

PAPER – 4 : TAXATION

SECTION A : INCOME TAX

Question No.1 is compulsory.

Candidates are also required to attempt any **three** questions from the rest.

Working notes should form part of the respective answers.

All questions pertaining to Income-tax relate to assessment year 2021-22, unless stated otherwise in the questions.

Question 1

Ms. Aanchal aged 40 years is an advocate (Taxation). She keeps her books of accounts on cash basis. Her profit & loss account for the year ended on March 31, 2021 is as follows:

Profit & Loss Account for the year ending March 31, 2021

	AMOUNT (₹)		AMOUNT (₹)
• Staff salary	20,10,000	• Fees Earned from:	
• Rent	9,00,000	Taxation services	20,00,000
• Administrative expenses	6,50,000	Appeals	15,00,000
• Incentives to office staff	2,00,000	Consultancy	15,00,000
• Meetings, Seminars and conferences	1,70,000		50,00,000
• Purchase of car (for official use) on 01.07.2020	3,00,000	• Dividend from an Indian company (gross) on 01.07.2020	11,00,000
• Repairs, Maintenance and petrol of car	35,000	• Interest on deposit certificates issued under gold monetization scheme, 2015	25,000
• Travelling Expenses	5,00,000	• Gifts	1,00,000
• Municipal tax paid in respect of house property	9,000	• Honorarium received for valuation of answer papers	50,000
• Net profit	15,91,000	• Rent received in respect of house property	90,000
	63,65,000		63,65,000

The Suggested Answers for Paper 4A: Income-tax are based on the provisions of Income-tax Act as amended by the Finance Act, 2020 which are relevant for December 2021 Examination. The relevant assessment year is A.Y.2021-22.

Other information:

- (i) Gifts represent fair market value of an 'iPhone12 pro', which was given by one of her clients for successful presentation of case in the Income Tax Appellate Tribunal.
- (ii) Administrative expenses include ₹ 50,000 paid to a tax consultant in cash for assisting Ms. Aanchal in one of the professional assignments.
- (iii) The traveling expenses include expenditure incurred on foreign professional tour of ₹ 50,000 which was within the RBI norms.
- (iv) Ms. Aanchal paid medical insurance premium for her parents (senior citizens and not dependent on her) online amounting ₹ 47,000. She also paid ₹ 8,500 by cash towards preventive health check-up for herself and her spouse.
- (v) Repairs and maintenance of car include ₹ 25,000 for the period from 1-10-2020 to 30-09-2021.
- (vi) She has paid ₹ 1,00,000 towards advance tax during the P.Y. 2020-21.

Compute Total Income and Net Tax Payable as per the most beneficial taxation scheme for Ms. Aanchal for the A.Y. 2021-22. **(14 Marks)**

Answer

**Computation of Total Income of Ms. Aanchal
for the A.Y.2021-22 under the regular provisions of the Act**

Particulars	₹	₹	₹
Income from house property			
Gross Annual Value ²		90,000	
Less: Municipal taxes paid		<u>9,000</u>	
Net Annual Value (NAV)		81,000	
Less: Deduction under section 24(a)– 30% of NAV = 30% of ₹ 81,000		<u>24,300</u>	56,700
Profits and gains of business or profession			
Net profit as per Profit and loss account		15,91,000	
Add: Expenses debited but not allowable			
(i) Purchase of car [Amount paid for purchase of car is not allowable since it is a capital expenditure]	3,00,000		

² Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(ii) Municipal tax paid in respect of house property [allowable as deduction under the head "Income from house property"]	9,000		
(iii) Payment made to tax consultant in cash [disallowed under section 40A(3), since such cash payment exceeds ₹ 10,000]	50,000		
(iv) Travel expenditure on foreign professional tour [Since it is incurred in connection with professional work, the same is allowable as deduction. As it has already been debited to profit and loss account, no further adjustment is required]	-		
(v) Repair and maintenance of car [Repairs and maintenance paid in advance for the period 1.4.2021 to 30.9.2021 i.e. for 6 months amounting to ₹ 12,500 is also allowable as deduction, since Ms. Aanchal is following the cash system of accounting]	-	3,59,000	
		19,50,000	
Less: Income credited but not taxable under this head:			
(i) Dividend from an Indian company (taxable under the head "Income from Other Sources")	11,00,000		
(ii) Interest on deposit certificates issued under gold monetization scheme, 2015 (taxability or otherwise to be considered under the head "Income from Other Sources")	25,000		
(iii) Honorarium for valuation of answer papers	50,000		
(iv) Rent received in respect of house property	90,000		
(v) Gift [Value of benefit received from clients during the course of profession is taxable as business income. Since the same is already credited to profit and loss account, no further adjustment is required]	-	12,65,000	
		6,85,000	
Less: Depreciation on car @15%		45,000	
			6,40,000
[As per section 44ADA, Ms. Aanchal can opt to claim 50% of gross receipts (₹ 25 lakhs, being 50% of ₹ 50			

lakhs), or as the case may be, a sum higher than the aforesaid sum claimed to have been earned by her. If she claims her profits to be lower than the aforesaid profits, she has to maintain books of account and get her accounts audited u/s 44AB, if her professional income exceeds the basic exemption limit. In this case, since Ms. Aanchal has maintained books of account as per which her professional income is only ₹ 6,40,000, it is beneficial for her to claim ₹ 6,40,000 as her income from profession by getting her books of account audited]		
Income from Other Sources		
Dividend from an Indian company	11,00,000	
Interest on deposit certificates issued under gold monetization scheme, 2015 [Exempt under section 10(15)]	-	
Honorarium for valuation of answer papers	50,000	11,50,000
Gross Total Income		18,46,700
Less: Deduction under Chapter VI-A		
<u>Section 80D</u>		
Medical insurance premium paid online for parents, being senior citizens	47,000	
Payment made in cash of ₹ 8,500 for preventive health check-up for self and spouse restricted to	5,000	52,000
Total Income		17,94,700

