TAXATION QUESTION PAPER SOLUTION MAY 2018 (Test held on 14.04.2018)

SECTION – A: INCOME TAX LAW (60 MARKS)

Solution 1(10 Marks)

Computation of total income of Mr. Yusuf Khan for the A.Y. 2018-19

Particulars	Rs.	Rs.	Rs.
Income from house property			
Arrears of rent received in respect of the Chennai house taxable under section 25A **[Note 1]**		75,000	
Less: Deduction @ 30%		22,500	52,500
Profits and gains of business or profession			
Own business [Note 3]			6,37,000
Income from partnership firm [Note 2]			
Interest on capital [As per section 28(v), chargeable in the hands of the partner only to the extent allowable as deduction in the firm's hand i.e. @12%]		2,40,000	
Salary of working partner (Since the same has been fully allowed as deduction in the hands of the firm)		90,000	3,30,000
Income from other sources			
(a) LIC Jeevan Dhara pension		24,000	
(b) Interest from bank FD (gross)		50,000	74,000
Gross Total Income			**10,93,500**
Less: **Deductions under Chapter VIA**			
Section 80C			
Life insurance premium for policy in the name of major son qualifies for deduction even though he is not dependent on the assessee. However, the same has to be restricted to 10% of sum assured i.e. 10% of Rs. 2,00,000.	20,000		
Contribution to PPF	70,000	90,000	
Section 80D			

Mediclaim premium for father, a senior citizen	32,000		
(qualifies for deduction, even though the father is not dependent on the assessee, subject to a maximum of Rs. 30,000)		30,000	1,20,000
Total Income			**9,73,500**

Notes:

1) As per section 25A, any arrears of rent received will be chargeable to tax, after deducting a sum equal to 30% of such arrears, as income from house property in the year of receipt, whether or not the assessee is the owner of the house property.

2) The income by way of interest on capital and salary of Mr. Yusuf Khan from the firm, ABC & Co., in which he is a working partner, to the extent allowed as deduction in the hands of the firm under section 40(b), has to be included in the business income of the partner as per section 28(v). Accordingly, Rs. 3,30,000 [i.e., Rs. 90,000 (salary) + Rs. 2,40,000 (interest@12%)] should be included in his business income.

3) **Computation of income from own business**

Particulars	Rs.	Rs.
Net profit as per profit and loss account		4,32,000
Less:		
Interest on bank FD (Net of TDS)	45,000	
Agricultural income	60,000	
Pension from LIC Jeevan Dhara	24,000	1,29,000
		3,03,000
Add:		
Advance tax	70,000	
Depreciation:		
- Car	3,00,000	
- Machinery	1,25,000	
Car expenses disallowed for personal use (Rs. 50,000 x 1/5)	10,000	
Salary to manager disallowed under section 40A(3) since it is paid in cash and the same	15,000	5,20,000

exceeds Rs. 10,000		
		8,23,000
Less: Depreciation (See Working Note below)		1,86,000
Income from business		**6,37,000**

Working Note:
Computation of depreciation allowable under the income-tax Act, 1961

Particulars	**Rs.**	**Rs.**
On Car:		
Depreciation @15% on 3,00,000	45,000	
Less: 1/5th for personal use	9,000	
Depreciation on Car allowable as deduction		**36,000**
On Machinery:		
Opening WDV 6,50,000 (Additions during the year (used for more than 180 days)		
- New Machinery purchased on 23.9.17 2,00,000		
- Second hand machinery purchased on 12.4.17 1,25,000		
Additions during the year (used for less than 180 days) 3,00,000		
Normal Depreciation		
Depreciation @15% on Rs. 6,50,000 [As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds Rs.10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on second hand machinery purchased on 12.4.2017 and on new machinery purchased on 23.9.2017 is not allowable since the payment is made otherwise than by A/c payee cheque/A/c payee draft/ ECS to a person in a day]	97,500	
Depreciation @ 7.5% on Rs. 3,00,000	22,500	
Total normal depreciation on machinery (A)	**1,20,000**	
Where an asset acquired during the year is put to		

use for less than 180 days, 50% of the rate of depreciation is allowable. This restriction does not apply to assets acquired in an earlier year.		
Additional depreciation (B)		
New machinery		
Used for less than 180 days = 10% of Rs. 3,00,000	30,000	
Total permissible depreciation on machinery (A) + (B)		**1,50,000**
Depreciation allowable under section 32		**1,86,000**

Solution 2(a) (8 Marks)
Computation of total income of Mr. Gupta for the A.Y.2018-19

