @ 10% under section 112A on long-term capital gains exceeding ₹ 1,00,000 i.e., ₹ 60,000 | | | 6,000 |
| Tax @5% on ₹ 65,260 [₹ 3,15,260 (total income excluding LTCG u/s 112A) - ₹ 2,50,000, being basic exemption limit] | | | <u>3,263</u> |
| | | | 9,263 |
| Add: Health and Education cess@4% | | | <u>371</u> |
| Tax liability | | | <u>9,634</u> |
| Tax liability (rounded off) | | | 9,630 |

12. (a) Computation of advance tax liability in the hands of Mr. Narayan opting for presumptive taxation scheme under section 44AD

| Particulars | ₹ |
|---|---|
| As per section 211, an eligible assessee, opting for computation of profits or gains of business on presumptive basis in respect of an eligible business referred to in section 44AD, shall be required to pay advance tax of the whole amount in one instalment on or before 15th March of the financial year. Thus, Mr. Narayan is required to pay advance tax by 15 th of March 2019. | |
| However, any amount paid by way of advance tax on or before 31 st March shall also be treated as advance tax paid during that financial year on or before 15 th March. | |

| The advance tax liability is computed as follows – | | |
|---|-----------------|-----------------|
| Business Income | | |
| 8% of ₹ 35,00,000 | 2,80,000 | |
| 6% of ₹ 1,30,00,000 | <u>7,80,000</u> | 10,60,000 |
| In respect of the amount of turnover received by account payee cheque/bank draft or use of ECS through a bank account, the assessee can declare 6% (instead of 8%) of such turnover as presumptive income under section 44AD. | | |
| Since Mr. Narayan does not have any other income during the previous year 2018-19, business income would be the total income. | | |
| Tax liability | | |
| Upto ₹2,50,000 | Nil | |
| ₹2,50,001 to ₹5,00,000 @5% | 12,500 | |
| ₹5,00,001 to ₹10,00,000 @20% | 1,00,000 | |
| Above ₹10,00,001 @30% | <u>18,000</u> | 1,30,500 |
| Add: Health and Education cess @ 4% | | 5,220 |
| Total Tax Payable | | 1,35,720 |
| Mr. Narayan is required pay ₹ 1,35,720 as minimum amount of advance tax by 15 th March 2019. | | |

- (b) As per sixth proviso to section 139(1), every person, being an individual whose total income without giving effect to the provisions of, *inter alia*, Chapter VI-A exceeds the basic exemption limit, is compulsorily required to furnish return of income on or before the due date.

Therefore, in the present case, Mr. Shivpal, a very senior citizen is required to file return of income, since his total income of ₹ 6,60,000 before giving effect to the deduction of ₹ 1,70,000 under Chapter VI-A, exceeds the basic exemption limit of ₹ 5,00,000 applicable in his case.

SECTION B: INDIRECT TAXES

QUESTIONS

- (1) All questions should be answered on the basis of the position of GST law as amended up to 31.10.2018.**
- (2) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. Further, GST compensation cess should be ignored in all the questions, wherever applicable.**

1. M/s. Ramchandra Associates has received some taxable services from Mohan Dalal (P) Ltd. on 12.01.20XX by making a cash payment of ₹ 5,00,000 on same day. The payment was entered in the books of account of M/s. Ramchandra Associates on 16.01.20XX and in the books of account of Mohan Dalal (P) Ltd. on 20.01.20XX. The invoice was issued by Mohan Dalal (P) Ltd. on 18.01.20XX. Determine the time of supply in the given case.
 - (a) 12.01.20XX
 - (b) 16.01.20XX
 - (c) 18.01.20XX
 - (d) 20.01.20XX

2. M.H. Husain, a famous painter, Delhi, sends his latest art work to Indian Classic gallery, Delhi, for exhibition. However, no consideration has flown from Indian Classic gallery to M. H. Husain when the art work is sent to the gallery for exhibition. M. H. Husain is in dilemma whether GST is payable on said transfer of art work. What would be your advice on the same?
 - (a) GST is payable as the same amounts to taxable supply of goods.
 - (b) GST is payable as the same amounts to taxable supply of services.
 - (c) GST is not payable as the same is an exempt supply.
 - (d) GST is not payable as the same does not amount to supply at all.