Computation of tax liability of Ms. Aanchal for the A.Y.2021-22 under the regular provisions of the Act

Particulars	₹
Tax on total income of ₹ 17,94,700	
Upto ₹ 2,50,000	Nil
₹ 2,50,001 – ₹ 5,00,000 [i.e., ₹ 2,50,000@5%]	12,500
₹ 5,00,001 – ₹10,00,000 [i.e., ₹ 5,00,000@20%]	1,00,000
₹10,00,001 – ₹ 17,94,700 [i.e., ₹ 7,94,700@30%]	<u>2,38,410</u>
	3,50,910
Add: Health and Education cess@4%	<u>14,036</u>
Tax Liability	3,64,946

Less: Advance Tax paid	1,00,000
Less: Tax deducted at source on dividend income from an Indian company under section 194 [₹ 11,00,000 x 7.5%]	<u>82,500</u>
Tax payable	<u>1,82,446</u>
Tax payable (rounded off)	1,82,450

**Computation of total income and tax liability of Ms. Aanchal
for the A.Y.2021-22 under section 115BAC**

Particulars	₹
Gross Total Income	18,46,700
[Income under the “Income from house property” “Profits and gains from business or profession” and “Income from other sources” would remain the same even if Ms. Aanchal opts for special provisions under section 115BAC, since deduction claimed by her under these heads is allowable even under section 115BAC]	
Less: Deductions under Chapter VI-A [No deduction is allowable under Chapter VI-A, by virtue of section 115BAC(2)]	-
Total Income	18,46,700
Tax on total income of ₹18,46,7000	
Upto ₹ 2,50,000 Nil	
₹ 2,50,001 – ₹ 5,00,000 [i.e., ₹ 2,50,000@5%]	12,500
₹ 5,00,001 – ₹ 7,50,000 [i.e., ₹ 2,50,000@10%]	25,000
₹ 7,50,001 – ₹ 10,00,000 [i.e., ₹ 2,50,000@15%]	37,500
₹ 10,00,001 – ₹ 12,50,000 [i.e., ₹ 2,50,000@20%]	50,000
₹ 12,50,001 – ₹ 15,00,000 [i.e., ₹ 2,50,000@25%]	62,500
₹ 15,00,001 – ₹ 18,46,700 [i.e., ₹ 3,46,700@30%]	<u>1,04,010</u>
	2,91,510
Add: Health and Education cess@4%	<u>11,660</u>
Tax Liability	3,03,170
Less: Advance Tax paid	1,00,000
Less: Tax deducted at source on dividend income from an Indian company under section 194 [₹ 11,00,000 x 7.5%]	<u>82,500</u>
Tax payable	<u>1,20,670</u>
Note – Since the tax payable under the special provisions of section 115BAC is lower than the tax payable under the regular provisions of the Act, it would	

be beneficial for Ms. Aanchal to opt for section 115BAC. She has to exercise this option on or before the due date of furnishing the return of income i.e., 31st October 2021, in her case since she is liable to get her books of account audited. Further, since she is having income from business or profession during the previous year 2020-21, if she opts for section 115BAC for this previous year, the said provisions would apply for subsequent assessment years as well.

Question 2

- (a) Mr. Dhruv, an Indian citizen aged 32 years, a Central Government officer serving in the Ministry of Corporate Affairs, left India for the first time on 31.03.2020 due to transfer to High Commission of UK. He did not visit India any time during the previous year 2020-21. He has received the following income for the previous year 2020-21:

(i) Salaries received for services rendered in London (computed)	20,00,000
(ii) Foreign Allowances	10,00,000
(iii) Interest on saving bank deposit in State Bank of India	1,00,000
(iv) Short term capital gains on sale of shares of an Indian Company received in London	2,00,000
(v) Dividend from PP Ltd., an Indian company paid in London	50,000
(vi) Rent from property in London deposited in a bank in London, later on remitted to India through approved banking channels	1,80,000

Compute the Total Income of Mr. Dhruv for the Assessment Year 2021-22. **(5 Marks)**

- (b) Discuss with brief reason, whether following incomes can be regarded as agricultural income, as per the provisions of Income-tax Act, 1961.

- (i) Income received from sale of seedlings in a nursery adjacent to the agriculture land owned by an assessee.
- (ii) Rent received for letting out agricultural land for a soap opera (a television serial)

(2 Marks)

Answer

- (a) Mr. Dhruv is a non-resident for the A.Y. 2021-22, since he was not present in India at any time during the previous year 2020-21.

