

PAPER – 4 : TAXATION
SECTION A : INCOME TAX
PART II

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

Mr. Arun is working as a Senior Manager in ABCD Bank, a listed commercial bank, in Delhi since January 2005. He gives the following details of his income for the previous year 2020-21:

House rent allowance	₹ 15,000 p.m.
Basic Salary	₹ 20,000 p.m.
Dearness Allowance	₹ 5,000 p.m.

(50% forms part of retirement benefits)

Bank paid ₹ 5,000 p.a. as premium on personal accident insurance policy taken for Mr. Arun. The bank also allotted 2000 sweat equity shares to Mr. Arun in May 2020 at the rate of ₹ 1,300 per share. The fair market value of the share was ₹ 1,500 on the date of exercise of option by Mr. Arun. He sold all the shares for ₹ 2,100 on 31-3-21 on registered stock exchange. Assume securities transaction tax has been paid.

He transferred ₹ 50,000 p.m. as rent, to the bank account of his mother, Mrs. Nirmal, who owned the house (municipal valuation ₹ 2 lakh) in which he stayed at Delhi. He also owns a house property at Kanpur, whose municipal valuation is ₹ 2,60,000 p.a. The fair rent is ₹ 2,20,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 2,40,000 p.a. The property was let out for a rent of ₹ 22,000 p.m. throughout the previous year. He also paid municipal taxes at the rate of 10% of the municipal valuation of the house at Kanpur during the previous year.

He has a son Aditya, aged 12 years having PAN, who is earning interest of ₹ 50,000 p.a. on a fixed deposit created by his late grandfather (Mr. Arun's father) in his name. Gross interest credited by the bank during the year amounted to ₹ 43,750.

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

He received the following gifts from his friends and relatives during the P.Y. 2020-21:

- (1) Gold chain from friend worth ₹ 70,000
- (2) LED TV set from colleagues on completing 15 years in Bank amounting to ₹ 1,00,000
- (3) ₹ 51,000 in cash from married sister of wife.

Compute Mr. Arun's total income and the gross tax liability for the A.Y. 2021-22 in a manner most beneficial to him. **(14 Marks)**

Answer

Computation of Total Income of Mr. Arun for the A.Y.2021-22 under the regular provisions of the Act

Particulars	₹	₹	₹
Salaries			
Basic Salary = ₹ 20,000 x 12		2,40,000	
Dearness Allowance = ₹ 5,000 x 12		60,000	
House Rent Allowance = ₹ 15,000 x 12	1,80,000		
Less: Exempt u/s 10(13A)	<u>1,35,000</u>	45,000	
Lowest of the three limits given below -			
(i) Actual HRA = ₹ 1,80,000			
(ii) 50% of Salary, since the property is located in Delhi = 50% of ₹ 2,70,000 [₹ 2,40,000 + 50% of ₹ 60,000] = ₹ 1,35,000			
(iii) Rent paid – 10% of salary = ₹ 6,00,000 (i.e., ₹ 50,000 x 12) - ₹ 27,000 (i.e., 10% of ₹ 2,70,000) = ₹ 5,73,000			
Perquisites			
Premium on personal accident insurance policy [Exempt perquisite]	-		
Sweat equity shares			
FMV on the date of exercise of option = ₹ 1,500 x 2,000	30,00,000		
Less: Price at which shares were allotted = ₹ 1,300 x 2,000 =	<u>26,00,000</u>	<u>4,00,000</u>	
Gross Salary		7,45,000	
Less: Standard deduction u/s 16(ia), actual salary or ₹ 50,000, whichever is lower		<u>50,000</u>	
			6,95,000

Income from house property [house at Kanpur]			
Gross Annual Value [Higher of expected rent and actual rent]		2,64,000	
Expected Rent – Higher of fair rent (₹ 2,20,000) and municipal valuation (₹ 2,60,000), but restricted to standard rent (₹ 2,40,000)	2,40,000		
Actual rent – ₹ 22,000 p.m. x 12	2,64,000		
Less: Municipal taxes paid [10% of municipal value of ₹ 2,60,000]		<u>26,000</u>	
Net Annual Value (NAV)		2,38,000	
Less: Deduction u/s 24(a) – 30% of NAV = 30% of ₹ 2,38,000		<u>71,400</u>	
			1,66,600
Capital Gains			
Short-term capital gains on sale of sweat equity shares, since they are held for a period not more than 12 months			
Actual sale consideration [₹ 2,100 x 2,000]		42,00,000	
Less: Cost of acquisition [FMV of shares considered for perquisite valuation (₹ 1,500 x 2000)]		<u>30,00,000</u>	
			12,00,000
Income from Other Sources			
Interest on fixed deposit of minor son, includible in his income assuming that his income is higher than his spouse's income	43,750		
Less: Exemption u/s 10(32) in respect of minor child's income	<u>1,500</u>	42,250	
Value of gold chain from friend, since the value exceeds ₹ 50,000		70,000	
Value of LED set is not taxable u/s 56(2)(x), since it is not included in the definition of "property" thereunder		-	
Sum of money received without consideration from sister-in-law is not taxable, since she falls within the meaning of "relative"; and gift from relative is not taxable		-	
			<u>1,12,250</u>
Gross Total Income			21,73,850
Less: Deduction under Chapter VI-A			<u>-</u>
Total Income			<u>21,73,850</u>

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

Particulars	₹
Short term capital gains of ₹ 12 lakh taxable@15% u/s 111A	1,80,000
Tax on total income of ₹ 9,73,850	
Upto ₹ 2,50,000	Nil
₹ 2,50,001 – ₹ 5,00,000 [i.e., ₹ 2,50,000@5%]	12,500
₹ 5,00,001 – ₹ 9,73,850 [i.e., ₹ 4,73,850@20%]	<u>94,770</u>
	<u>1,07,270</u>
	2,87,270
Add: Health and Education cess@4%	<u>11,491</u>
Tax Liability	<u>2,98,761</u>
Tax Liability (rounded off)	2,98,760