3. Kidzee Ltd., a wholesaler of toys registered in Chandigarh, is renowned in the local market for the varieties of toys and their reasonable prices. Kidzee Ltd. makes supply of 100 pieces of baby's learning laptops and chat learning phones to Nancy General Store on 25th September, 20XX by issuing a tax invoice amounting to ₹ 1,00,000. However, the said toys were returned by Nancy General Store on 30th September, 20XX. Which document Kidzee Ltd. is required to issue in such a case?
 - (a) Debit Note
 - (b) Refund voucher

- (c) Credit note
 - (d) Payment voucher
4. Which of the following services is exempt from GST?
- (a) Bollywood dance performance by a film actor in a film and consideration charged is ₹ 1,45,000.
 - (b) Carnatic music performance by a classical singer to promote a brand of readymade garments and consideration charged is ₹ 1,30,000.
 - (c) Carnatic music performance by a classical singer in a music concert and consideration charged is ₹ 1,55,000.
 - (d) Kathak dance performance by a classical dancer in a cultural programme and consideration charged is ₹ 1,45,000.
5. Examine whether supply of food and drink in the following independent cases is exempt from GST :-
- (i) "Smart Kids" is a Play School located in Delhi. Smart Kids has outsourced the catering services for supply of food and drink in the canteen of Play School to BTV Caterers, Delhi for a consideration of ₹ 8,00,000 per annum.
 - (ii) Wellness Hospital, a clinical establishment located in Tirupati, is specialised in diabetic treatment. The hospital has its own canteen – Tasty Foods. The canteen serves the food and drink to the in-patients as advised by the doctors/nutritionists of the hospital. Apart from this, other patients (who are not admitted) or attendants or visitors of the in-patients also take food and drink from the canteen.
6. Sahil is a supplier of taxable goods in Karnataka. He got registered under GST in the month of September, 20XX and wishes to pay his IGST liability for the month. Since he's making the GST payment for the first time, he is of the view that he needs to mandatorily have the online banking facility to make payment of GST; offline payment is not permitted under GST. You are required to apprise Sahil regarding the various modes of deposit in the electronic cash ledger. Further, advise him with regard to following issues:
- (a) Are manual challans allowed under GST?
 - (b) What is the validity period of the challan?
 - (c) Is cross utilization among Major and Minor heads of the electronic cash ledger permitted?
7. M/s Cavenon Enterprises, a registered supplier of designer wedding dresses under regular scheme, has aggregate annual turnover of ₹ 30 lakh in the preceding financial year. It is of the view that in the current financial year, it is permitted to file its monthly statement of outward supplies – GSTR-1 - on a quarterly basis while its accountant advises it to file the same on a monthly basis. You are required to advise M/s Cavenon Enterprises on the same.

During a given tax period in the current financial year, owing to an off-season, M/s Cavenon Enterprises has not made any taxable supply. Therefore, M/s Cavenon Enterprises opines that no return under GST is required to be filed for the said period. You are required to examine the technical veracity of the opinion of M/s Cavenon Enterprises.

8. Kamal Book Depot, a wholesaler of stationery items, registered in Mumbai, has received order for supply of stationery items worth ₹ 2,00,000/- on 12th November, 20XX from another local registered dealer, Mr. Mehta, Mumbai. Kamal Book Depot charged the following additional expenses from Mr. Mehta:-

| | Particulars | Amount (₹) |
|-------|------------------------------|------------|
| (i) | Packing charges | 5,000 |
| (ii) | Freight & Cartage | 2,000 |
| (iii) | Transit insurance | 1,500 |
| (iv) | Extra designing charges | 6,000 |
| (v) | Taxes by Municipal Authority | 500 |

The goods were delivered to Mr. Mehta on 14th November, 20XX. Since Mr. Mehta was satisfied with the quality of the goods, he made the payment of goods the same day and simultaneously placed another order on Kamal Book Depot of stationery items amounting to ₹ 10,00,000 to be delivered in the month of December, 20XX**. On receipt of second order, Kamal Book Depot allowed a discount of ₹ 20,000 on the first order placed by Mr. Mehta.

Compute the GST liability of Kamal Book Depot for the month of November, 20XX assuming the rates of GST on the goods supplied as under:

CGST 9%
SGST 9%

Would your answer be different if expenses (i) to (v) given in above table are already included in the price of ₹ 2,00,000?

Note:-

- (i) All the amounts given above are exclusive of GST.
(ii) Kamal Book Depot and Mr. Mehta are not related persons and price is the sole consideration of the supply.