A non-resident is chargeable to tax in India only in respect of following incomes:

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

Computation of total income of Mr. Dhruv, a non-resident, for the A.Y. 2021-22

Particulars	₹
Salaries received for services rendered in London (computed) [Taxable, since the income from 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii)]	20,00,000
Foreign allowances [Allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt under section 10(7)]	-
Interest on saving bank deposit in State Bank of India [Since interest income is from a source (i.e., bank deposit) in India, it is deemed to accrue or arise in India]	1,00,000
Short term capital gains on sale of shares of an Indian company received in London [Since income arises from transfer of a capital asset situated in India, it is taxable in the hands of a non-resident]	2,00,000
Dividend from PP Ltd., an Indian company paid in London [Since the dividend paid by an Indian company outside India is deemed to accrue or arise in India, it is taxable in the hands of non-resident]	50,000
Rent from property in London deposited in a bank in London, later on remitted to India through approved banking channels [Not taxable, since neither the property is situated in India nor rent is received in India]	-
Gross Total Income	23,50,000
Less: Deduction under section 80TTA	
Interest on saving bank account subject to a maximum of ₹ 10,000	10,000
Total Income	23,40,000

- (b) (i) Income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income and exempt from tax, whether or not the basic operations were carried out on land.

Therefore, income received from sale of seedlings in a nursery adjacent to the agriculture land owned by the assessee is agricultural income.

- (ii) Agricultural income means, *inter alia*, any rent or revenue derived from land which is situated in India and is used for agricultural purposes.

In this case, rent is received from letting out of agricultural land for a soap opera (a television serial), which is not an agricultural purpose. In effect, the land is not being put to use for agricultural purposes. Therefore, rent received from letting out of agricultural land for a soap opera (a television serial), is not an agricultural income.

Question 3

Mr. Joseph a resident aged 33 years is a State Government employee at Bangalore. He has the following receipts from his employer:

- | | |
|---|---------------|
| (a) Basic pay | ₹ 60,000 p.m. |
| (b) DA (forms part for retirement benefits) | ₹ 6,000 p.m. |
| (c) Entertainment allowances | ₹ 500 p.m. |
| (d) House Rent Allowance | ₹ 15,000 p.m. |
| (e) Motor car for official and also for personal use (cubic capacity of engine does not exceed 1.6 litres and expenses are met by the employer) | |

He provides the following information also:

- He had paid a rent of ₹ 16,000 p.m. for his accommodation at Bangalore.
- He contributes ₹ 5,000 towards recognized provident fund on 15.03.2021.
- Due to COVID-19, work at home facility was allowed by Karnataka Government w.e.f. 01.10.2020. He went back to Cochin and vacated the house at Bangalore and also motor car.
- Professional tax paid - ₹ 2,000 (50% was paid by employer)
- He has no other income.

Compute the income chargeable to Mr. Joseph under the head "income from salary" for A.Y. 2021-22. **(7 Marks)**

Answer

Computation of income chargeable to Mr. Joseph under the head "Income from salary" for A.Y.2021-22

Particulars	₹	₹
Basic Pay [₹ 60,000 x 12]		7,20,000
DA [₹ 6,000 x 12]		72,000
Entertainment Allowance [₹ 500 x 12]		6,000
House Rent allowance [₹ 15,000 x 12]	1,80,000	
Less: Least of the following, exempt under section 10(13A):	56,400	1,23,600
(a) HRA received 90,000		
(b) Rent paid – 10% of salary for relevant period i.e., from 1.4.2020 to 30.9.2020 [₹ 16,000 x 6 – 10% of ₹ 7,92,000 x 6/12] 56,400		
(c) 40% of salary for relevant period 1,58,400		

Perquisite of Motor car [₹ 1,800 x 6, since cubic capacity of engine does not exceed 1.6 litres and used for both official and personal purpose and expenses are met by the employer till 30.9.2020 only]		10,800
Employee's contribution to RPF [Employee's contribution to RPF will not impact computation of salaries. The same is allowable as deduction from gross total income]		-
Professional tax paid by employer [Perquisite includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee]		1,000
Gross Salary		9,33,400
Less: Deductions under section 16		
- Standard deduction	50,000	
- Entertainment allowance [Allowable as deduction, since Mr. Joseph is a Government employee]	5,000	
Least of the following -		
(a) ₹ 5,000		
(b) 1/5 th of basic salary i.e., 7,20,000/5 = ₹ 1,44,000		
(c) Actual entertainment allowance received ₹ 6000		
- Professional tax	2,000	57,000
Income chargeable under the head "Salaries"		8,76,400

Note – In the additional information provided in (iii), it is mentioned that due to COVID 19, work from home facility was allowed w.e.f. 1.10.2020 and Mr. Joseph vacated the house at Bangalore and also motor car. The perquisite value of motor car has been computed for six months only i.e., from 1.4.2020 to 30.9.2020, since the motor car is surrendered by Mr. Joseph to his employer on 1.10.2020.

Question 4

Gopal, a resident aged 50 years furnishes the following information for the year ended on 31-03-2021:

Income by way of salary (computed)	2,75,000
Income from house property	(1,85,000)
Business income - Retail business	1,20,000
Business income - whole sale business	(1,00,000)
Brought forward business loss (A.Y. 2019-20)	(1,35,000)

Long term capital gain from sale of listed equity shares (STT paid on sale and purchase of shares)	2,00,000
Lottery winnings (gross)	45,000
Contribution to provident fund and NSC	1,50,000
Income of minor daughter Manisha from special talent	2,00,000
Interest from Bank received by Manisha on deposit made out of her special talent	15,000
Compute his income tax liability assuming that he does not opt for section 115BAC and his wife does not earn any income. (7 Marks)	