Computation of Total Income of Mr. Arun for the A.Y.2021-22 under section 115BAC

Particulars	₹	₹
Salaries computed under the regular provisions	6,95,000	
Add: Exemption u/s 10(13A) not available u/s 115BAC	1,35,000	
Standard deduction u/s 16 not allowable u/s 115BAC	<u>50,000</u>	
		8,80,000
Income from house property [same as computed under the regular provisions, since the house property is let out]		1,66,600
Capital Gains [STCG on sale of sweat equity shares – same as computed under the regular provisions]		12,00,000
Income from Other Sources computed under the regular provisions	1,12,250	
Add: Exemption u/s 10(32) in respect of minor child's income not allowable u/s 115BAC	<u>1,500</u>	
		<u>1,13,750</u>
Total Income computed as per section 115BAC		23,60,350

Computation of tax liability of Mr. Arun for the A.Y.2021-22 under section 115BAC

Particulars	₹
Short term capital gains of ₹ 12 lakh taxable@15% u/s 111A	1,80,000
Tax on total income of ₹11,60,350	
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 – ₹ 11,60,350 [i.e., ₹ 1,60,350@20%]	<u>32,070</u>	
		<u>1,07,070</u>
		2,87,070
Add: Health and Education cess@4%		<u>11,483</u>
Tax Liability		<u>2,98,553</u>
Tax Liability (rounded off)		2,98,550
Since the tax liability under the special provisions of section 115BAC is marginally lower, by ₹ 210, Mr. Arun can opt to compute his total income and tax liability under the special provisions.		

Note - The first sentence in page 3 of the question paper mentions that Aditya, aged 12 years, is earning interest of ₹ 50,000 p.a. on fixed deposit created by his late grandfather in his name. The following sentence mentions that the gross interest credited by the bank during the year amounted to ₹ 43,750.

Since gross interest for the year has been specifically mentioned as ₹ 43,750, the above solution is given considering this figure of interest. This answer can also be solved considering ₹ 50,000 as the figure of interest. In such case, the tax liability as per regular provision and as per section 115BAC shall be ₹ 3,00,060 and ₹ 2,99,850 respectively

Question 2

(a) Mr. Pratap earned following incomes during the F.Y. 2020-21. He settled in Singapore in the year 1996.

- (1) Interest on Singapore Development Bonds (only 50% of interest received in India) ₹ 35,000.
- (2) Dividend from German Company received in Germany ₹ 28,000.
- (3) Profits from a business in Kanpur, which is managed directly from Singapore ₹ 1,00,000.
- (4) Short term capital gain on sale of shares of an Indian company received in India ₹ 60,000.
- (5) Income from Business in Mumbai ₹ 80,000
- (6) Fees for technical services rendered in India, but received in Singapore ₹ 1,00,000.
- (7) Agricultural Income from land situated in Punjab ₹ 55,000
- (8) Rent received from house property at Lucknow ₹ 1,00,000.

Compute his total income for the A.Y. 2021-22.

(5 Marks)

- (b) Compute the tax liability for the Assessment Year 2021-22, (in a manner most beneficial to the assessee) of Mr. Satya, a resident individual aged 42 years, where his total income is ₹ 4,90,000 and the income comprises of long term capital gains on sale of plot of ₹ 1,00,000 and short term capital gains on sale of listed equity shares (STT paid) of ₹ 2,90,000. Ignore the concessional provisions under section 115BAC. **(2 Marks)**

Answer

- (a) **Computation of total income of Mr. Pratap², a non-resident, for the A.Y. 2021-22**

Particulars	₹
Interest on Singapore Development Bonds [50% of ₹3 5, 000 would be taxable in India in the hands of a non-resident, since the same is received in India. The remaining 50% would not be taxable in India, since it neither accrues in India nor is received in India]	17,500
Dividend from German company received in Germany [Since the accrual and receipt of income are outside India, the same is not taxable in the hands of a non-resident]	-
Profit from business in Kanpur, which is managed from Singapore [Such income from a business in India is deemed to accrue or arise in India in the hands of a non-resident]	1,00,000
Short-term capital gains on sale of shares of an Indian company received in India [Since income arises from transfer of a capital asset situated in India and the same is also received in India, it is taxable in the hands of a non-resident]	60,000
Income from business in Mumbai [Such income from a business in India is deemed to accrue or arise in India and is hence, taxable in the hands of a non-resident]	80,000
Fees from technical services rendered in India, but received in Singapore [Such income from services rendered in India is deemed to accrue or arise in India and is hence, taxable in India]	1,00,000
Agricultural income from land situated in Punjab [Exempt u/s 10(1), both in the hands of resident and non-resident]	-
Rent from house property in Lucknow [Such income from a property situated in India is deemed to accrue or arise in India and hence, is taxable in India in the hands of a non-resident]	1,00,000
Less: Deduction u/s 24(a)@30%	<u>30,000</u>
	70,000
Total Income	4,27,500

² Since the question mentions that Pratap is settled in Singapore in the year 1996, it is logical to assume that he is a non-resident.

