

National Test Series – 2

Test Paper 4 – Solution

Subject:- Taxation

Marks: 100 Marks

Duration: 3 Hrs.

Part I

Multiple choice Questions.

(30 Marks)

Case Study Based MCQs

Case Study 1

Mr. A (aged 52 years), is a CEO of XYZ Enterprise Limited. During the previous year 2019-20, he earned salary of ₹ 1,65,00,000 and long-term capital gain on sale of listed equity shares amounting to ₹ 1,06,500. He earned interest of ₹ 4,82,778 on saving account.

Further, he has provided the following other information for filing his return of income:

He does not receive house rent allowance from his employer. Mr. A took a loan from State Bank of India on 27th October 2017 for repairing his house (self-occupied) at Delhi and paid interest on such borrowings of ₹ 80,000 and ₹ 1,50,000 towards principal amount during the previous year 2019-20.

Mr. A has made the following payments towards medical insurance premium for health policies taken for his family members:

Medical premium for his brother: ₹ 13,500 (by cheque)

Medical premium for his parents: ₹ 17,670 (by cheque)

Medical premium for self and his wife: ₹ 21,000 (by cheque).

He also incurred ₹ 6,400 towards preventive health check-up of his wife in cash. He deposited ₹ 1,00,000 towards PPF. He also deposited ₹ 50,000 and 2,50,000 towards Tier I and Tier II NPS A/c, respectively.

He has paid ₹ 5,30,000 as advance tax. His employer has deducted tax at source of ₹ 51,89,000. He is of the opinion the balance amount of tax, if any he will pay on 27 July 2020 (i.e. before the due date for filing of return of income).

From the details given above, choose the most appropriate option to the questions given below:

(4 x 2 Marks = 8 Marks)

1. Compute the amount of deduction available to Mr. A under Chapter VI -A for the assessment year 2020-21:
- a) ₹ 2,04,070
 - b) ₹ 2,42,670
 - c) ₹ 2,52,670
 - d) ₹ 2,02,670

Solution:- d)

2. Assuming Mr. A pays rent of ₹ 65,000 per month for his rented house at Mumbai to Mr. C, a resident individual, is Mr. A liable to deduct TDS on such rent. If so, what would be the rate and amount of TDS?
- a) Yes, Mr. A is liable to deduct TDS @5% amounting to ₹ 3,250 every month i.e., at the time of payment of such rent
 - b) Yes, Mr. A is liable to deduct TDS @10% amounting to ₹ 6,500 every month i.e., at the time of payment of such rent
 - c) Yes, Mr. A is liable to deduct TDS @5% amounting to ₹ 39,000 in the month of March 2020
 - d) No, Mr. A is not liable to deduct TDS, since he is not required to get his books of accounts audited under section 44AB

Solution:- c)

3. What would be the amount of net tax payable for the assessment year 2020-21 in the hands of Mr. A?
- a) Tax payable of ₹ 78,230
 - b) Tax payable of ₹ 60,290
 - c) Tax payable of ₹ 49,530
 - d) Tax payable of ₹ 67,470

Solution:- c)

4. Compute the amount of interest chargeable under section 234B on account of short payment of advance tax:
- a) ₹ 1,980
 - b) Nil
 - c) ₹ 3,130
 - d) ₹ 2,410

Solution:- b)

Case Study 2

Mr. Hardik (age 45 years) is appointed as senior executive officer in Sky India Limited, Mumbai on 01.02.2019 in the scale of ₹ 35,000-3500-65,000. He is paid dearness allowance @40% of salary forming part of retirement benefits.

He is given rent free unfurnished accommodation on 01.5.2019 which he occupied only from 01.10.2019. The company pays lease rent of ₹ 5,000 p.m.

He has been provided a car of 2000 cc capacity which is used by him for private purposes only. The actual cost of the car is ₹ 8,00,000. The monthly expenditure of car is ₹ 5,000, which is fully met by the employer.

He pays lumpsum premium of ₹ 1,50,000 towards health insurance for self and his wife for 48 months on 01.10.2019 by account payee cheque. He also contributes ₹ 1,50,000 towards PPF.