Answer**Computation of tax liability of Mr. Gopal for A.Y.2021-22**

Particulars	₹	₹
Salary		
Income by way of salary (computed)	2,75,000	
Less: Set-off of loss from house property against salary income	<u>1,85,000</u>	90,000
Profits and gains from business and profession		
Business Income- Retail business	1,20,000	
Less: Set-off of business loss of ₹ 1,00,000 from wholesale business	<u>1,00,000</u>	
	20,000	
Less: Set-off of brought forward business loss of ₹ 1,35,000 of A.Y.2019-20 allowable to the extent of ₹ 20,000 by virtue of section 72(1)	<u>20,000</u>	Nil
[Balance brought forward business loss of ₹1,15,000 (i.e., ₹ 1,35,000 – ₹ 20,000) to be carry forward to A.Y. 2022-23 for set- off against business income of that year]		
Capital Gains		
Long-term capital gain on sale of listed equity shares on which STT is paid		2,00,000
Income from Other Sources		
Lottery winnings		45,000
Income of minor daughter from special talent [Not included in Gopal's income since it is earned from special talent]	-	

Interest from bank received by minor daughter on deposit made out of her income from special talent [Includible in the income of Mr. Gopal, since Mrs. Gopal does not earn any income]	15,000	
Less: Exemption under section 10(32)	<u>1,500</u>	<u>13,500</u>
Gross Total Income		3,48,500
Less: Deduction under section 80C		
Contribution to provident fund and NSC ₹ 1,50,000, deduction to be restricted to gross total income excluding LTCG and winnings from lottery (i.e., ₹ 3,48,500 – ₹ 2,00,000 – ₹ 45,000)		<u>1,03,500</u>
Total Income		<u>2,45,000</u>
Tax on ₹ 2,45,000		
Tax on lottery income of ₹ 45,000 @30% [unexhausted basic exemption limit can not be reduced from lottery income]	13,500	
Tax u/s 112A on LTCG exceeding ₹ 1 lakh [No tax, since unexhausted basic exemption limit of ₹ 2,50,000 can be exhausted against such long-term capital gains]	-	
	<u> </u>	13,500
Less: Rebate under section 87A [See Note for Alternative view]		<u>-</u>
		13,500
Add: Health and education cess @4%		<u>540</u>
Tax liability		14,040

Alternate Solution – The solution can also be worked out by setting-off loss from house property partially against long-term capital gains as given below -

Computation of tax liability of Mr. Gopal for A.Y.2021-22

Particulars	₹	₹
Salary		
Income by way of salary (computed)	2,75,000	
Less: Set-off of balance loss from house property against salary income (i.e., ₹1,85,000 – ₹ 1,00,000)	<u>85,000</u>	1,90,000
Profits and gains from business and profession		
Business Income- Retail business	1,20,000	
Less: Set-off of business loss of ₹ 1,00,000 from wholesale business	<u>1,00,000</u>	
	20,000	

Less: Set-off of brought forward business loss of ₹ 1,35,000 of A.Y.2019-20 allowable to the extent of ₹ 20,000 by virtue of section 72(1)	<u>20,000</u>	Nil
[Balance brought forward business loss of ₹ 1,15,000 (i.e., ₹ 1,35,000 – ₹ 20,000) to be carry forward to A.Y.2022-23 for set-off against business income of that year]		
Capital Gains		
Long-term capital gain on sale of listed equity shares on which STT is paid	2,00,000	
Less: Set-off of loss from house property against long term capital gains to the extent of ₹ 1 lakh only, since LTCG exceeding ₹ 1 lakh alone is taxable under section 112A	<u>1,00,000</u>	1,00,000
Income from Other Sources		
Lottery winnings		45,000
Income of minor daughter from special talent [Not included in Gopal's income since it is earned from special talent]	-	
Interest from bank received by minor daughter on deposit made out of her income from special talent [Includible in the income of Mr. Gopal, since Mrs. Gopal does not earn any income]	15,000	
Less: Exempt under section 10(32)	<u>1,500</u>	<u>13,500</u>
Gross Total Income		3,48,500
Less: Deduction under section 80C		
Contribution to provident fund and NSC		<u>1,50,000</u>
Total Income		<u>1,98,500</u>
Tax on ₹ 1,98,500		
Tax on lottery income of ₹ 45,000 @30% [unexhausted basic exemption limit can not be reduced from lottery income]	13,500	
Tax u/s 112A on LTCG exceeding ₹ 1 lakh	-	
Tax on other income of ₹ 53,500 (since it does not exceed basic exemption limit)	<u>-</u>	13,500
Less: Rebate under section 87A [See Note below]		<u>-</u>
		13,500
Add: Health and education cess @4%		<u>540</u>
Tax liability		14,040

Note - Section 58 of the Income-tax Act, 1961 provides that no deduction in respect of any expenditure or allowance shall be allowed under any provision of this Act in computing the income by way of, inter alia, any winnings from lotteries. Accordingly, in line with the intent of this provision, rebate under section 87A is not provided to Mr. Gopal in respect of such income both in the main solution and alternate solution given above.

However, the tax calculator in the income-tax website www.incometaxindia.gov.in allows rebate under section 87A in respect of lottery income, provided the conditions stipulated under section 87A are satisfied. Also, there is no express prohibition in section 115BB in respect of availing rebate under section 87A (whereas section 112A contains an express prohibition in this regard). In such case, the tax liability of Mr. Gopal would be ₹ 1,040.