(b) **Determination of tax liability of Mr. Satya, a resident, for A.Y.2021-22**

Particulars	₹
Long-term capital gains on sale of plot of land [Taxable@20% u/s 112]	1,00,000
Short-term capital gains on sale of listed equity shares (STT paid) [Taxable@15% u/s 111A]	2,90,000
Other Income	<u>1,00,000</u>
Total Income	<u>4,90,000</u>
Tax on total income	
Long-term capital gains [₹ 1,00,000 – unexhausted basic exemption limit of ₹ 1,00,000]	Nil
Short-term capital gains @15% of ₹ 2,40,000 [i.e., ₹2,90,000 – unexhausted basic exemption limit of ₹ 50,000]	<u>36,000</u>
	36,000
Less: Rebate u/s 87A [Since total income does not exceed ₹ 5 lakh, rebate of tax payable or ₹ 12,500, whichever is lower is allowable]	<u>12,500</u>
	23,500
Add: Health and education cess@4%	<u>940</u>
Tax liability	<u>24,440</u>

Note – The basic exemption limit of ₹ 2,50,000 would be first exhausted against other income of ₹ 1,00,000. Thereafter, since Mr. Satya is a resident, he would be eligible to adjust the unexhausted basic exemption limit of ₹ 1,50,000 against both long-term capital gains taxable u/s 112 and short-term capital gains taxable u/s 111A. It would be more beneficial for Mr. Satya to adjust the unexhausted basic exemption limit of ₹ 1,50,000 first against long-term capital gains of ₹ 1 lakh taxable u/s 112, since the tax rate of 20% u/s 112 is higher than the tax rate of 15% u/s 111A. Thereafter, he can adjust the balance ₹ 50,000 against short-term capital gains chargeable to tax u/s 111A.

Question 3

- (a) *M/s. MN & Co., a partnership firm, is engaged in the business of plying and hiring goods vehicles. It owns following vehicles as on 1st April, 2020 :*

Gross vehicle weight (in kgs.)	Number of vehicles
7000	2
9000	2
12000	3
15000	2

It purchased a vehicle weighing 15000 kg on 6th June, 2020 which was put to use only on 10th July, 2020. Net profits of the firm [after claiming partners remuneration of ₹1,50,000 and within the limits prescribed under section 40(b)] from the above business, as per books of accounts amounted to ₹6,50,000. The firm has declared its income for the Assessment Year 2021-22 in accordance with the provisions of presumptive income under section 44AE.

- (i) Compute the income of the firm if it opts for the provisions of section 44AE for the Assessment Year 2021-22.
- (ii) If the firm wants to claim its income as per books of accounts for the Assessment Year 2021-22, what are its obligations under the Income-tax Act, 1961?
- (iii) What is the due date for filing its return of income under both the options?

(5 Marks)

- (b) During the previous year 2020-21, Mr. B's HUF comprising of Mr. B, Mrs. B, his minor son and his major daughter, sold listed equity shares thrown by Mr. B, in the common stock of the family. The said shares were equally divided among the members of the family and subsequently sold, earning an aggregate LTCG of ₹3,00,000.

Compute the amount of income to be included in the hands of Mr. B. Mr. B is the sole earning member in the family. What would your answer be if the said shares were inherited by the HUF of Mr. B?

(2 Marks)

Answer

(a) Computation of income of M/s. MN & Co., a partnership firm, for A.Y.2021-22

	Particulars	
(i)	Since M/s. MN & Co., a partnership firm, does not own more than 10 vehicles at any time during the P.Y. 2020-21, it is eligible to opt for presumptive taxation scheme u/s 44AE.	
	Particulars	₹
	Income computed u/s 44AE -	
	I Heavy goods vehicle (goods, carriage whose gross vehicle weight exceeds 12,000 kg) [15 tons' x ₹ 1,000/ton x 2 vehicles x 12 months] + [15 tons x ₹1,000/ton x 1 vehicle x 10 months – months owned to be considered and not months used].	3,60,000 1,50,000
	II Other than heavy goods vehicle [₹ 7,500 per month x 7 vehicles x 12 months]	6,30,000
		11,40,000
	Less: Partners' remuneration [within limits prescribed u/s 40(b)]	1,50,000
		<u>9,90,000</u>

(ii)	<p>If M/s. MN & Co. declares profits and gains in accordance with the provisions of section 44AE, it is not required to maintain books of account u/s 44AA or get them audited u/s 44AB.</p> <p>However, if the firm wishes to claim its income of ₹ 6,50,000 as per books of account, which is lower than the profits of ₹ 9,90,000 computed u/s 44AE, it has to maintain books of account u/s 44AA and get its accounts audited u/s 44AB and furnish report of audit on or before 30th September, 2021.</p>
(iii)	<p>In case the firm opts for the presumptive taxation scheme under section 44AE, the due date for filing of return would be 31st July, 2021.</p> <p>In case the firm does not opt for section 44AE, it is required to get its books of account audited, in which case the due date for filing of return of income would be 31st October, 2021.</p>

- (b) (i) Mr. B, who is a member of the HUF, throws his individual property (i.e., listed equity shares) into the common stock of the family. It is presumed that the same is otherwise than for adequate consideration. In such a case, the income from such property shall continue to be included in the total income of Mr. B. Accordingly, the long-term capital gains of ₹ 3 lakh arising on sale of shares is includible in the total income of Mr. B and not Mr. B's HUF.
- (ii) If the said shares were inherited by B's HUF, then the long-term capital gains of ₹ 3 lakh arising on sale of shares would be included in the total income of Mr. B's HUF and not Mr. B.

Note – The first sentence in the question states that during the P.Y.2020-21, Mr. B's HUF sold listed equity shares thrown by Mr. B in the common stock of the family. However, the second sentence states that the said shares were equally divided among the members of the family and subsequently sold. Two alternatives are possible on account of these two sentences. The above answer is based on the facts as contained in the first sentence.

Considering the facts contained in the second sentence and assume that there has been a partial partition, then, it may be possible to answer the question on the following lines -

ALTERNATIVE SOLUTION

- (i) Where the converted property has been partitioned, either by way of total or partial partition, the income derived from such converted property as is received by Mrs. B (i.e., ₹ 75,000, being 1/4th of ₹ 3 lakh) will be deemed to arise from assets transferred indirectly by Mr. B to Mrs. B and consequently, included in the total income of Mr. B. Further, minor son's share of ₹ 75,000 less ₹ 1,500 deduction u/s 10(32) will also be included in the total income of Mr. B as per section 64(1A), since the total income of Mr. B, being the sole earning member, would naturally be higher than that of Mrs. B. Therefore, ₹ 2,23,500, being LTCG arising to self, spouse and minor son would be included in the total income of Mr. B.