Particulars	Rs.	Rs.
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property [See Note (i)]	2,00,000	20,000
Profits and gains of business or profession		
Income from speculation business	30,000	
Less: Loss from cloth business set off [See Note (iv)]	30,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Loss from cloth business set off [See Note (iv)]	2,10,000	40,000
Income from other sources		
Income from betting		35,000
Gross Total Income		**95,000**
Less: Deduction under section 80C (life insurance premium paid) [See Note (vi)]		20,000
Total income		**75,000**

Losses to be carried forward:

S. No.	Particulars	Rs.
1	Loss from house property (Rs. 2,50,000 - Rs. 2,00,000)	50,000
2	Loss from cloth business (Rs. 2,40,000 - Rs. 30,000 - Rs. 2,10,000)	Nil
3	Loss from specified business covered by section 35AD	45,000

Notes:

(i) As per section 71(3A), loss from house property can be set-off against income under any other head to the extent of Rs. 2,00,000 only. 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.

(ii) Long-term capital gains from sale of listed shares in a recognized stock exchange on which STT is paid at the time of acquisition and sale is exempt under section 10(38). Loss from an exempt source cannot be set off against profits from a taxable source. Therefore, long-term capital loss on sale of listed shares on which STT is paid cannot be set-off against long-term capital gains from sale of urban land. Such loss cannot also be carried forward for set-off in the subsequent years.

(iii) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year(s).

(iv) Since inter-source set-off of losses is permissible as per section 70(1), loss from cloth business to the extent of Rs. 30,000 can be set-off against income from speculation business. The remaining business loss cannot be set off against salary income due to restriction contained in section 71(2A). However, the remaining business loss of Rs. 2,10,000 (Rs. 2,40,000 – Rs. 30,000) can be set-off against long-term capital gains of Rs. 2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be Rs. 40,000.

(v) Loss from card games can neither be set off against any other income, nor can it be carried forward.

(vi) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium paid has to be restricted to Rs. 20,000 [i.e., Gross Total Income of Rs. 1,05,000 – Rs. 40,000 (LTCG) – Rs. 45,000 (Casual income)].

(vii) Income from betting is chargeable to tax at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income

Solution 2(b) (2 Marks)

Significant Differences between TDS and TCS

	TDS	TCS
(1)	TDS is tax deduction at source	TCS is tax collection at source.
(2)	Person responsible for paying is required to deduct tax at source at the prescribed rate.	Seller of certain goods or provider of services is responsible for collecting tax at source at the prescribed rate from the buyer. Person who grants licence or lease (in respect of any parking lot, toll plaza, mine or quarry) is responsible for collecting tax at source at the prescribed rate from the licensee or lessee, as the case may be.
(3)	Generally, tax is required to be deducted at the time of credit to the account of the payee or at the time of payment, whichever is earlier. However, in certain cases, tax is required to be deducted at the time of payment. For e.g., in case of payment of salary, payment in respect of life insurance policy.	Generally, tax is required to be collected at source at the time of debiting of the amount payable by the buyer of certain goods to the account of the buyer or at the time of receipt of such amount from the said buyer, whichever is earlier. However, in case of sale of motor vehicle of the value exceeding Rs. 10 lakhs, tax collection at source is required at the time of receipt of sale consideration

Solution 3(10 Marks)

In this case, the voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Port Blair) and having its destination at a port outside India (i.e., the Thailand port). Hence, the voyage is an eligible voyage for the purposes of section 6(1).

Therefore, the period beginning from 10th July, 2017 and ending on 21st January, 2018, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Kunal, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 196 days [22+31+30+31+30+31+21] have to be excluded from the period of his stay in India. Consequently, Mr. Kunal's period of stay in India during the P.Y. 2017-18 would be 169 days [i.e., 365 days – 196 days]. Since his period of stay in India during the P.Y. 2017-18 is less than 182 days, he is a non-resident for A.Y. 2018-19.

Based on the residential status, the total income of Mr. Kunal would be determined as follows:

Computation of total income of Mr. Kunal for the A.Y. 2018-19

S. No.	Particulars	(Rs.)
(i)	Dividend from Thailand Company received in Thailand (Note 2)	-
(ii)	Short term capital gain on sale of shares of an Indian company	25,000
(iii)	Interest on savings account with Post office (Note 3)	9,500
(iv)	Past foreign untaxed income brought to India during the previous year [Not taxable, since it does not represent income of the P.Y.2017-18]	-
(v)	Gift received from non-relative [As per section 56(2)(x), cash gifts received from a non-relative would be taxable, if the amount exceeds Rs. 50,000 in aggregate during the previous year]	-
(vi)	Income from agricultural land in Nepal received there and then brought to India (Note 2)	-
(vii)	Interest received from a non-resident on moneys	1,50,000

	borrowed for the purpose of business in Delhi (Note 4)	
Gross Total income		**1,84,500**
Less: Deductions under Chapter VIA		
Section 80TTA (In case of an individual, interest upto Rs. 10,000 from savings account with, inter alia, a post office is allowable as deduction under section 80TTA)		9,500
Total Income		**1,75,000**

Notes:

1) Since the residential status of Mr. Kunal is "non-resident" for A.Y. 2018-19 consequent to his number of days of stay in P.Y. 2017-18 being less than 182 days, his period of stay in the earlier previous years become irrelevant.