Question 5

(a) Compute the amount of TDS under the following situations ignoring the special rates of the COVID pandemic period:

- (i) ₹ 51,000 paid to Mr. R, a resident individual as interest income on compensation awarded by Motor Accidents Claims Tribunal by a transport company.
- (ii) Mr. K, deposited ₹ 30,00,000 @ 10% p.a. with Dagru Co-operative Bank Limited for one Year.
- (iii) Mr. Lakhpati got ₹ 3,20,000 at 10th level of crossword after using lifeline of phone friend in online cross word gaming.
- (iv) Mr. R, deposited ₹ 1,00,000 @ 12% p.a. for half year with Growth Investment LLP.

(4 x 1 = 4 Marks)

(b) Mr. Prabhav aged 30 years, is a resident of India. During the financial year 2020-21, interest of ₹ 3,00,000 was credited to his non-resident external (NRE) account with SBI. The same account has been maintained with the permission of RBI. ₹ 1,50,000 being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned ₹ 5,000 as interest on his savings bank account. He invested ₹ 50,000 in term deposit with SBI on 31-3-2021 for a period of five years.

Is Prabhav required to file return of income under section 139(1) of the Income-tax Act 1961 ?

What will be your answer if he has deposited ₹ 51,00,000 in current account in SBI and ₹ 50,00,000 in current account in co-operative bank respectively? **(3 Marks)**

OR

Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains. **(3 Marks)**

Answer

- (a) (i) Tax has to be deducted at source by the transport company @10% under section 194A on payment of ₹ 51,000 made to Mr. R, a resident individual, as interest income on compensation awarded by Motor Accidents Claims Tribunal by a transport company, since the interest paid exceeds the specified threshold of ₹ 50,000.

Tax to be deducted = ₹ 51,000 x 10% = ₹ 5,100

- (ii) Tax has to be deducted at source by the Dagru Co-operative Bank @10% under section 194A on interest of ₹ 3,00,000 [₹ 30,00,000 x 10% p.a.] on deposits made by Mr. K, since the same exceeds the specified threshold of ₹ 40,000.

Tax to be deducted = ₹ 3,00,000 x 10% = ₹ 30,000

- (iii) Tax has to be deducted @30% under section 194B on payment of ₹ 3,20,000 made to Mr. Lakhpati for winnings from crossword puzzle.

Tax to be deducted = ₹ 3,20,000 x 30% = ₹ 96,000

- (iv) Tax has to be deducted at source by Growth Investment LLP @10% under section 194A on interest of ₹ 6,000 [₹ 1,00,000 x 12% x 6/12] on deposits made by Mr. R, since the same exceeds the specified threshold of ₹ 5,000.

Tax to be deducted = ₹ 6,000 x 10% = ₹ 600

(b) **[First Alternative]**

An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to, *inter alia*, the deductions under Chapter VI-A, exceeds the basic exemption limit i.e., ₹ 2,50,000.

Computation of total income of Mr. Prabhav for A.Y. 2021-22

Particulars	₹
Income from Other Sources	
Interest earned from Non-resident (External) Account ₹ 3,00,000 [Exempt u/s 10(4)(ii), since he is maintaining the said account with the permission of RBI]	NIL
Interest on fixed deposit with SBI	1,50,000
Interest on savings bank account	5,000
Gross Total Income	1,55,000
Less: Deductions under Chapter VI-A	
Deduction u/s 80C (Term deposit with SBI for five years)	50,000
Deduction u/s 80TTA (Interest on saving bank account)	5,000
Total Income	1,00,000

Since the total income of Mr. Prabhav for A.Y.2021-22, before giving effect, *inter alia*, to the deductions under Chapter VI-A, which is ₹ 1,55,000, in his case, is less than the basic exemption limit of ₹ 2,50,000, he is not required to file return of income for A.Y.2021-22.

However, if he has deposited an amount or aggregate of the amounts exceeding ₹ 1 crore in one or more current accounts maintained with a banking company or a co-operative bank, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. Since Mr. Prabhav has deposited ₹ 51 lakhs in current account in SBI and ₹ 50 lakhs in current account in co-operative bank, aggregate of which exceeds ₹ 1 crore, he has to mandatorily file his return of income for A.Y. 2021-22 on or before the due date under section 139(1).

(b) [Second Alternative]

Advance tax is payable by an assessee on his/its total income in four installments, i.e., on or before 15th June, 15th September, 15th December and 15th March of the relevant financial year. Interest under section 234C is attracted for deferment in payment of advance tax installments beyond the said due dates.

Where the total income of an assessee includes capital gains, it is not possible to estimate his future capital gains to pay advance tax as per the above installment scheme. Therefore, it has been provided that where income by way of capital gains arises to the assessee after the due date for any instalment, then, the entire amount of the tax payable (after considering tax deducted at source) on such capital gains should be paid in the remaining instalments of advance tax, which are due.

Where no such instalment is due, the entire tax should be paid by 31st March of the relevant financial year.

No interest under section 234C would arise on late payment, if the entire tax liability is so paid.

PAPER – 4 : TAXATION
SECTION B: INDIRECT TAXES

Question No. 6 is compulsory.

Attempt any **three** questions from the rest.

“Working notes should form part of the respective answers.”

“Wherever necessary, suitable assumptions may be made by the candidates, and disclosed by way of note.”

“All questions should be answered on the basis of the position of GST law as amended by the significant notifications/circulars issued till 30th April, 2021.”