- (ii) If the said shares were inherited by B's HUF, equally divided amongst the members and then sold, then, the share of long-term capital gains of ₹ 75,000 [less ₹ 1,500 deduction u/s 10(32)] arising to minor son alone would be included in the total income of Mr. B by virtue of section 64(1A), in addition to B's own share of ₹ 75,000.

Question 4

- (a) Mr. Brajesh is a partner in a partnership firm named XYZ Associates. He provides the details regarding his income and losses for the F.Y. 2020-21 and brought forward losses as follows:

- (i) Salary from XYZ & Associates ₹ 3,75,000 which was claimed by the firm in its return and allowed as deduction.
- (ii) Long term capital gain on sale of his house ₹ 2,50,000.
- (iii) Long term capital loss on sale of shares listed in National Stock Exchange. STT has been paid on the transactions of purchase and sales ₹ 1,50,000.
- (iv) Business loss brought forward from A.Y. 2020-21 ₹ 6,25,000.
- (v) Dividend received from listed equity shares of domestic companies ₹ 27,500.
- (vi) Gift received from father's friend ₹ 51,000 in cash.
- (vii) Loss from speculative business brought forward from Assessment Year 2018-19 ₹ 2,50,000.
- (viii) Life Insurance Premium paid (10% of the capital sum assured) ₹ 1,00,000.

Compute the total income of Mr. Brajesh for the Assessment Year 2021-22 and show the items eligible for carry forward. (Ignore the provisions of section 115BAC) **(5 Marks)**

- (b) (i) Mr. Mani holding 20% of the equity share capital in XY Ltd., a manufacturing company in which public is substantially interested, took a loan of ₹ 4,50,000 from it on 10th May, 2020. The accumulated profits of the company on that date amounted to ₹ 4,00,000. Examine the taxability of the above transaction in the hands of Mr. Mani.
- (ii) ABC Ltd., a domestic company brought back its 1000 equity shares listed on a recognized stock exchange. Examine the taxability of the above transaction in the hands of the company and the shareholders. **(2 Marks)**

Answer

- (a) **Computation of total income of Mr. Brajesh for A.Y.2021-22**

Particulars	₹	₹
Profits and gains from business and profession		
Salary from XYZ & Associates [Taxable as business income, since firm has claimed and been allowed deduction in respect of the remuneration in its return of income]	3,75,000	

Less: Set-off of brought forward business loss of ₹ 6,25,000 of A.Y.2020-21 to the extent of ₹ 3,75,000 by virtue of section 72(1)	<u>3,75,000</u>	Nil
[Balance brought forward business loss of ₹ 2,50,000 (i.e., ₹ 6,25,000 – ₹ 3,75,000) 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 house	2,50,000	
Less: Long-term capital loss on sale of listed shares on which STT is paid can also be set-off against long-term capital gain on sale of house as per section 74(1), since long-term capital arising on sale of such shares is taxable under section 112A.	<u>1,50,000</u>	1,00,000
Income from Other Sources		
Dividend from domestic companies	27,500	
Gifts from father's friend [Taxable under section 56(2)(x), since received from a non-relative and it exceeds the aggregate limit of ₹ 50,000]	<u>51,000</u>	<u>78,500</u>
Gross Total Income		1,78,500
Less: Deduction under section 80C		
LIC premium paid of ₹ 1,00,000 restricted to ₹ 78,500, being gross total income excluding long term capital gains as Chapter VIA deductions are not allowable against long-term capital gains		<u>78,500</u>
Total Income		<u>1,00,000</u>

Losses eligible for carried forward to A.Y. 2022-23

Particulars	Amount (₹)
Business loss of A.Y. 2020-21 [₹ 6,25,000 – ₹ 3,75,000]	2,50,000
Loss from Speculative business of A.Y. 2018-19 (since the same can be set off only against profits of any other speculation business. As there is no such profit in the current year, the loss has to be carried forward to A.Y. 2022-23, since the four year time limit for carry forward expires only in A.Y.2022-23)	2,50,000

- (b) (i) Loan of ₹ 4,50,000 taken by Mr. Mani from XY Ltd., in which he holds 20% of the equity share capital, would not be deemed as dividend u/s 2(22)(e) to the extent of accumulated profits of ₹ 4,00,000, since XY Ltd. is a company in which public is substantially interested.

Hence, no amount would be taxable as deemed dividend in the hands of Mr. Mani.

- (ii) ABC Ltd., a domestic company, has to pay additional income-tax@20% (plus surcharge @12% and cess@4%) on buyback of its 1000 listed equity shares.

The income arising to the shareholders in respect of such buyback of shares by ABC Ltd. would be exempt under section 10(34A), since ABC Ltd. is liable to pay additional income-tax on the buy back of shares.

Question 5

- (a) *Examine the applicability of TDS provisions, the rate and amount of tax deduction in the following cases for the financial year 2020-21 :*
- A payment of ₹ 1,00,000 made to Mr. Jack Smith, a New Zealand cricketer, non-resident in India, on 20th December 2020 by a sports magazine for contribution of an sports article.*
 - A payment of ₹ 3,20,000 made to Mrs. Vidyawati, an Indian resident, on 15th January 2021, by a TV channel for winning from a crossword puzzle. (4 Marks)*
- (b) *Briefly explain the provisions of section 139A of the Income-tax Act, 1961 with regard to the persons who are required to apply for Permanent Account Number.*

OR

Mr. X, a resident individual carrying on trading business has a turnover of ₹ 1.25 crores during the previous year 2019-20. He made a payment of ₹ 50,000 to Mr. Y, a contractor on 1st May, 2020 for some contract work without deducting tax at source.

