

Date _____

CA-IPC-Taxation
Time allowed: 3 Hours (100 Marks)

Question No. 1 is Compulsory

Attempt **any Five** from the **remaining six** questions

Wherever required, suitable assumptions may be made by the candidate and stated clearly in the answer.

Working notes should form part of the answer

SECTION – A: INCOME TAX LAW (60 MARKS)

Question No. 1(Marks 10)

Mr. Yusuf Khan, a resident individual aged 55, furnishes the following information pertaining to the year ended 31.3.2018:

- 1) He is a working partner in ABC & Co. He has received the following amounts from the firm:

Interest on capital at 15% : Rs. 3,00,000

Salary as working partner (at 1% of firm's sales) (allowed fully to the firm):
Rs. 90,000

- 2) He is engaged in a business of manufacturing. The Profit and Loss account pertaining to this proprietary business (summarised form) is as under:

Particulars	Rs.	Particulars	Rs.
To Salaries	1,20,000	By Gross profit	12,50,000
To Bonus	48,000	By Interest on Bank FD	45,000
To Car expenses	50,000	(Net of TDS)	
To Machinery repairs	2,34,000	By Agricultural income	60,000
To Advance tax	70,000	By Pension from LIC	
To Depreciation on:		Jeevan Dhara	24,000
- Car	3,00,000		
- Machinery	1,25,000		
To Net profit	4,32,000		
	13,79,000		13,79,000

Details of assets:

Particulars	Rs.
Opening WDV of assets are as under:	
Car	3,00,000
Machinery (Used during the year for 179 days)	6,50,000
Additions to machinery:	
Purchased on 23.9.2017 by cash in single payment	2,00,000
Purchased on 12.11.2017 by account payee cheque	3,00,000
Second hand machinery purchased on 12.4.2017 by bearer cheque in single payment	1,25,000

(All assets added during the year were put to use immediately after purchase)

One-fifth of the car expenses are towards estimated personal use of the assessee.

Salary includes Rs. 15,000 paid by way of a single cash payment to manager.

- 3) In February, 2016, he had sold a house at Chennai. Arrears of rent relating to this house amounting to Rs. 75,000 was received in March, 2018.
- 4) Details of his Savings and Investments are as under:

Particulars	Rs.
Life insurance premium for policy in the name of his major son employed in a multinational company, at a salary of Rs. 10 lakhs p.a. (Sum assured Rs. 2,00,000) (Policy taken on 1.07.2013)	30,000
Contribution to PPF	70,000
Medical Insurance premium for his father aged 79, who is not dependent on him	32,000

You are required to compute the total income of Mr. Yusuf Khan for the assessment year 2018-19.

Question No. 2(a)(Marks 8)

The following are the details relating to Mr. Gupta, a resident Indian, relating to the year ended 31.3.2018:

Particulars	Rs.
Income from salaries	2,20,000
Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid at the time of sale and acquisition of shares)	1,50,000
Loss from cloth business	2,40,000
Income from speculation business	30,000
Loss from specified business covered by section 35AD	45,000
Long-term capital gains from sale of urban land	2,50,000
Loss from house property	2,50,000
Loss from card games	40,000
Income from betting (Gross)	35,000
Life Insurance Premium paid (Sum assured Rs. 5,00,000)	25,000

Compute his total income for A.Y. 2018-19 and show the items eligible for carry forward.

Question No. 2(b)(Marks 2)

Mention the significant differences between TDS and TCS.

Question No. 3(Marks 10)

Mr. Kunal is an Indian citizen and a member of the crew of a Thailand bound Indian ship engaged in carriage of passengers in international traffic departing from Port Blair on 10th July, 2017. His stay in India in the last 4 previous years (preceding P.Y. 2017-18) is 375 days and last seven previous years (preceding P.Y.2017-18) is 729 days:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Kunal	10th July, 2017
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Kunal	21st January, 2018

Prepared by CA Vijay Gaurav

Faculty CA-Final DT, IDT and International Taxation

For MAY 2018 Exam

He earned following income during the previous year 2017-18

Dividend from Thailand Company received in Thailand	Rs. 30,000
Short term capital gains on sale of shares of an Indian company	Rs. 25,000
Interest on savings account with Post office	Rs. 13,000
Past foreign untaxed income brought to India during the previous year	Rs. 5,000
Cash gift received from non-relative	Rs. 20,000
Income from agricultural land in Nepal received there and then brought to India	Rs. 18,000
Interest received from a non-resident on moneys borrowed for the purpose of business in Delhi	Rs. 1,50,000

From the above details for the P.Y. 2017-18, compute the total income of Mr. Kunal for A.Y. 2018-19.