Question 6

M/s. ABC & Co., a chartered accountancy firm, having office in Bengaluru registered under GST in the State of Karnataka, submitted the following information for the month of April 2021:

Sr. No.	Particulars	Amount of services provided excluding GST (₹)
1.	Statutory audit services provided (intra-State supplies)	1,20,000
2.	ITR filing services provided within Karnataka (intra-State supplies)	1,60,000
3.	Internal audit services provided to Mumbai client (inter-State supplies)	1,80,000

ABC & Co. had also incurred the following expenses in the month of April, 2021 for the purpose of providing the taxable services:

Sr. No.	Particulars	Amount including GST (₹)
1.	Car purchased by firm for the use of senior partner of the firm for official use	7,84,000 (₹ 42,000 CGST and ₹ 42,000 SGST)
2.	Office rent paid to landlord who is registered in State of Karnataka	5,900 (CGST ₹ 450 and SGST ₹ 450)
3.	Professional fee paid to Mr. Rajesh, a practicing Chartered Accountant, for professional services availed	2,36,000 (CGST ₹ 18,000 and SGST ₹ 18,000) TDS deducted ₹ 20,000 u/s 194J of the Income Tax Act, 1961
4.	Computer purchased for office purpose	56,000 (CGST ₹ 3,000 and SGST ₹ 3,000)

Out of the above 4 suppliers/service providers, landlord of office to whom rent was paid did not upload his GSTR-1 within the specified time allowed under GST resulting in the GST amount not reflecting in GSTR-2A of ABC & Co.

Compute the net GST payable (CGST, SGST and IGST after adjustment of ITC) by ABC & Co. for the month of April 2021.

Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively assuming that all the remaining conditions of utilisation of ITC are fulfilled. **(8 Marks)**

Answer

Computation of net GST payable by ABC & Co. for the month of April 2021

Particulars	Value of supply	CGST (₹)	SGST (₹)	IGST (₹)
Statutory audit services	1,20,000	10,800	10,800	
ITR filing services	1,60,000	14,400	14,400	
Internal audit services	1,80,000	-	-	32,400
Total output tax liability		25,200	25,200	32,400
Less: ITC [Refer Working Note] [CGST credit is set off against CGST liability and SGST credit is set off against SGST liability since CGST credit cannot be utilized towards payment of SGST liability and vice versa.]		(21,450)	(21,450)	
Net GST payable		3,750	3,750	32,400

Working Note:

Computation ITC that can be availed

Particulars	CGST (₹)	SGST (₹)
Computation of eligible ITC		
Car purchased for official use by senior partner [ITC on motor vehicles used for transportation of persons with seating capacity upto 13 persons (including driver) is blocked except when used for making specified outward supplies.]	Nil	Nil
Office rent paid to landlord [ITC on services used in the course/furtherance of the business is ineligible since the supplier not uploaded in his GSTR-1.]	Nil	Nil
Professional fee paid	18,000	18,000

[ITC on services used in the course/furtherance of the business is allowed.]		
Computer for office purpose [ITC on goods used in the course/furtherance of the business is allowed.]	<u>3,000</u>	<u>3,000</u>
Total eligible ITC	21,000	21,000
Computation of ITC which can be availed		
(1) ITC in respect of invoices furnished by the suppliers in their GSTR-1s (100% ITC can be availed)	21,000	21,000
(2) ITC in respect of invoices not furnished by the suppliers in their GSTR-1s is restricted to: (i) 5% of eligible ITC in respect of invoices furnished in GSTR-1s [₹ 1,050 (5% of 21,000)] or (ii) actual amount of ITC [₹ 450] whichever is lower.	<u>450</u>	<u>450</u>
ITC that can be availed	21,450	21,450

Question 7

- (a) A Ltd., registered under GST, is engaged in job work of engineering goods as well as supplying of engineering goods. A Ltd. provides following details regarding orders received for Job work and supply of goods:

A. Job work of engineering goods

Date of confirmation of order	- 01.03.2021
Date of receipt of advance of ₹ 1,50,000	- 03.03.2021
Date of completion of job work	- 06.03.2021
Date of issue of invoice for total amount	- 11.03.2021
Date of receipt of balance payment of ₹ 1,00,000	- 16.03.2021

B. Supply of engineering goods

Date of confirmation of order	- 08.01.2021
Date of receipt of advance of ₹ 1,50,000	- 12.01.2021
Date of removal of goods	- 17.01.2021
Date of issue of invoice for total amount	- 22.01.2021
Date of receipt of balance payment of ₹ 1,00,000	- 01.02.2021

You are required to examine and determine the time and value of supply under forward charge w.r.t. job work and supply of goods under the provisions of CGST Act, 2017.

(5 Marks)

(b) *In the below two independent cases, you are required to examine and explain with reasons as per GST rules and regulations:*

(i) *B is engaged exclusively in intra-State supply of taxable goods in the state of Punjab. Her aggregate turnover is ₹ 32 lakh. She also receives certain inward supplies on which GST is payable under RCM. Whether she is liable to be registered or not?*

(2 Marks)

(ii) *A is engaged in supply of taxable goods. He has taken voluntary registration under CGST Act. His aggregate turnover is below the threshold limit. He is of the opinion that he will be liable to pay tax from the day his aggregate turnover exceeds the threshold limit. Whether the contention of A is tenable?*

(2 Marks)

Answer

(a) Time and value of supply in case of job work:

Job work is treated as supply of services.