What are the circumstances under which Mrs. X will not be deemed to be an assessee-in-default u/s 201 for not deducting tax at source? (3 Marks)

Answer

- (a) (i) Under section 194E, the person responsible for payment of any amount to non-resident sports person for contribution of article relating to any game or sports in India shall deduct tax @20% plus surcharge (if applicable) and health and education cess @ 4%.

Tax to be deducted = ₹ 1,00,000 x 20.8% = ₹ 20,800

- (ii) Under section 194B, every person responsible for paying to any person whether resident or non-resident, any income by way of winning from crossword puzzle, is required to deduct income-tax @30%, if the amount exceeds ₹ 10,000.

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

- (b) [First Alternative]

Following persons, who have not been allotted a permanent account number (PAN), are required to apply to the Assessing Officer under section 139A for the allotment of a PAN within the prescribed time -

- (i) Every person, if his total income or the total income of any other person in respect of which he is assessable under the Act during any previous year exceeds the maximum amount which is not chargeable to income-tax
- (ii) Every person carrying on any business or profession whose total sales, turnover or gross receipts are or is likely to exceed ₹ 5 lakhs in any previous year
- (iii) Every person being a resident, other than an individual, which enters into a financial transaction of an amount aggregating to ₹ 2,50,000 or more in a financial year
- (iv) Every person who is a managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of any person referred in (iii) above or any person competent to act on behalf of such person referred in (iii) above

(b) [Second Alternative]

Mr. X is required to deduct tax at source @1% u/s 194C on payment of ₹ 50,000 to Mr. Y, a contractor, for contract since Mr. X's turnover from business exceeds ₹ 1 crore during the P.Y. 2019-20 and the individual payment exceeds the specified threshold of ₹ 30,000. In case of non-deduction of tax at source, Mr. X would be deemed to be an assessee-in-default u/s 201.

However, Mr. X would not be deemed to be an assessee-in-default in respect of such tax if Mr. Y –

- (i) has furnished his return of income under section 139;
- (ii) has taken into account such sum for computing income in such return of income; and
- (iii) has paid the tax due on the income declared by him in such return of income, and
- (iv) Mr. X furnishes a certificate to this effect from an accountant in the prescribed form.

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 upto 31st October, 2020.”

Question 6

Kaira Air Ltd. located in Anand, Gujarat is engaged in manufacturing of Air Coolers and Air Purifiers. They supply goods all over India and their aggregate turnover during F.Y. 2019-20 was ₹ 125 lakh. The details of various activities undertaken during the month of September 2020 are as follows:

S. No.	Particulars	Amount (₹)
(i)	Outward supplies made during the month : (a) Within Gujarat 11,00,000 (b) Outside Gujarat 3,00,000	14,00,000
(ii)	On 5th September 2020, the company had issued 10 exchange vouchers @ 1,000 each of which can be exchanged/redeemed against purchase of Air cooler worth ₹ 10,000 each at any of the company's outlets in the State of Gujarat. Out of the above, 7 vouchers were encashed during the month of September 2020 & rest 3 were encashed during the month of October 2020.	
(iii)	Purchase of material within Gujarat which includes material worth ₹ 3,00,000 purchased from M/s. Kalpana Industries registered as a Composition dealer.	8,00,000
(iv)	In respect of few invoices worth ₹ 1,00,000 raised during the month of June 2020, the stipulated condition was to pay the dues within 1 month from the date of raising of invoices, otherwise interest @ 24% was payable on supplies made against such invoices. The buyers failed to pay the dues within the stipulated time and made the payment together with interest of ₹ 11,200 during the month of September 2020.	
(v)	Bought air tickets from Ahmedabad to Guwahati Airport, Assam for its marketing executives. The total fare of the tickets was ₹ 60,000	

	out of which ₹ 55,000 is the basic fare. Applicable GST rate is 5% on basic fare for air tickets.	
(vi)	Send 10 managers for 15 days training course organized by IIM Ahmedabad, Gujarat on 5th September 2020. The IIM provides Participation Certificates at the end of the course.	50,000

The Rates of GST applicable on various supplies are as follows :

Nature of Supply	CGST	SGST	IGST
Goods	6%	6%	12%
Services other than item of S. No. (v)	9%	9%	18%
Composition Supplies	2.5%	2.5%	-

Opening balances of input tax credit as on 1st September, 2020 were as follows:

CGST (₹)	SGST (₹)	IGST (₹)
4,000	10,000	5,000

All the figures mentioned above other than S. No. (iv) are exclusive of taxes.

Both Inward & Outward supplies within the State of Gujarat are Intra State supplies and outside Gujarat supplies are Inter State Supplies.

Calculate the amount of tax payable in cash by Kaira Air Ltd. for the month of September 2020. Brief and suitable notes should form part of your answer. **(8 Marks)**

Answer

Computation of tax payable in cash by Kaira Air Ltd. for September 2020

Particulars	Amount (₹)	CGST (₹)	SGST (₹)	IGST (₹)
I. Output tax				
Outward supplies within Gujarat	11,00,000 @ 6%	66,000	66,000	
Outward supplies outside Gujarat	3,00,000 @ 12%			36,000
Supply of 10 exchange vouchers	10,000 ¹ @ 6%	600	600	

¹ It is also possible to consider the value of exchange vouchers as ₹ 1,00,000 in terms of Rule 32(6) of the CGST Rules, 2017.