2) As per section 5(2), only the following incomes are chargeable to tax in India, in case of a non-resident:

   (i) Income received or deemed to be received in India; and
   (ii) Income accruing or arising or deemed to accrue or arise in India

   Therefore, dividend from Thailand Company received in Thailand and Income from agricultural land in Nepal received there and then brought to India by Mr. Kunal, a non-resident, would not be taxable in India, since both the accrual and receipt are outside India.

3) The interest on Post Office Savings Bank Account, would be exempt under section 10(15)(i), only to the extent of Rs. 3,500 in case of an individual account.

4) As per section 9(1)(v)(c), interest payable by a non-resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.

Solution 4(10 Marks)
Computation of taxable salary of Mrs. Anjali for A.Y. 2018-19

Particulars		Rs.
Basic pay [(Rs. 20,000×11) + (Rs. 22,500×1)] = Rs. 2,20,000 + Rs. 22,500		2,42,500
Dearness allowance [30% of basic pay]		72,750
Bonus [Rs. 22,500 × 2]		45,000
Employer's contribution to Recognized Provident Fund in excess of 12% (15% - 12% = 3% of Rs. 3,15,250)		9,458
Taxable allowances		
Transport allowance (Rs. 2,000 x 12)	24,000	
Less: Exemption under section 10(14) read with Rule 2BB) @ Rs. 1,600 p.m.	19,200	4,800
Hostel allowance (Rs. 4,000 x 3)	12,000	
Less: Exemption under section 10(14) read with Rule 2BB) @ Rs. 300 p.m. per child maximum for two children	7,200	4,800
Taxable perquisites		
Rent-free accommodation [See Note 1 below]		55,478
Medical reimbursement (Rs. 35,000 - Rs. 15,000) [See Note 2 below]		20,000
Gift voucher [See Note 3 below]		6,000
Value of free lunch facility [See Note 4 below]		-
Professional tax paid by the company [See Note 6 below]		2,000
Gross Salary		**4,62,786**
Less: Professional tax paid by the company [Section 16(iii)]		2,000
Salary chargeable to tax		**4,60,786**

Notes:

1) Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.
For the purposes of valuation of rent free house, salary includes:

	Basic salary	2,42,500
	Dearness allowance	72,750
	Bonus	45,000
	Transport allowance	4,800
	Hostel allowance	4,800
	Total	**3,69,850**

15% of salary = Rs. 3,69,850 × 15/100 = Rs. 55,478
Value of rent-free house will be - Actual amount of lease rental paid by employer (i.e. Rs. 60,000) or - 5% of salary (i.e., Rs. 55,478),
Whichever is lower
Therefore, the perquisite value is Rs. 55,478.

2) Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family is exempt to the extent of Rs. 15,000. Therefore, in this case, the balance of Rs. 20,000 (i.e., Rs. 35,000 – Rs. 15,000) is a taxable perquisite.

3) The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household is below Rs. 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of Rs. 5,000. Therefore, entire amount of Rs. 6,000 is liable to tax as perquisite.

   Alternative View: An alternate view possible is that only the sum in excess of Rs. 5,000 is taxable in view of the language of Circular No. 15/2001 dated 12.12.2011 that such gifts upto Rs. 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 Rs. 1,000.

4) Free lunch provided by the employer during office hours is not a perquisite, assuming that the value does not exceed Rs. 50 per meal.

5) As per Rule 3(7)(vii), facility of use of laptop and computer is an exempt perquisite, whether used for official or personal purpose or both.

6) Professional tax paid by employer on behalf of employee is a taxable perquisite, hence, included in gross salary as a perquisite.