The time of supply of services in case where the invoice is issued within 30 days of provision of service is the earlier of date of invoice or date of receipt of payment (to the extent the invoice/payment covers the supply of services).

Thus, the time of supply for advance of ₹ 1,50,000 received for the supply of job work services is 03.03.2021 and for balance payment of ₹ 1,00,000 is 11.03.2021.

Value of supply is ₹ 2,50,000

Time and value of supply in case of supply of goods:

The time of supply of goods for the purpose of payment of tax is the date of issue of invoice or the last date when the invoice ought to have been issued viz. before/at the time of removal of goods for supply to the recipient, where supply involves movement of goods.

Thus, the time of supply for advance of ₹ 1,50,000 as well as for the balance payment of ₹ 1,00,000 is 17.01.2021.

Value of supply is ₹ 2,50,000

(b) (i) The threshold limit for registration applicable to persons engaged exclusively in intra-State supply of taxable goods in specified States is ₹ 40 lakh.

However, persons who are required to pay tax on inward supplies under reverse charge basis are required to obtain registration compulsorily.

In the given case, although the aggregate turnover of B is below the applicable threshold limit, she is required to obtain registration compulsorily irrespective of her aggregate turnover.

(ii) No, the contention of A is not tenable.

All provisions of GST law, as are applicable to a registered person, apply to a voluntarily registered person.

Therefore, since A has obtained voluntary registration, he has to pay tax from the date of grant of registration even though his aggregate turnover does not exceed the threshold limit.

Question 8

- (a) PQR Ltd., a registered supplier from Madhya Pradesh, is engaged in the manufacturing of heavy machines. The company provides the following details of purchases made/services availed by it during the month of February, 2021:

Sr. No.	Particulars	GST Amount (₹)
1.	Payment for fitness club membership availed by employee as one of the terms of employment	25,000
2.	Payment made to outdoor catering service to run a free canteen in factory as it is required under the Factories Act, 1948	55,000
3.	Payment made to travel agency for organizing a free vacation for its best performance awarded employees	35,000
4.	Payment made for work contract service availed for the construction of pipe line to be laid outside company's factory	1,05,000

You are required to determine the eligible ITC available to PQR Ltd. for the month of February, 2021 by giving brief explanations for treatment of various items.

Assume all the conditions necessary for availing ITC have been fulfilled. **(5 Marks)**

- (b) Discuss with reasons whether GST is payable in respect of transportation services provided by X Transports, a goods transport agency, in each of the following independent cases. Also, calculate the total taxable value of the transportation services:

Sr. No.	Customer	Nature of Services provided	Amount charged excluding of GST (₹)
1	A	Transportation of goods on consignment transported in a single goods carriage	1,180

2	B	Transportation of chairs for a single consignee in the goods carriage	3,000
3	C	Transportation of milk	8,000

(4 Marks)

Answer**(a) Computation of eligible ITC available to PQR Ltd. for February 2021**

Particulars	Amount (₹)
Payment for fitness club membership of employee [ITC is blocked as said service is not provided by employer to employee under any statutory obligation.]	Nil
Payment for outdoor catering service for canteen under the Factories, Act [ITC is allowed as said service is provided by employer to employee under a statutory obligation.]	55,000
Payment to travel agency for free vacation of employees [ITC is blocked as said service is not provided by employer to employee under any statutory obligation]	Nil
Works contract service availed for construction of pipeline laid outside company's factory [ITC is blocked on works contract services for construction of immovable property except plant & machinery. Construction of pipeline laid outside factory premises is excluded from plant & machinery.]	Nil
Eligible ITC	55,000

(b) Computation of Taxable Value of transportation services of X Transports

Sr. No.	Customer	Nature of services provided	GST payable or exempt	Taxable value [₹]
1	A	Transportation of goods on consignment transported in a single goods carriage	Exempt, since consideration for transportation of goods by GTA on a consignment transported in a single goods carriage does not exceed ₹ 1,500.	Nil
2	B	Transportation of chairs for a single consignee in the goods carriage	GST is payable. Exemption is available for transportation of goods by GTA only where consideration for transportation of	3,000

			all goods for a single consignee does not exceed ₹ 750.	
3	C	Transportation of milk	Exempt. Transportation of milk by GTA in a goods carriage is exempt.	Nil
Total Taxable value of services				3,000

Question 9

- (a) B Enterprises started its business activities in the month of January, 2021, in the State of Karnataka. It provides the following information:

Sr. No.	Particulars	Amount (₹)
1.	Value of intra-State outward taxable supply of goods	7,00,000
2.	Value of inter-State outward taxable supply of services	6,00,000
3.	Value of intra-State outward supply on which tax is payable under reverse charge mechanism.	1,00,000
4.	Value of intra-State outward supply of exempted good from its other place of business in the State of Manipur (under same PAN)	5,00,000

From the information given above, you are required to calculate the aggregate turnover of B Enterprises with necessary explanations and also, specify with reason whether it is liable to get registered under CGST Act or not. **(5 Marks)**

- (b) The aggregate turnover of taxable supplies of services of XYZ Ltd., Gujarat, has exceeded ₹ 20 lakh on 10th October, 2020. It applied for registration on 2nd November, 2020 and was granted the registration certificate on 5th November, 2020. You are required to advise XYZ Ltd. with relevant provisions of GST:
- (i) What will be the effective date of registration ? **(2 Marks)**
- (ii) Period for issuance of revised tax invoices from applicability of registration till date of registration. **(2 Marks)**