**Payment and invoice for the second order will also be made in the month of December, 20XX only.

9. Mr. Ekaant, a supplier registered in Delhi, is engaged in the business of sale and purchase of plastic raincoats. He furnishes the following information pertaining to inward/outward supply made by him for the month of July, 20XX:

| Particulars | Amount (₹ in lakh) |
|--|-----------------------|
| Value of inter-State outward supply to registered persons | 30 |
| Value of intra-State outward supply to registered persons | 50 |
| Value of intra-State outward supply to unregistered persons | 15 |
| Value of intra-State inward supply from registered persons | 10 |
| Value of inter-State inward supply from registered persons | 5 |
| Value of intra-State inward supply from unregistered persons | 2 |

Following additional information is also provided by Mr. Ekaant:-

| Particulars | Amount (₹ in lakh) |
|---|-----------------------------|
| IGST credit on capital goods purchased in the month of July | 1.5 |
| CGST/SGST credit on other inward supplies [including credit of ₹ 5,000 (CGST and SGST each) on account of membership of a club] | 0.5 (CGST and SGST each) |
| Availed consultancy services from Mr. Sujit, lawyer located in Delhi [Intra-State services] | 1 |

The amount of ITC brought forward in the month of July, 20XX is as under:-

CGST: ₹ 2 lakh

SGST: ₹ 2 lakh

IGST: ₹ 5 lakh

Calculate the net GST liability (CGST and SGST or IGST, as the case may be) to be paid in cash for the month of July, 20XX by assuming the rates of GST as under:

CGST 9%

SGST 9%

IGST 18%

Note:

(i) All the amounts given above are exclusive of taxes.

(ii) All the conditions necessary for availing the ITC have been fulfilled.

10. Le Marc Ltd. of Nashik, Maharashtra, a registered supplier, is engaged in manufacturing taxable goods. It provides the following details of items purchased and services availed by it from Gujarat, for the month of March, 20XX:

| S. No. | Particulars | IGST (₹) |
|--------|--|----------|
| 1 | Motor vehicle purchased for employees to be used for personal as well as business purposes | 1,50,000 |
| 2 | Motor vehicle purchased for transportation of goods within the factory | 2,00,000 |
| 3 | Food items for consumption of employees. These items were supplied free of cost to the employees in lieu of services rendered by them to the manufacturer in the course of employment. | 2,000 |
| 4 | Rent-a-cab facility availed for employees to fulfill a statutory obligation in this regard. The Government has notified such service under section 17(5)(b)(iii)(A) of the CGST Act, 2017. | 36,000 |

Calculate the amount of eligible input tax credit for the month of March, 20XX.

SUGGESTED ANSWERS/HINTS

1. (c)
2. (d)
3. (c)
4. (d)
5. (i) Services provided to an educational institution providing services by way of pre-school education and education up to higher secondary school or equivalent, by way of catering is exempt from GST vide *Notification No. 12/2017 CT (R) dated 28.06.2017* as amended. Thus, in the given case, services provided by BTV Caterers to Smart Kids are exempt from GST.
- (ii) Services by way of health care services provided by a clinical establishment, an authorised medical practitioner or para-medics are exempt from GST vide *Notification No. 12/2017 CT (R) dated 28.06.2017* as amended.

In this regard, CBIC has clarified that food supplied by the hospital canteen to the in-patients as advised by the doctor/nutritionists is a part of composite supply of healthcare services and is not separately taxable. Thus, it is exempt from GST. However, other supplies of food by a hospital to patients (not admitted) or their attendants or visitors are taxable.

In view of the same, GST is exempt on the food supplied by Tasty Foods to the in-patients as advised by doctors/nutritionists while other supplies of food by it to patients (not admitted) or attendants/visitors of the in-patients is taxable.

6. Section 49(1) of CGST Act, 2017 read with rule 87 of CGST Rules, 2017 provides that the deposit in electronic cash ledger can be made through any of the following modes, namely:-

- (i) Internet Banking through authorised banks;
- (ii) Credit card or Debit card through the authorised bank;
- (iii) National Electronic Fund Transfer or Real Time Gross Settlement from any bank; or
- (iv) Over the Counter payment through authorised banks.

Thus, offline mode is also permitted under GST.

- (a) Manual or physical Challans are not allowed under the GST regime. It is mandatory to generate Challans online on the GST Portal.
 - (b) E-challan is valid for a period of 15 days.
 - (c) Amount entered under any Minor head (Tax, Interest, Penalty, etc.) and Major Head (CGST, IGST, SGST/UTGST) of the Electronic Cash Ledger can be utilized only for that liability. Cross-utilization among Major and Minor heads is not possible.
7. Section 37 of the CGST Act, 2017 stipulates that GSTR-1 for a particular month is required to be filed on or before the 10th day of the immediately succeeding month, i.e. on a monthly basis.