	[Since supply is identifiable at the time of issue of the 10 vouchers, the time of supply is the date of their issue and are thus the same are taxable in September itself irrespective of the time of their redemption.]				
	Interest for delayed payment ² [Includible in value and taxable when the same is received, i.e. in September.]	10,000 [11,200 x 100/112] [Since inclusive of GST]			1,200
	Total output tax liability (A)		66,600	66,600	37,200
II. Input tax credit					
	Opening balance		4,000	10,000	5,000
	Purchase of material within Gujarat [No credit on material purchased from composition dealer as he cannot collect any tax from the recipient on supplies made by him.]	5,00,000 [₹ 8,00,000 – ₹ 3,00,000] @ 6%	30,000	30,000	
	Air tickets from Ahmedabad to Guwahati	55,000	-	-	
	Training course organized by IIM, Gujarat [Not exempt. Short duration programmes offered by IIMs for which participation certificate is awarded are not 'qualification recognized by law'.]	50,000 @ 9%	4,500	4,500	
	Total ITC (B)		38,500	44,500	5,000
Net GST payable in cash =(A) - (B) [IGST credit be first utilized for payment of IGST liability and then for payment of CGST and SGST liability in any order and in any proportion. After exhausting IGST credit, CGST and SGST credit to be utilized. ITC of CGST cannot be utilized for payment of SGST and vice versa.]			28,100	22,100	32,200

² It has been assumed that interest for delayed payment has been collected in respect of inter-State sale. However, interest on delayed payment can also be assumed in respect of intra-State sale.

Question 7

- (a) SRI Petrol Pump is a licensed petrol pump of M/s. IOC Corporation and engaged in the sale of (a) petrol (b) HSD & (c) Mobil.

During the month of October 2020, total sales of M/s. SRI Petrol Pump is as follows:

Item	Sale Value (₹)
Petrol	7,00,000
Diesel	15,00,000
Mobil	3,00,000

Details of Purchases of M/s. SRI Petrol Pump during October 2020 are as follows:

Item	Purchase Value
Petrol	5,00,000
Diesel	16,00,000
Mobil	2,00,000

[All the figures above are exclusive of GST and rate of GST is 9% CGST and 9% SGST on applicable items.]

Other Information :

- (i) Every month M/s. IOC Corporation charges license fees from SRI Petrol Pump for grant of license and the same is charged based on total quantity of sale of all the products. During the month of October 2020, the amount of License fees charged by IOC Corporation was ₹ 1,00,000 plus CGST & SGST @ 9% each.
- (ii) Administrative Expenses incurred by SRI Petrol Pump was ₹ 50,000 on which CGST & SGST @ 6% each were paid.

You are required to calculate the amount of taxable supply under GST, available input tax credit and net liability of SRI Petrol Pump for the month of October 2020. Kindly provide appropriate reason wherever necessary. **(5 Marks)**

- (b) M/s. Chand is a manufacturer of Paper products having factory at Pune, Maharashtra. M/s. Kela and M/s. Bela of Mumbai, Maharashtra are appointed as agents to sell the products on behalf of M/s. Chand with the conditions that both of them guarantee the realization of payment from buyers.

Both M/s. Kela and M/s. Bela provide short-term borrowing facilities to buyers for timely payment of dues against supplies made to them and for this they charge interest from the ultimate buyer. While M/s. Kela raises invoices in the name of M/s. Chand and M/s. Bela raises invoices in its own name.

In light of provisions contained in Para 3 of Schedule I of CGST Act, kindly explain treatment of interest charged by M/s. Kela and M/s. Bela in above mentioned cases.

(4 Marks)

Answer

- (a) Computation of value of taxable supply and net GST liability of SRI Petrol Pump for October, 2020**

Particulars		Amount (₹)
Supply of petrol	Levy of GST on petrol and diesel has been deferred and thus, being not leviable to tax, the supply of the same is exempt supply.	-
Supply of diesel		-
Supply of mobil @ 9%		<u>3,00,000</u>
Value of taxable supply		3,00,000
Tax liability	CGST	SGST
Total outward tax liability [₹ 3,00,000 x 9%]	27,000	27,000
Less: Input Tax Credit (Refer Working Note below)	<u>19,440</u>	<u>19,440</u>
Net GST liability payable in cash	7,560	7,560

Working Note

Computation of ITC available with SRI Petrol Pump

Particulars		Amount (₹)	CGST (₹)	SGST (₹)
Inward supply of petrol	Being exempt supply, no GST is payable thereon and hence, no ITC.	5,00,000	-	-
Inward supply of diesel		16,00,000	-	-
Inward supply of mobil	Being used in the course or furtherance of business, ITC is available	2,00,000	18,000	18,000
License fees @ 9%		1,00,000	9,000	9,000
Administrative expenses @ 6%		50,000	3,000	3,000
Less: Ineligible ITC attributable to exempt supply [License fee and administrative expenses are used for making both taxable supply of mobil and exempt supply of petrol and diesel, hence ITC attributable to exempt supply will be reversed as under:			(10,560)	(10,560)

Ineligible ITC = Common ITC x Exempt supply/ Aggregate turnover Common ITC = ₹ 9,000 + ₹ 3,000 = ₹ 12,000 Exempt supply = ₹ 7,00,000 + ₹ 15,00,000 = ₹ 22,00,000 Aggregate turnover = ₹ 7,00,000 + ₹ 15,00,000 + ₹ 3,00,000 = ₹ 25,00,000 Ineligible ITC = 12,000 x 22,00,000/25,00,000 = ₹ 10,560			
Eligible ITC		19,440	19,440

- (b) M/s. Kela and M/s. Bela are del credere agents (DCA) of M/s. Chand as they guarantee the payment to the supplier.

A DCA falls under the ambit of 'agent' under Para 3 of Schedule I of the CGST Act, 2017 if the invoice for supply of goods is issued by the DCA in its own name.

However, if the invoice for supply of goods is issued by the supplier to the customer, either himself or through DCA, the DCA is not an 'agent' in terms of Para 3 of Schedule I. Thus, while M/s. Bela is an agent of M/s. Chand in terms of Para 3 of Schedule I, M/s. Kela is not.