Answer

- (a)

Particulars	(₹)
Computation of aggregate turnover of B Enterprises, Karnataka, for January - 2021	
Intra-State outward taxable supply of goods [Aggregate turnover includes value of all taxable supplies.]	7,00,000

Inter-State outward taxable supply of services [Aggregate turnover includes value of inter-State supplies.]	6,00,000
Intra-State outward supply on which tax is payable under reverse charge mechanism [Aggregate turnover includes value of all taxable supplies whether taxable under reverse charge or forward charge.]	1,00,000
Intra-State outward supply of exempted goods from Manipur [Aggregate turnover includes value of exempt supplies made in all the States under the same PAN]	<u>5,00,000</u>
Aggregate turnover	19,00,000
Persons making any inter-State taxable supply are required to obtain compulsory registration, but in case of inter-State supply of taxable services, threshold limit of ₹ 20 lakh is available. Such threshold limit gets reduced to ₹ 10 lakh in case of specified Special Category State provided taxable supply is being made therefrom. Since B Enterprises is making exempt supplies from Manipur - a specified Special Category State, the applicable threshold limit of registration for B Enterprises is ₹ 20 lakh. Thus, it is not liable to be registered as its aggregate turnover does not exceed the threshold limit.	

- (b) (i) **A supplier becomes liable to registration when his aggregate turnover exceeds the threshold limit for registration.**

Where he applies for registration within 30 days of becoming liable to registration, effective date of registration is the date on which he becomes liable to registration; otherwise, it is the date of grant of registration.

In the given case, since XYZ Ltd. have applied for registration on 02.11.2020 which is within 30 days from the date of becoming liable to registration (10.10.2020), its effective date of registration is 10.10.2020.

- (ii) Revised tax invoices shall be issued within 1 month from the date of issuance of registration in respect of taxable supplies effected during the period starting from the effective date of registration till the date of issuance of certificate of registration.

Therefore, in the given case, XYZ Ltd. may issue the revised tax invoices against the invoices already issued during the period between effective date of registration (10.10.2020) and the date of issuance of registration certificate (05.11.2020), on or before 05.12.2020.

Question 10

- (a) Briefly explain the requirement of Dynamic Quick Response (QR) code and list out the non-applicability of requirement of Dynamic QR code. **(5 Marks)**

OR

List out the benefits of the new payment system of GST available to the taxpayer and the GST Department. **(5 Marks)**

- (b) A registered person is opting for Quarterly Return Monthly Payment (QRMP) scheme. You are required to answer the following:
- (i) What are the due dates for filing of GSTR 3B under QRMP scheme ?
 - (ii) Mention any 2 States for each of the due dates of filing of GSTR 3B under QRMP scheme. **(4 Marks)**

Answer

- (a) All invoices issued to an unregistered person (B2C invoice) by a registered person whose aggregate turnover in any preceding financial year from 2017-18 onwards exceeds ₹ 500 crores are required to have a Dynamic QR code.

However, Dynamic QR code is not applicable to an invoice issued to an unregistered person by following suppliers:-

- (i) Insurer or banking company or financial institution including NBFC
- (ii) GTA supplying services in relation to transportation of goods by road in a goods carriage
- (iii) Supplier of passenger transportation service
- (iv) Person supplying services by way of admission to exhibition of cinematograph films in multiplex screens
- (v) Supplier of online information and database access or retrieval (OIDAR) services
- (vi) Registered person whose aggregate turnover in all the preceding financial years from 2017-18 onwards does not exceed ₹ 500 crores.

Alternative

- (a) **Benefits of the payment system of GST available to the taxpayer and the GST Department:**

Benefits to Taxpayer:

- No more queues and waiting for making payments as payments can be made online 24 X 7.
- Electronically generated challan from GSTN common portal in all modes of payment and no use of manually prepared challan. Paperless transactions.

- Instant online receipts for payments made online.
- Tax consultants can make payments on behalf of the clients.
- Single challan form to be created online, replacing the three or four copy Challan.
- Greater transparency.
- Online payments made after 8 pm will be credited to the taxpayer's account on the same day.

Benefits to the GST Department:

- Revenue will come more rapidly into the Government Treasury.
 - Logical tax collection data in electronic format.
 - Speedy accounting and reporting.
 - Electronic reconciliation of all receipts.
 - Warehousing of digital challan.
- (b) (i) Under QRMP scheme, a registered person is required to furnish GSTR-3B on quarterly basis on or before 22nd or 24th (depending upon the principal place of business of such registered person) of the month succeeding the quarter for which return is furnished.
- (ii) Due date is Registered persons whose principal place of business is in

22 nd day of the month succeeding the quarter	Chhattisgarh, Madhya Pradesh, Gujarat, Maharashtra, Karnataka, Goa, Kerala, Tamil Nadu, Telangana, Andhra Pradesh, Union territories of Daman & Diu & Dadra & Nagar Haveli, Puducherry, Andaman and Nicobar Islands or Lakshadweep
24 th day of the month succeeding the quarter.	Himachal Pradesh, Punjab, Uttarakhand, Haryana, Rajasthan, Uttar Pradesh, Bihar, Sikkim, Arunachal Pradesh, Nagaland, Manipur, Mizoram, Tripura, Meghalaya, Assam, West Bengal, Jharkhand or Odisha, the Union territories of Jammu and Kashmir, Ladakh, Chandigarh or Delhi.