Question No. 4(Marks 10)

Mrs. Anjali is a Finance Manager of Anand Construction Ltd. in Mumbai, furnishes the following particulars for the financial year 2017-18:

- 1) She was appointed on 01-03-2017 in the scale of Rs. 20,000 - Rs. 2,500 - Rs. 35,000.
- 2) She is paid dearness allowance (which forms part of salary for retirement benefits) @30% of basic pay and bonus equivalent to two month's basic pay as at the end of the year.
- 3) She receives Rs. 2,000 per month as transport allowance (for commuting between place of residence and office) and Rs. 4,000 each as hostel allowance for three children.
- 4) She contributes 15% of his salary (basic pay plus dearness allowance) towards recognized provident fund and the Company contributes the same amount.
- 5) Lunch provided by the company during office hours Cost to the employer Rs. 10,000

- 6) Rent free unfurnished accommodation provided by the company for which the company pays Rs. 60,000 per annum.
- 7) The Company reimbursed the medical treatment bill of Rs. 35,000 of her son, who is dependent on her.
- 8) A gift voucher of Rs. 6,000 was given on the occasion of her marriage anniversary. It is given by the company to all employees above certain grade.
- 9) Facility of laptop and computer was provided to Mrs. Anjali for both official and personal use. Cost of laptop Rs. 45,000 and computer Rs. 35,000 were acquired by the company on 01.12.2016.
- 10) Professional tax paid by the company Rs. 2,000. Compute the amount of salary chargeable to tax in the hands of Mrs. Anjali for A.Y. 2018-19.

Compute the amount of salary chargeable to tax in the hands of Mrs. Anjali for A.Y. 2018-19.

Question No. 5(a)(Marks 5)

Mr. Kavin, a non-resident, entered into the following transactions during the financial year 2017-18:

- a) Received Rs. 20 lakhs from a non-resident for use of patent for a business in India.
- b) Received foreign currency equivalent to Rs. 15 lakhs from a non-resident Indian for use of know-how for a business in Sri Lanka and this amount was received in Korea.
- c) Received Rs. 7 lakhs from RR Ltd., an Indian company as fees for providing technical services in India.
- d) Received Rs. 5 lakhs from R & Co., Mumbai, resident in India, for conducting the feasibility study for a new project in Nepal and the payment was made in Nepal.

- e) Received Rs. 8 lakhs towards interest on moneys borrowed by a non-resident for the purpose of business within India. Amount was received in Korea.

Examine briefly whether the above receipts are chargeable to tax in India.

Question No. 5(b)(Marks 5)

Mr. Abhay has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2018:

S. No.	Particulars	Rs. (in lakhs)
(i)	Payments made to an approved Agro Research Association	25
(ii)	Payment made to RR University, an approved University	15
(iii)	Payment made to XY College	17
(iv)	Payment made to IIT, Madras (under an approved programme for scientific research)	10
(v)	Machinery purchased for in-house scientific research	20
(vi)	Salaries to research staff engaged in in-house scientific research	14

Compute the deduction available under section 35 of the Income-tax Act, 1961 for A.Y. 2018-19, while computing his income under the head "Profits and gains of business or profession".

Question No. 6(a)(Marks 6)

Kapil & Sons, a partnership firm consisting of two working partners, reports a net profit of Rs. 6,00,000 before deduction of the following items:

- 1) Salary of Rs. 20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
- 2) Depreciation on plant and machinery purchased on 15.7.2017 by a bearer cheque in single payment for Rs. 1,50,000.
- 3) Interest on capital at 18% per annum (as per the deed of partnership). The amount of capital eligible for interest Rs. 5,00,000.

You are required to compute:

- (i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
- (ii) Allowable working partner salary for the assessment year 2018-19 as per section 40(b).

Question No. 6(b)(Marks 4)

From the following transactions relating to Mrs. Sonu, determine the amount chargeable to tax in her hands for the A.Y. 2018-19. Your answer should be supported by reasons:

- (i) Received cash gifts on the occasion of her marriage on 19-11-2017 of Rs. 2,10,000. It includes gift of Rs. 55,000 received from non-relatives.
- (ii) On 1-1-2018, being her birthday, she received a gift of Rs. 45,000 by means of cheque from her father's maternal uncle.
- (iii) On 12-2-2018, she acquired a vacant site from her friend for Rs. 1,12,000. The State stamp valuation authority fixed the value of site at Rs. 1,92,000 for stamp duty purpose.
- (iv) She bought 50 equity shares of a private company from another friend for Rs. 75,000. The fair market value of such shares on the date of purchase was Rs. 1,33,000.