However, presently, as a measure of easing the compliance requirement for small tax payers, GSTR-1 has been allowed to be filed quarterly by small tax payers with aggregate annual turnover up to ₹ 1.5 crore in the preceding financial year or the current financial year. Tax payers with annual aggregate turnover above ₹ 1.5 crore will however continue to file GSTR- 1 on a monthly basis.

In view of the same, M/s Cavenon Enterprises can file its GSTR-1 on quarterly basis as its aggregate turnover does not exceed ₹ 1.5 crore in the preceding financial year.

Further, GSTR-1 needs to be filed even if there is no business activity in a tax period. Thus, in the present case, even if no supply has been made by M/s Cavenon Enterprises, a nil return is required to be filed for the relevant tax period.

8. **Computation of value of taxable supply and tax liability**

| | Particulars | Amount (₹) |
|-------|----------------------------------|------------|
| | Price of the goods [Note-1] | 2,00,000 |
| (i) | Packing charges [Note-2] | 5,000 |
| (ii) | Freight & Cartage [Note-3] | 2,000 |
| (iii) | Transit Insurance [Note-3] | 1,500 |
| (iv) | Extra Designing charges [Note-4] | 6,000 |

| | | |
|-----|---------------------------------------|----------|
| (v) | Taxes by Municipal Authority [Note-5] | 500 |
| | Value of taxable supply | 2,15,000 |
| | CGST @9% | 19,350 |
| | SGST @9% | 19,350 |

Notes:-

1. As per section 15(1) of the CGST Act, 2017, the value of a supply is the transaction value i.e. the price actually paid or payable for the said supply.
2. All incidental expenses including packing charged by the supplier to the recipient are includible in the value of supply in terms of section 15(2) of the CGST Act, 2017.
3. The given supply is a composite supply involving supply of goods (stationery items) and services (transit insurance and freight) where the principal supply is the supply of goods.

As per section 8(a) of the CGST Act, 2017, a composite supply is treated as a supply of the principal supply involved therein and charged to tax accordingly.

4. Any amount charged for anything done by the supplier in respect of the supply of goods or services or both at the time of, or before delivery of goods or supply of services; is includible in the value of supply vide section 15(2) of the CGST Act, 2017. Thus, extra designing charges are to be included in the value of supply.
5. The taxes by Municipal Authorities are includible in the value of supply in terms of section 15(2) of the CGST Act, 2017.
6. In the given case, Mr. Mehta is allowed a discount of ₹ 20,000 on the goods supplied to him in the month of November, 20XX. Since the said goods have already been delivered by Kamal Book Depot, this discount will be a post-supply discount.

Further, value of supply shall not include any discount which is given after the supply has been effected, if—

- (i) such discount is established in terms of an agreement entered into at or before the time of such supply and specifically linked to relevant invoices; and
- (ii) input tax credit as is attributable to the discount on the basis of document issued by the supplier has been reversed by the recipient of the supply [Section 15(3) of the CGST Act, 2017].

However, in the given case, post-supply discount given to Mr. Mehta will not be allowed as a deduction from the value of supply since the discount policy was not known before the time of such supply although the discount can be specifically linked to relevant invoice (invoice pertaining to stationery items supplied to Mr. Mehta in November, 20XX).

In case the expenses (i) to (v) given in above table are already included in the price of ₹ 2,00,000: Since these expenses are includible in the value of supply by virtue of the reasons mentioned in explanatory notes above, no further addition will be required. Resultantly, the value of taxable supply will be ₹ 2,00,000 and CGST and SGST will be ₹ 18,000 and ₹ 18,000 respectively.