Solution 5(a)(5 Marks)

Taxability of certain receipts in the hands of Mr. Kavin, a non-resident, for A.Y. 2018-19

	Taxability	Reason
(a)	**Taxable**	Amount of Rs. 20 lakhs received from a non-resident is deemed to accrue or arise in India by virtue of section 9(1)(vi)(c), since the patent was used for a business in India. Therefore, the amount is chargeable to tax in India.
(b)	**Not Taxable**	Foreign currency equivalent to Rs. 15 lakhs received in Korea from a non-resident for use of know-how for a business in Sri Lanka is not deemed to accrue or arise in India as per section 9(1)(vi)(c), since it is in respect of a business carried on outside India. Also, the amount was received outside India. Therefore, the same is not chargeable to tax in India.
(c)	**Taxable**	Amount of Rs. 7 lakhs received from RR Ltd., an Indian Company, is deemed to accrue or arise in India by virtue of section 9(1)(vii)(b), since it is for providing technical services in India. Therefore, the same is chargeable to tax in India.
(d)	**Not Taxable**	Amount of Rs. 5 lakhs received in Nepal from R & Co., a resident, for conducting feasibility study for the new project in Nepal is not deemed to accrue or arise in India as per section 9(1)(vii)(b), since such study was done for a project outside India. The amount was also received outside India. Therefore, the same is not chargeable to tax in India.
(e)	**Taxable**	Amount of Rs. 8 lakhs received in Korea towards interest on moneys borrowed by a non-resident for the purpose of business within India is deemed to accrue or arise in India by virtue of section 9(v)(c), since money borrowed was used for the purpose of business in India. Therefore, the same is chargeable to tax in India.

Solution 5(b)(5 Marks)

Computation of deduction allowable under section 35

Particulars	Amount (Rs. in lakhs)	Section	% of weighted deduction	Amount of Deduction (Rs. in lakhs)
Payment for scientific research				
Approved Agro Research Association	25	35(1)(ii)	150%	37.5
RR University, an approved University	15	35(1)(ii)	150%	22.5
XY College [See Note 1]	17	-	NIL	NIL
IIT Madras (under an approved programme for scientific research)	10	35(2AA)	150%	15
In-house research [See Note 2]				
Capital expenditure – Purchase of Machinery	20	35(1)(iv) r. w. 35(2)	100%	20
Revenue expenditure - Salaries to research staff engaged in in-house scientific research	14	35(1)(i)	100%	14
Deduction allowable under section 35				**109**

Notes:-

1. Payment to XY College: Since the question clearly mentions that only Agro Research Association and RR University (mentioned in item (i) and (ii), respectively) are approved research institutions, it is logical to conclude that XY College mentioned in item (iii) is not an approved research institution. Therefore, payment to XY College would not qualify for deduction under section 35.

2. Deduction for in-house research and development: Only company assessees are entitled to weighted deduction @150% under section 35(2AB) in respect of expenditure on scientific research on in-house

research and development facility. However, in this case, the assessee is an individual. Therefore, he would be entitled to deduction@100% of the revenue expenditure incurred under section 35(1)(i) and 100% of the capital expenditure incurred under section 35(1)(iv) read with section 35(2), assuming that such expenditure is laid out or expended on scientific research related to his business.

Solution 6(a)(6 Marks)

(i) As per Explanation 3 to section 40(b), "book profit" shall mean the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit.

In the present case, the net profit given is before deduction of depreciation on plant and machinery, interest on capital of partners and salary to the working partners. Therefore, the book profit shall be as follows:

Computation of Book Profit of the firm under section 40(b)

Particulars	**Rs.**	**Rs.**
Net Profit (before deduction of depreciation, salary and interest)		6,00,000
Less: Depreciation under section 32 (See note below)	NIL	
Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (5,00,000 × 12%)	60,000	60,000
Book Profit		**5,40,000**

(ii) Salary actually paid to working partners = Rs. 20,000 × 2 × 12 = Rs. 4,80,000

As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits –

On the first Rs. 3,00,000 of book profit or in case of loss	Rs. 1,50,000 or 90% of book profit, whichever is more
On the balance of book profit	60% of the balance book profit

Therefore, the maximum allowable working partners' salary for the A.Y. 2018-19 in this case would be:

Particulars	Rs.
On the first Rs.3,00,000 of book profit [(Rs.1,50,000 or 90% of Rs. 3,00,000) whichever is more]	2,70,000
On the balance of book profit [60% of (Rs. 5,40,000 - Rs. 3,00,000)]	1,44,000
Maximum allowable partners' salary	4,14,000

Hence, allowable working partners' salary for the A.Y. 2018-19 as per the provisions of section 40(b)(v) is Rs. 4,14,000.