Question No. 7(a)(Marks 6)

Mr. Arjun bought a vacant land for Rs. 80 lakhs in March 2005. Registration and other expenses were 10% of the cost of land. He constructed a residential building on the said land for Rs. 100 lakhs during the financial year 2006-07.

He entered into an agreement for sale of the above said residential house with Mr. Jerry (not a relative) on 9th April 2017 and received Rs. 20 lakhs as advance in cash on that date. The stamp duty value on that date was Rs. 740 lakhs. The actual sale consideration was, however, fixed at Rs. 700 lakhs.

The sale deed was executed and registered on 10-6-2017 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was Rs. 770 lakhs. Mr. Arjun paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mr. Arjun made following investments:

- (i) Acquired a residential house at Mumbai for Rs. 110 lakhs.
- (ii) Acquired a residential house at London for Rs. 150 lakhs.
- (iii) Subscribed to NHAI bond: Rs. 45 lakhs on 29-8-2017 and Rs. 50 lakhs on 12-10-2017.

Compute the income chargeable under the head "Capital Gains" for A.Y. 2018-19. The choice of exemption must be in the manner most beneficial to the assessee.

Question No. 7(b)(Marks 4)

In August 2016, Mr. Kailash, a first-time home buyer, borrowed a sum of Rs. 35 lakhs from the National Housing Bank for construction of a residential house for Rs. 48 lakhs. The loan was sanctioned on 12.5.2016. The loan amount was disbursed directly to the flat promoter by the bank. The construction was completed in May, 2018 and repayments towards principal and interest commenced immediately after disbursement of loan.

In the light of the above facts, examine:

- (i) Whether Mr. Kailash can claim deduction under section 24 in respect of interest for the A.Y. 2018-19?
- (ii) Whether deduction under Section 80C and 80EE can be claimed by him for the A.Y. 2018-19?

SECTION – B: INDIRECT TAXES (40 MARKS)

Question no. 1 is compulsory.

Attempt any **three** questions out of the remaining **four** questions.

Question No. 1(a)(Marks 6)

Ayushman Medical Centre, a clinical establishment, offers the following services:

S.No.	Particulars	Rs.*
(i)	Reiki healing treatments. Such therapy is not a recognized system of medicine in terms of section 2(h) of Clinical Establishments Act, 2010.	10,00,000
(ii)	Plastic surgeries. [One such surgery was conducted to repair cleft lip of a new born baby. Consideration of Rs. 1,00,000 was charged for the same.]	20,00,000
(iii)	Air ambulance services to transport critically ill patients from distant locations to Ayushman Medical Centre.	1,00,000
(iv)	Alternative medical treatments by way of Ayurveda. Such therapy is not a recognized system of medicine in terms of section 2(h) of Clinical Establishments Act, 2010	2,50,000

*excluding GST

Ayushman Medical Centre also operates a cord blood bank which provides services in relation to preservation of stem cells. You are required to compute the value of supply and GST liability [CGST & SGST or IGST] of Ayushman Medical Centre, if any, in the light of relevant GST provisions.

Note – All the services provided by Ayushman Medical Centre are intra-State supplies. Assume the rates of CGST, SGST and IGST to be 9%, 9% and 18% respectively.

Question No. 1(b)(Marks 4)

Shipra Traders is a registered supplier of goods in Assam. It purchased goods valued at Rs. 10,000 from Kartik Suppliers located within the same State. Kartik Suppliers charged CGST & SGST separately in its invoice. Subsequently, Shipra Traders sold goods valuing Rs. 9,500 to Rabina Manufacturers located in Assam. 20% of the inputs purchased are still lying in stock and there was no opening stock of goods. Rate of CGST and SGST on supply and purchase of goods is 9%

each. Calculate the net GST payable by Shipra Traders and input tax credit (ITC) to be carried forward, if any.

Question No. 2(a)(Marks 5)

Discuss the term 'composite supply' and its taxability under GST law.

Question No. 2(b)(Marks 5)

Pure Oils, Delhi has started the supply of machine oils and high speed diesel in the month of April, 20XX. The following details have been furnished by it for the said month:-

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

*excluding GST

Determine whether Pure Oils is liable for registration. Will your answer change, if Pure Oils supplies machine oils amounting to Rs. 2,50,000 from its branch located in Himachal Pradesh in addition to the above-mentioned supplies?