9. Computation of net GST liability of Mr. Ekaant

| Particulars | Value (₹) | CGST (₹) | SGST (₹) | IGST (₹) |
|---|-----------|-----------------|-----------------|-----------------|
| Total tax liability | | | | |
| Value of intra-State legal consultancy services i.e. inward supplies liable to reverse charge mechanism (to be paid in cash) (A) [Note-1] | 1,00,000 | 9,000 | 9,000 | - |
| Value of inter-State outward supplies (B1) | 30,00,000 | - | - | 5,40,000 |
| Value of intra-State outward supplies to registered as well as unregistered persons (B2) (₹ 50,00,000+ ₹ 15,00,000) | 65,00,000 | 5,85,000 | 5,85,000 | - |
| Total (B) = (B1) +(B2) | | 5,85,000 | 5,85,000 | 5,40,000 |
| Input tax Credit | | | | |
| Brought forward ITC | | 2,00,000 | 2,00,000 | 5,00,000 |
| Value of intra-State inward supplies from registered person [Note-2] | 10,00,000 | 90,000 | 90,000 | |
| Value of inter-State inward supplies from registered person [Note-2] | 5,00,000 | - | - | 90,000 |
| Value of intra-State inward supplies from unregistered person [Note-3] | 2,00,000 | - | - | - |
| IGST credit of capital goods [Note-2] | | | | 1,50,000 |
| Credit on other inward supplies purchased in the month of July /less credit on membership of a club [Note-2 & 4] | | 45,000 | 45,000 | - |

| | | | | |
|---|--|-----------------|-----------------|-----------------|
| Credit of legal consultancy services [Note-2] | | 9,000 | 9,000 | - |
| Total (C) | | 3,44,000 | 3,44,000 | 7,40,000 |
| Net liability (B)-(C) | | 2,41,000 | 2,41,000 | (2,00,000) |
| Less: Set off from IGST credit [Note-5] | | 2,00,000 | - | - |
| Liability after set off (D) | | 41,000 | 2,41,000 | Nil |
| Net GST liability to be paid in cash (A) + (D) | | 50,000 | 2,50,000 | Nil |

Notes:-

- Services supplied by an individual advocate to any business entity located in the taxable territory by way of legal services, directly or indirectly are taxable under reverse charge mechanism. Thus, tax is payable by the recipient (Mr. Ekaant) on said services to the Government.

Further, as per section 49(4) of the CGST Act, 2017, amount available in the electronic credit ledger [ITC amount] may be used for making payment towards output tax. However, tax payable under reverse charge is not an output tax in terms of section 2(82) of the CGST Act, 2017. Therefore, tax payable under reverse charge cannot be set off against the input tax credit and thus, will have to be paid in cash.
- Every registered person is entitled to take credit of input tax charged on any inward supply of goods and/or services which are used or intended to be used in the course or furtherance of his business in terms of section 16 of CGST Act, 2017. Further "input tax" in relation to a registered person includes the tax payable under reverse charge mechanism in terms of section 2(62) of the CGST Act, 2017.
- Intra-State supplies received by a registered person from any unregistered supplier, are exempt from the whole of the central tax leviable thereon under section 9(4) till 30.09.2019 [Notification No.8/2017 CT (R) dated 28.06.2017]. Since no tax has been paid, so no credit is available.
- Input tax credit is not allowed in respect of membership of a club in terms of section 17(5) of CGST Act, 2017.
- Input tax credit of IGST has been used to pay IGST and CGST in that order.

10. Computation of eligible input tax credit

| Particulars | Eligible ITC (₹) |
|---|------------------|
| Motor vehicle purchased for employees to be used for personal as well as business purposes [Note-1] | - |
| Motor vehicle purchased for transportation of goods within the factory [Note-1] | 2,00,000 |
| Food items for consumption of employees [Note-2] | - |
| Rent-a-cab facility given to employees [Note-3] | 36,000 |
| Total eligible input tax credit | 2,36,000 |

Notes:-

As per section 17(5) of the CGST Act, 2017:

1. ITC on motor vehicles and other conveyances is blocked except when they are used—
 - (i) for making the following taxable supplies, namely :—
 - (A) further supply of such vehicles or conveyances; or
 - (B) transportation of passengers; or
 - (C) imparting training on driving, flying, navigating such vehicles or conveyances;
 - (ii) for transportation of goods.Thus, in the given case, ITC on motor vehicle purchased for transportation of goods within the factory will only be allowed
2. ITC in respect of food and beverages is blocked unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply. Thus, in the given case, ITC of taxes paid on food for employees is not allowed.
3. ITC on supply of rent-a cab services is not blocked where the Government notifies the services which are obligatory for an employer to provide such service to its employees. Thus, ITC is available on said service.

Note: GST law is in its nascent stage and has been subject to frequent changes. Although many clarifications are continually being issued by way of FAQs or otherwise, many issues continue to arise on account of varying interpretations on several of its provisions. Therefore, alternate answers may be possible for the above questions depending upon the view taken.