Solution 6(b)(4 Marks)

Computation of amount chargeable to tax in hands of Mrs. Sonu for A.Y. 2018-19

	Particulars	Rs.
(i)	Cash gift of Rs. 2,10,000 received on the occasion of her marriage is not taxable, since gifts received by an individual on the occasion of marriage is excluded from tax under section 56(2)(x), even if the same are from non-relatives.	Nil
(ii)	Even though father's maternal uncle does not fall within the definition of "relative" under section 56(2)(x), gift of Rs. 45,000 received from him by cheque is not chargeable to tax since the aggregate sum of money received by Mrs. Sonu without consideration from non-relatives (other than on the occasion of marriage) during the previous year 2017-18 does not exceed Rs. 50,000.	Nil
(iii)	Purchase of vacant site for inadequate consideration on 12.2.2018 would attract the provisions of section 56(2)(x). Where any immovable property is received for a consideration which is less than the stamp duty value of the property by an amount exceeding Rs. 50,000, the difference between the stamp duty value and consideration is chargeable to tax in the hands of Individual. Therefore, in the given case Rs. 80,000 (Rs. 1,92,000 - Rs. 1,12,000) is taxable in the hands of Mrs. Sonu.	80,000

(iv)	Since shares are included in the definition of "property" and difference between the purchase value and fair market value of shares is Rs. 58,000 (Rs. 1,33,000 - Rs. 75,000) i.e. it exceeds Rs. 50,000, the difference would be taxable under section 56(2)(x).	58,000
Amount chargeable to tax		**1,38,000**

Solution 7(a)(6 Marks)

Computation of income chargeable under the head "Capital Gains" for A.Y.2018-19

Particulars	**Rs. (in lakhs)**	**Rs. (in lakhs)**
Capital Gains on sale of residential building		
Actual sale consideration Rs. 700 lakhs		
Value adopted by Stamp Valuation Authority Rs. 770 lakhs		
Gross Sale consideration		770.00
[In case the actual sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. In this case, since advance of Rs. 20 lakh is paid by cash, stamp duty value of Rs. 740 lakhs on the date of agreement cannot be adopted as the full value of consideration. Stamp duty value on the date of registration would be the full value of consideration]		
Less: Brokerage@1% of sale consideration (1% of Rs. 700 lakhs)		7.00
Net Sale consideration		763.00

Less: Indexed cost of acquisition		
Cost of vacant land, Rs. 80 lakhs, plus registration and other expenses i.e., Rs. 8 lakhs, being 10% of cost of land [Rs. 88 lakhs × 272/113]	211.82	
Construction cost of residential building (Rs. 100 lakhs x 272/122)	222.95	434.77
Long-term capital gains before exemption		**328.23**
Less: Exemption under section 54		110.00
The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India one year before or two years after the date of transfer of original asset. Therefore, in the present case, the exemption would be available only in respect of the residential house acquired at Mumbai and not in respect of the residential house in London		
Less: Exemption under section 54EC		**50.00**
Amount deposited in capital gains bonds of NHAI within six months from the date of transfer (i.e., on or before 09.12.2017) would qualify for exemption, to the maximum extent of Rs. 50 lakhs. Therefore, in the present case, exemption can be availed only to the extent of Rs. 50 lakh out of Rs. 95 lakhs, even if the both the investments are made on or before 09.12.2017 (i.e., within six months from the date of transfer).		
Long term capital gains chargeable to tax		**168.23**

Note: Since the residential house property was held by Mr. Arjun for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain.

Solution 7(b)(4 Marks)

(i) As per section 24(b), interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction. Interest payable on borrowed capital for the period prior to the previous year in which the property has been acquired or constructed, can be claimed as deduction over a period of 5 years in equal annual installments commencing from the year of acquisition or completion of construction.

It is stated that the construction is completed only in May, 2018. Hence, deduction under section 24 in respect of interest on housing loan cannot be claimed in the assessment year 2018-19.

(ii) **Deduction under section 80C cannot be claimed**

Clause (xviii) of section 80C is attracted where there is any payment for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax under the head 'Income from house property'. Such payment covers repayment of any amount borrowed from the National Housing Bank.
However, deduction is prima facie eligible only if the income from such property is chargeable to tax under the head "Income from House Property". During the assessment year 2018-19, there is no such income chargeable under this head. Hence, deduction under section 80C cannot be claimed for A.Y. 2018-19.

Deduction under section 80EE can be claimed
As per section 80EE, interest payable on loan taken for the purpose of acquisition of a residential house from any financial institution qualifies for deduction, subject to a maximum of Rs. 50,000, provided following conditions are satisfied –

(i) Such loan is sanctioned during the P.Y. 2016-17
(ii) The value of the house does not exceed Rs. 50 lakhs
(iii) The amount of loan sanctioned does not exceed Rs. 35 lakhs and
(iv) The assessee does not own any residential house on the date of sanction of loan

Section 80EE does not pose any restriction regarding the chargeability of the income from such property under the head "Income from House Property. Therefore, in this case, since Mr. Kailash satisfies all the conditions stipulated under section 80EE, interest on such loan would qualify for deduction under section 80EE, subject to a maximum of Rs. 50,000.