Where the DCA is not an agent under Para 3 of Schedule I, the temporary short-term loan being provided by DCA to the buyer is a supply of service by the DCA to the recipient on principal-to-principal basis and is an independent supply. Said supply is specifically exempt from tax. Thus, interest charged by M/s. Kela is an independent supply and is exempt from tax.

Where the DCA is an agent under Para 3 of Schedule I, the temporary short-term credit being provided by DCA to the buyer no longer retains its character of an independent supply and is subsumed in the supply of the goods by the DCA to the recipient. The value of the interest charged for such credit is included in the value of supply of goods by DCA to the recipient. Thus, interest charged by M/s. Bela will be included in the value of goods supplied by it.

Question 8

- (a) MNI Ltd. provides following details for the month of March 2021:

- (1) While filling GST return of March 2021 on 20-04-21 (within the prescribed due date), they came to know that one bill of January 2021 consisting tax amount of ₹ 50,000 was not considered while filling return for the month of January 2021 (Return was filed on 20-02-2021, within the prescribed due date).
- (2) MNI Ltd. has paid the above shortfall of ₹ 50,000 of January 2021, through GSTR-3B for the month of March 2021 (payment through cash ledger was ₹ 30,000 and payment through credit ledger was ₹ 20,000).

MNI Ltd. got a notice regarding interest payment u/s 50 of the CGST Act, 2017. MNI Ltd. assumed that they paid self-assessed tax and both returns were also filed timely so they were not liable for payment of interest. They seek your opinion regarding whether,

- (i) *They are liable to pay interest u/s 50 of the CGST Act,.*
- (ii) *If they had filed return of January 2021 on 20-04-21 (Self assessed tax also paid on 20-04-2021 of ₹ 50,000 (payment through cash ledger was ₹ 30,000 and payment through credit ledger was ₹ 20,000) then also they are liable to pay interest u/s 50 of the CGST Act.* **(5 Marks)**

(b) *Answer the following individual independent cases with reference to the provisions of registration under the CGST Act, 2017 and the rules made thereunder :*

- (i) *Govardhan is an agriculturist engaged in supply of produce out of cultivation of land. He utilizes services of Manu who is a commission agent as per the Agricultural Produce Marketing Committee Act. Turnover of Manu is above the threshold limit prescribed. Manu wants to know whether he is liable to get registered under GST Act or not.*
- (ii) *Anubhav is dealing in supply of taxable goods and services in the state of Gujarat. His turnover from intra-State supply of taxable goods is ₹ 16 lakh and inter-state supply of taxable services is ₹ 22 lakh. He is of the opinion that his aggregate turnover is within the limit so he is not required to get registered. Advise him.* **(4 Marks)**

Answer

- (a) (i) As per section 50 of the CGST Act, 2017, in case of delayed payment of tax, interest @ 18% p.a. is payable from the date following the due date of payment to the actual date of payment of tax.

Further, the interest on tax payable in respect of supplies made during a tax period and declared in the return for the said period furnished after the due date is payable on the net tax liability paid through electronic cash ledger.

In the given case, MNI Ltd. has defaulted in making the payment of ₹ 50,000 in the return of January 2021. Therefore, it will be liable to pay interest @ 18% p.a. from 21.02.2021 till the date of payment.

Further, since the return for the month of January, 2021 has been filed on the due date, MNI Ltd. will be liable to pay interest on the gross tax liability i.e., ₹ 50,000 and not on net tax liability paid in cash.

- (ii) If MNI Ltd. had filed the return for the month of January, 2021 on 20.04.2021, i.e. after the prescribed due date and the tax of ₹ 50,000 is also paid on 20.04.2021, interest will be payable on net tax liability paid through electronic cash ledger i.e., ₹ 30,000.

- (b) (i) A commission agent under APMC Act is not liable to be compulsorily registered since it provides exempt services of sale/purchase of agricultural produce on behalf of an agriculturist being a non-taxable person as he supplies produce out of cultivation of land.

Moreover, such commission agents are otherwise also exempt from registration since any person engaged exclusively in the business of supplying exempt services is not liable to registration.

Therefore, Manu is not liable to get registered under GST law.

- (ii) A supplier who is supplying both goods and services is required to obtain registration in the State (other than special category States) from where he makes a taxable supply if his aggregate turnover exceeds specified threshold limit of ₹ 20 lakh in a financial year.

In the given case, the aggregate turnover of goods and services supplied by Anubhav (₹ 38 lakh) exceeds the threshold limit and thus, he is required to obtain registration.

Question 9

- (a) Zen Pvt. Ltd. is a dealer in goods having registered office at Noida, Uttar Pradesh and shops are located at Noida, Uttar Pradesh and Chennai, Tamil Nadu.

Details of various supplies both inward and outward undertaken by them during June 2020 quarter are given in the table below :

All the values given in the table are inclusive of GST (CGST/SGST/ UTGST/IGST), wherever applicable.

Applicable IGST Rate is 5% and CGST & SGST @ 2.5% each, on inward & RCM supplies as well.

S. No.	Particulars	Amount (₹)
(i)	Export of goods to China from Noida	20,00,000
(ii)	Goods supplied to SEZ located at Delhi from Noida	15,00,000
(iii)	Supply of goods directly to customer from location of job worker at Lucknow (U.P.) after completion of job work. (Intra state)	2,00,000
(iv)	Sales from Chennai Shop (Inter State)	11,00,000
(v)	Local sales at Noida (Intra State)	25,00,000
(vi)	Services of transport availed from M/s. ABC Transport (Inter State)	3,00,000
(vii)	Commission paid to Mr. Nagar, Sales Executive which is not part of the terms of employment. (Intra State)	50,000

Calculate the aggregate turnover of Zen Pvt. Ltd. for June 2020 quarter. Brief and suitable notes should form part of your answer. **(5 Marks)**

- (b) M/s. S Corporation has made default in furnishing returns. It has not filed returns from the month of June 2020. The proper officer cancelled its registration with effect from 1st January 2021 by an order dated 1st January 2021. It applied for revocation of cancellation of registration and the order for revocation of cancellation of registration was passed on 1st March 2021. What are the provisions regarding filing returns before making such an application of revocation of cancellation of registration for the given case?