Question No. 3(a)(Marks 5)

Royal Fashions, a registered supplier of designer outfits in Delhi, decides to exhibit its products in a Fashion Show being organised at Hotel Park Royal, Delhi on 4th January, 20XX. For the occasion, it gets the makeover of its models done by Aura Beauty Services Ltd., Ashok Vihar, for which a consideration is Rs. 5,00,000 (excluding GST) has been charged. Aura Beauty Services Ltd. issued a duly signed tax invoice on 10th February, 20XX showing the lumpsum amount of Rs. 5,90,000 inclusive of CGST and SGST @ 9% each. Royal Fashions made the payment the very next day. Answer the following questions:

- (i) Examine whether the tax invoice has been issued within the time limit prescribed under law?
- (ii) Tax consultant of Royal Fashions objected to the invoice raised 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.

However, Aura Beauty Services Ltd. contended that there is no mandatory requirement of showing tax component separately in the invoice. You are required to examine the validity of the objection raised by tax consultant of Royal Fashions?

Question No. 3(b)(Marks 5)

Kesar Maharaj, a registered supplier, gave a classical dance performance in an auditorium. The consideration charged for the said performance is Rs. 1,48,500. Is Kesar Maharaj liable to pay GST on the consideration received for the said performance if such performance is not for promotion of any product/services? If yes, determine his GST liability (CGST and SGST or IGST, as the case may be). Will your answer be different if:

- (i) Kesar Maharaj is a brand ambassador of a food product and aforesaid performance is for the promotion of such food product?
- (ii) the dance performance given by Kesar Maharaj is not a classical dance performance, but a contemporary Bollywood style dance performance?
- (iii) consideration charged by Kesar Maharaj for the classical dance performance is Rs. 1,60,000?

Notes

- 1) Services provided by Kesar Maharaj are intra-State supplies.
- 2) Wherever applicable, GST has been charged separately.
- 3) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively.

Question No. 4(a)(Marks 5)

- (i) Discuss the time-limit for issuance of invoice in case of taxable supply of goods.
- (ii) What is an electronic cash ledger? Enumerate the modes of making deposit in the electronic cash ledger.

Question No. 4(b)(Marks 5)

Mehra Sons, a registered supplier, is a wholesale supplier of ready-made garments located in Bandra, Mumbai. On 5th September, 20XX, Subhadra, owner of Aura Boutique located in Dadar, Mumbai, approached Mehra Sons for supply of a consignment of customised dresses for ladies and kids.

Mehra Sons gets the consignment ready by 2nd December, 20XX and informs Subhadra about the same. The invoice for the consignment was issued the next day, 3rd December, 20XX.

Due to some reasons, Subhadra could not collect the consignment immediately. So, she collects the consignment from the premises of Mehra Sons on 18th December, 20XX and hands over the cheque for payment on the same date. The said payment is entered in the accounts on 20th December, 20XX and amount is credited in the bank account on 21st December, 20XX.

You are required to determine the time of supply of the readymade garments supplied by Mehra Sons to Subhadra elaborating the relevant provisions under the GST law.

Question No. 5(a)(Marks 3)

Royal Sweet Co., Delhi, a registered supplier, has furnished the details of the following few transactions which took place in November, 20XX:

S.No.	Date	Particulars	Date of invoice	Amount (Rs.)
(i)	11.11.20XX	Payment made to an advocate in Delhi	07.07.20XX	1,25,000
(ii)	20.11.20XX	Paid sitting fee to Director from Haryana for meeting held in Delhi on 15.10.20XX [Inter-State supply]	15.10.20XX	75,000

Assume the rates of taxes to be as under:-

Particulars	Rate
CGST	9%
SGST	9%
IGST	18%

You are required to compute GST [CGST & SGST/IGST, as the case may be] payable for the month of November, 20XX along with time of supply of the aforementioned activities.

Question No. 5(b)(Marks 3)

Sahab Sales, an air-conditioner dealer in Janakpuri, Delhi, needs 4 air-conditioners for his newly constructed house in Safdarjung Enclave. Therefore, he transfers 4 air-conditioners [on which ITC has already been availed by it] from its stock, for the said purpose. Examine whether the said activity amounts to supply under section 7 of the CGST Act, 2017.

Further, a Janakpuri resident, Aakash, approached Sahab Sales. He sold an air-conditioner to Sahab Sales for Rs. 5,000. Aakash had bought the said air-conditioner six months before, for his residence. Does sale of the air conditioner by Aakash to Sahab Sales amount to supply under section 7 of the CGST Act, 2017?

Question No. 5(c)(Marks 4)

Examine whether the following statements are true or false giving brief reasons:

- 1) It is mandatory to issue a tax invoice in case a registered person has opted for composition levy scheme.
- 2) A composition tax payer, who has not rendered any taxable supply during a quarter, is not required to file any return.