SECTION – B: INDIRECT TAXES (40 MARKS)

Solution 1(a) (6 Marks)

Health care services provided by, inter alia, clinical establishments in India are exempt from GST vide Notification No. 12/2017 CT (R) dated 28.06.2017. The definition of 'health care services' stipulates that such services must be provided in any recognized system of medicines.

As per section 2(h) of Clinical Establishments Act, 2010, recognised system of medicine means allopathy, yoga, naturopathy, ayurveda, homeopathy, siddha and unani system of medicines or any other system of medicines as may be recognised by the Central Government. Accordingly, value of supply and GST liability of Ayushman Medical Centre will be computed as follows:

S.No.	Particulars	Rs.
(i)	Reiki healing treatments. [Not a recognized system of medicines]	10,00,000
(ii)	Plastic surgeries. ['Health care services' specifically excludes, inter alia, cosmetic or plastic surgery except when undertaken to restore/reconstruct anatomy/functions of body affected due to congenital defects, developmental abnormalities, injury or trauma]	19,00,000
(iii)	Air ambulance services to transport critically ill patients from distant locations to Ayushman Medical Centre. ['Health care services' specifically includes services by way of transportation of the patient to and from a clinical establishment]	Nil
(iv)	Alternative medical treatments by way of Ayurveda. [Not a recognized system of medicines]	2,50,000
	Value of supply	**31,50,000**
	CGST @ 9%	**2,83,500**
	SGST @ 9%	**2,83,500**

Note: Services provided by cord blood banks by way of preservation of stem cells or any other service in relation to such preservation are exempt from GST. Therefore, services provided in relation to preservation of stem cells by the cord blood bank operated by Ayushman Medical Centre will be exempt from GST.

Solution 1(b) (4 Marks)

Computation of net GST payable by Shipra Traders

Particulars	CGST @ 9% (Rs.)	SGST @ 9% (Rs.)
GST payable on intra-State supply of goods [Being an intra-State supply, CGST and CGST is payable on the same]	855 [9,500 × 9%]	855 [9,500 × 9%]
Less: ITC on intra-State purchase of goods [ITC of CGST and SGST paid on intra-State purchase is available in full, even if some inputs are lying in stock]	900 [10,000 × 9%]	900 [10,000 × 9%]
Net GST payable	**Nil**	**Nil**
Input tax credit carried forward in Electronic Credit Ledger	**45**	**45**

Solution 2(a) (5 Marks)

Composite supply means a supply made by a taxable person to a recipient and:

(i) Comprises two or more taxable supplies of goods or services or both, or any combination thereof.

(ii) Are naturally bundled and supplied in conjunction with each other, in the ordinary course of business.

(iii) One of which is a principal supply [Section 2(30) of the CGST Act].

A composite supply comprising of two or more supplies, one of which is a principal supply, shall be treated as a supply of such principal supply [Section 8 of the CGST Act, 2017].

Solution 2(b) (5 Marks)

As per section 22 of the CGST Act, 2017, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods or services or both, if his aggregate turnover in a financial year exceeds Rs. 20 lakh.

However, if such taxable supplies are made from any of the specified special category States, namely, States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand, he shall be liable to be registered if his aggregate turnover in a financial year exceeds Rs. 10 lakh.

As per section 2(6) of the CGST Act, 2017, aggregate turnover includes the aggregate value of:

(i) all taxable supplies,
(ii) all exempt supplies,
(iii) exports of goods and/or services and
(iv) All inter-State supplies of persons having the same PAN.

The above is computed on all India basis. Further, the aggregate turnover excludes central tax, State tax, Union territory tax, integrated tax and cess. Moreover, the value of inward supplies on which tax is payable under reverse charge is not taken into account for calculation of 'aggregate turnover'.

Section 9 of the CGST Act, 2017 provides that CGST is not leviable on five petroleum products i.e. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel. As per section 2(47) of the CGST Act, 2017, exempt supply includes non-taxable supply. Thus, supply of high speed diesel in Delhi, being a non-taxable supply, is an exempt supply and is, therefore, includible while computing the aggregate turnover.

In the backdrop of the above-mentioned discussion, the aggregate turnover for the month of April, 20XX is computed as under:

Sl. No.	Particulars	Rs.
(i)	Supply of machine oils in Delhi	2,00,000
(ii)	Add: Supply of high speed diesel in Delhi	4,00,000
(iii)	Add: Supply made through Fortis Lubricants - an agent of Pure Oils in Delhi	1,75,000
(iv)	Add: Supply made by Pure Oils from its branch	1,80,000

	located in Punjab	
	Aggregate Turnover	**9,55,000**

Since the aggregate turnover does not exceed Rs. 20 lakh, Pure Oils is not liable to be registered.