(4 Marks)

Answer

- (a) **Computation of aggregate turnover of Zen Pvt. Ltd.**

	Particulars	Amount (₹) [Excluding GST]
(i)	Exports ³ of goods to China from Noida [Includible in the aggregate turnover]	20,00,000
(ii)	Goods supplied to SEZ located at Delhi from Noida ⁴	15,00,000
(iii)	Supply of goods directly to customer from location of job worker – includible in the aggregate turnover of Zen Pvt. Ltd. (Rs 2,00,000 x 100/105)	1,90,476 (Rs 2,00,000 x 100/105)
(iv)	Sales from Chennai shop (Inter-State) [Includible in the aggregate turnover. Further, IGST be excluded from the same]	10,47,619 [₹ 11,00,000 x 100/105]
(v)	Local sales at Noida (Intra-State) [Includible in the aggregate turnover. Further, CGST and SGST be excluded from the same]	23,80,952 [₹ 25,00,000 x 100/105]
(vi)	Services of transport [Inward supplies are not included in aggregate turnover]	Nil
(vii)	Commission paid to sales executive	Nil
	Total aggregate turnover	71,19,047

- (b) Where the registration is cancelled suo-moto by the appropriate officer, the registrant seeking revocation of the order, has to apply for the revocation of cancellation within 30 days from the date of service of the order of cancellation of registration.

³ It has been assumed that exports of goods have been made without payment of tax.

⁴ It has been assumed that supply of goods to SEZ have been made without payment of tax.

Further, he has to furnish all the returns due till the date of such cancellation before the application for revocation can be filed.

Further, he should also pay any amount due as tax along with any amount payable towards interest, penalty, and late fee in respect of the said returns.

Thus, in the given case, before making an application for revocation of cancellation of registration, M/s S. Corporation should file all returns due for the period from June 2020 till 1st January 2021.

Question 10

- (a) *List down the activities/transactions specified under schedule III of the GST Act as non-supplies or 'Negative List'.* **(4 Marks)**
- (b) (i) *To whom mandatory E-invoicing is applicable?* **(1 Mark)**
 (ii) *Which entities are exempt from mandatory requirement of E-invoicing?* **(2 Marks)**
 (iii) *What are the advantages of E-Invoicing?* **(2 Marks)**

OR

- (i) *Under what circumstances, a registered person is required to issue a "Bill of Supply"?* **(1 Marks)**
 (ii) *What are the documents required to be carried by a person-in-charge of a conveyance?* **(2 Marks)**
 (iii) *What are the circumstances under which "Debit Notes" needs to be issued by a taxable person?* **(2 Marks)**

Answer

- (a) The activities/transactions specified under Schedule III of the CGST Act as non-supplies or "Negative List" are as follows:—
- Services by an employee to the employer in the course of or in relation to his employment.
 - Services by any court or Tribunal established under any law for the time being in force.
 - Functions performed by the Members of Parliament, Members of State Legislature, Members of Panchayats, Members of Municipalities and Members of other local authorities.
 - Duties performed by any person who holds any post in pursuance of the provisions of the Constitution in that capacity.
 - Duties performed by any person as a Chairperson or a Member or a Director in a body established by the Central Government or a State Government or local authority and who is not deemed as an employee before the commencement of this clause.

6. Services of funeral, burial, crematorium or mortuary including transportation of the deceased.
 7. Sale of land and, subject to paragraph 5(b) of Schedule II, sale of building.
 8. Actionable claims, other than lottery, betting and gambling.
- (b) (i) Mandatory e-invoicing is applicable to all notified registered businesses (except specified class of persons) with an aggregate turnover greater than ₹ 500 crore (based on PAN) in any preceding financial year from 2017-18 onwards.
- (ii) The following entities are exempt from mandatory requirement of e-invoicing:-
- (a) Special Economic Zone units
 - (b) Insurer or banking company or financial institution including NBFC
 - (c) GTA supplying services in relation to transportation of goods by road in a goods carriage
 - (d) Supplier of passenger transportation service
 - (e) Person supplying services by way of admission to exhibition of cinematograph films in multiplex screens
- (iii) The advantages of e-invoicing are as follows:-
- (i) Auto-reporting of invoices into GST returns and auto-generation of e-way bill (wherever required)
 - (ii) Reduction in transcription errors
 - (iii) Elimination of fake invoices
 - (iv) Reduction in tax evasion
 - (v) Reduction in disputes among transacting parties
 - (vi) Improvement in payment cycles
 - (vii) Reduction in processing costs
 - (vii) Eco-friendly as it eliminates paper

Alternative

- (b) (i) A registered person is required to issue a "bill of supply" in the following two circumstances:-
- (a) In case of supplying exempted goods and/or services or
 - (b) In case of payment of tax under composition levy.
- (ii) The documents required to be carried by a person-in-charge of a conveyance are as under:-
- (a) (i) the invoice

OR

- (a) (i) QR code with embedded IRN may be produced electronically in case of e-invoice
(Any one of the two may be mentioned)
or
- (ii) bill of supply
or
- (iii) delivery challan as the case may be and
- (b) a copy of the e-way bill in physical form or
- (c) e-way bill number in electronic form or
- (d) e-way bill number mapped to a RFID embedded on to the conveyance [except in case of rail or air or vessel]
- (iii) The circumstances under which debit note needs to be issued by a taxable person are:-
 - (a) The taxable value declared in the invoice is less than the actual value of the supply;
 - (b) The tax charged in the invoice is less than the actual tax payable in respect of the supply;
 - (c) The quantity received by the recipient is more than what has been declared in the tax invoice and the customer chooses to retain the same.