If Pure Oils made supply of machine oils amounting to Rs. 2,50,000 from its branch in Himachal Pradesh in addition to the above supply, then threshold limit of registration will be reduced to Rs. 10 lakh as Himachal Pradesh is one of the specified Special Category States.

Aggregate Turnover in that case would be Rs. 9,55,000 + Rs. 2,50,000 = Rs. 12,05,000. So, if Pure Oils supplies machine oils amounting to Rs. 2,50,000 from its branch in Himachal Pradesh, then it is liable to be registered.

Solution 3(a) (5 Marks)

(i) As per section 31 of the CGST Act, 2017 read with the CGST Rules, 2017, in case of taxable supply of services, invoices should be issued before or after the provision of service, but within a period of 30 days [45 days in case of insurer/ banking company or financial institutions including NBFCs] from the date of supply of service.
In view of said provisions, in the present case, the tax invoice should have been issued in the prescribed time limit of 30 days from the date of supply of service i.e. upto 03.02.20XX. However, the invoice has been issued on 10.02.20XX.

In such a case, the time of supply as per section 13 of the CGST Act, 2017 would be 04.01.20XX i.e. earliest of the following:

a) Date of provision of service (04.01.20XX)
b) Date of receipt of payment (11.02.20XX)

(ii) Section 31 of the CGST Act, 2017 read with the CGST Rules, 2017, inter alia, provides that tax invoice shall contain the following particulars-

a) Total value of supply of goods or services or both;
b) Rate of tax (central tax, State tax, integrated tax, Union territory tax or cess);

c) Amount of tax charged in respect of taxable goods or services (central tax, State tax, integrated tax, Union territory tax or cess);

The objection raised by the tax consultant of Royal Fashions suggesting that the amount of tax charged in respect of the taxable supply should be shown separately in the invoice raised by Aura Beauty Services Ltd., is valid in law. In the present case, the tax amount has not been shown separately in the invoice.

Solution 3(b) (5 Marks)

Notification No. 12/2017 CT (R) dated 28.06.2017 exempts services by an artist by way of a performance in folk or classical art forms of (i) music, or (ii) dance, or (iii) theatre, if the consideration charged for such performance is not more than Rs. 1,50,000. However, exemption will not apply to service provided by such artist as a brand ambassador.

In view of the aforesaid provisions, services provided by Kesar Maharaj are exempt from GST as consideration for the classical dance performance has not exceeded Rs. 1,50,000. Therefore, his GST liability is nil.

(i) If Kesar Maharaj is a brand ambassador of a food product and aforesaid performance is for the promotion of such food product, he will be liable to pay GST as aforesaid exemption is not applicable to service provided by an artist as a brand ambassador. His CGST and SGST liability would, therefore, be Rs. 13,365 (Rs. 1,48,500 × 9%) and Rs. 13,365 (Rs. 1,48,500 × 9%) respectively.

(ii) If Kesar Maharaj gives a contemporary Bollywood style dance performance, such performance will not be eligible for aforesaid exemption. The reason for the same is that although the consideration charged does not exceed Rs. 1,50,000, said performance is not in folk or classical art forms of dance. Hence, GST would be payable on the same. His CGST and SGST liability would, therefore, be Rs. 13,365 (Rs. 1,48,500 × 9%) and Rs. 13,365 (Rs. 1,48,500 × 9%) respectively.

(iii) If the consideration charged for the classical dance performance by Kesar Maharaj is Rs. 1,60,000, he will be liable to pay GST on the same as although the performance is by way of classical art form of dance, consideration charged for such performance has exceeded Rs. 1,50,000.

His CGST and SGST liability would, therefore, be Rs. 14,400 (Rs. 1,60,000 × 9%) and Rs. 14,400 (Rs. 1,60,000 × 9%) respectively.

Solution 4(a) (5 Marks)

(i) In case of taxable supply of goods, invoice shall be issued before or at the time of—

a) Removal of goods for supply to the recipient, where the supply involves movement of goods; or
b) Delivery of goods or making available thereof to the recipient, in any other case.

In case of continuous supply of goods, where successive statements of accounts/ successive payments are involved, the invoice shall be issued before/at the time each such statement is issued or each such payment is received [Section 31 of the CGST Act].

(ii) Electronic cash ledger is maintained in prescribed form for each person, liable to pay tax, interest, penalty, late fee or any other amount, on the common portal for crediting the amount deposited and debiting the payment therefrom towards tax, interest, penalty, fee or any other amount.

The deposit can be made through any of the following modes, namely: -

a) Internet Banking through authorised banks;
b) Credit card or Debit card through the authorised bank;
c) NEFT or RTGS from any bank; or
d) Over the Counter payment through authorised banks for deposits up to Rs. 10,000/- per challan per tax period, by cash, cheque or demand draft [Section 49 of the CGST Act read with rule 87 of the CGST Rules].

Solution 4(b) (5 Marks)
Time of supply of goods is the earlier of the following two dates:

a) Date of issue of invoice/last date on which the invoice is required to be issued
b) Date of receipt of payment.

Further, date of receipt of payment is earlier of date of recording the payment in books of account and date of crediting of payment in bank account [Section 12(2) of the CGST Act, 2017].

In the given case,

Date of invoice: 3rd December, 20XX
Date of recording payment in books of account: 20th December, 20XX
Date of crediting in the bank account: 21st December, 20XX

Therefore, the date of receipt of payment will be 20th December, 20XX (earlier of two dates namely, date of recording the payment in books of account and date of crediting of payment in bank account). However, since the invoice date is earlier than date of payment, the time of supply will be 3rd December, 20XX.

Solution 5(a) (3 Marks)
Computation of GST payable for the month of November, 20XX

S. No.	Particulars	Time of supply of services	CGST (Rs.)	SGST (Rs.)	IGST (Rs.)	Interest (Rs.)
(i)	Services from an advocate in Delhi	06.09.20XX [Note-1 & 3]	11,250	11,250	-	244 [Note-4]
(ii)	Director's Sitting fee	20.11.20XX [Note-2 & 3]	-	-	13,500	

Notes:-

1. Services supplied by an individual advocate to any business entity located in the taxable territory is a notified service on which tax is payable on reverse charge basis by the recipient of services.

2. Services supplied by a director of a company to the said company is a notified service on which tax is payable on reverse charge basis by the recipient of services.

3. As per section 13 of the CGST Act, 2017, the time of supply of services in case of reverse charge is earliest of the following:-

    a) Date of payment as entered in the books of account of the recipient or the date on which the payment is debited to his bank account, whichever is earlier, or
    b) Date immediately following 60 days since the date of issue of invoice.

    Provisions of time of supply as provided under section 13 of the CGST Act are also applicable for inter-State supply vide section 20 of the IGST Act.
    In view of the aforesaid provisions, the time of supply and due date for payment of tax in the given cases would be determined as under:

    a. Time of supply of the services is the date immediately following 60 days since the date of issue of invoice, i.e. 06.09.20XX. The due date for payment of tax is 20.10.20XX with return of September, 20XX.
    b. Time of supply of service is 20.11.20XX and due date for payment of tax is 20.12.20XX with return of December, 20XX.

4. The due date for payment of tax in case (i) is 20.10.20XX with return of September, 20XX. However, the payment of tax is actually made on 11.11.20XX. Thus, payment of tax is delayed by 22 days.

    In case of delayed payment of tax, interest @ 18% per annum is payable for the period for which the tax remains unpaid starting from the day succeeding the day on which such tax was due to be paid [Section 50 of the CGST Act, 2017 read with Notification No. 13/2017 CT dated 28.06.2017]. In view of the same, in the given case, interest payable would be as follows:

    Amount of interest payable = Rs. 22,500 × 18% × 22/365 = Rs. 244 (rounded off)

Solution 5(b) (3 Marks)
Section 7 of the CGST Act, 2017 stipulates that in order to qualify as supply:

a) Supply should be of goods and/or services.
b) Supply should be made for a consideration.
c) Supply should be made in the course or furtherance of business.

Further, Schedule I of the CGST Act, 2017 illustrates the activities to be treated as supply even if made without consideration. One such activity is permanent transfer or disposal of business assets where input tax credit has been availed on such assets, i.e. said activity is to be treated as supply even if made without consideration. In view of said provisions, permanent transfer of air conditioners by Sahab Sales from its stock for personal use at its residence, though without consideration, would amount to supply.

However, sale of air-conditioner by Aakash to Sahab Sales will not qualify as supply under section 7 of the CGST Act, 2017 as although it is made for a consideration, but it's not in the course or furtherance of business.

Solution 5(c) (4 Marks)

1) **The given statement is false.** A registered person paying tax under the provisions of section 10 [composition levy] is required to issue, instead of a tax invoice, a bill of supply containing the specified particulars in the prescribed manner [Section 31(3)(c) read with rule 49 of the CGST Rules].

2) **The given statement is false.** Composition tax payer is required to furnish return under section 39 for every quarter even if no supplies have been affected during such period. In other words, filing of Nil return is also mandatory.