In the light of above facts, you are required to answer the following:

(3 x 2 Marks = 6 Marks)

1. Value of rent-free accommodation chargeable to tax in the hands of Mr. Hardik, would be –

- a) ₹ 44,835
- b) ₹ 44,100
- c) ₹ 45,570
- d) ₹ 30,000

Solution:- d)

2. Mr. Hardik would be eligible for deduction in respect of health insurance premium paid during the previous year 2019-20, for –

- a) ₹ 30,000
- b) ₹ 18,750
- c) ₹ 25,000
- d) ₹ 37,500

Solution:- c)

3. Perquisite value of car chargeable to tax in the hands of Mr. Hardik would be –

- a) ₹ 28,800
- b) ₹ 21,600
- c) ₹ 60,000
- d) ₹ 1,40,000

Solution:- d)

Case study 3

Ms. Riya is a multi-faceted business personality. She is registered under GST from April, 20XX.

She supplied a package consisting of stapler, calculator and charger at a single price of Rs. 300/-. Rate of GST for stapler, calculator and charger is 5%, 12% and 18% respectively.

She wants to opt for composition levy.

She received following payments during the month of May, 20XX:

- earned Rs. 160,000 by performing in western music in a cultural event at a Resort
- earned Rs. 50,000 by providing services by way of renting of residential dwelling for use as boutique.
- received Rs. 70,000 by way of rent for letting of agro machinery

Ms. Riya made a supply during June, 20XX, details of which are as follows:-

- Basic price of the product – Rs. 45,000
- Tax collected at source under Income-tax Act, 1961 – Rs. 2,500

- She received a subsidy of Rs. 3,500 from Green Foundation Pvt. Ltd for usage of green energy and the subsidy was linked to saving energy

Ms. Riya provides the following information regarding receipt of inward supply during July, 20XX:

- received invoice for goods having GST Component of Rs. 30,000. Goods were to be delivered in 5 lots, out of which three lots were received in the current month.
- purchased a car having GST component of Rs. 1,50,000 for the usage in a driving school owned by her
- availed health insurance service for her employees on her own and paid GST of Rs. 7,000 thereon

Transactions referred above are intra-State only. Conditions necessary for claiming input tax credit (ITC) have been fulfilled subject to the information given above.

From the information given above, choose the most appropriate answer for the following questions:-

(5 x 2 Marks = 10 Marks)

1. What would be the nature of supply and the applicable rate of GST for the supply of package made by Ms. Riya (when not registered under composition scheme) :-
- a) composite Supply & applicable rate 12%
 - b) mixed Supply & applicable rate 18%
 - c) composite Supply & applicable rate 18%
 - d) mixed Supply & applicable rate 12%

Solution:- b)

2. Ms. Riya can opt for composition scheme if she does not undertake the supply of
- i. Aerated water
 - ii. Tobacco
 - iii. Pan masala
 - iv. Milk
- a) i & ii
 - b) iii & iv
 - c) i, ii & iii
 - d) ii, iii & iv

Solution:- c)

3. Out of payments received by Ms. Riya in month of May 20XX, exempt Supply amounts to_____
- a) ₹ 50,000
 - b) ₹ 70,000
 - c) ₹ 1,20,000
 - d) ₹ 1,60,000

Solution:- b)

4. In respect of supply made by Ms. Riya, the value of supply under section 15 of CGST Act, 2017 is
- a) ₹ 45,000
 - b) ₹ 47,500
 - c) ₹ 48,500
 - d) ₹ 51,000

Solution:- a)

5. Eligible amount of input tax credit that can be claimed by Ms. Riya in the month of July 20XX is,
- a) ₹ 30,000
 - b) ₹ 37,000
 - c) ₹ 1,50,000
 - d) ₹ 1,57,000

Solution:- c)

MCQs Other than case study

(6 x 1 Marks = 6 Marks)

1. An amount of ₹ 40,000 was paid to Mr. X on 1.7.2019 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 50,000 was due to Mr. X on 28.2.2020, from which tax @10% (amounting to ₹ 9,000) on the entire amount of ₹ 90,000 was deducted. However, this tax of ₹ 9,000 was deposited only on 22.6.2020. The interest chargeable under section 201(1A) would be:
- a) ₹ 1,080
 - b) ₹ 860
 - c) ₹ 1,620
 - d) ₹ 840

Solution:- b)

2. Mr. Dinesh, a resident in India, has gross total income of ₹ 2,30,000 comprising of interest on saving A/c and rental income during the previous year 2019-20. He incurred expenditure of ₹ 2,00,000 for his son for a study tour to Europe. Whether he is required to file return of income for the assessment year 2020-21? If yes, what is the due date?
- a) Yes, 31st July of A.Y
 - b) Yes, 30th September of A.Y
 - c) Yes, 31st October of A.Y
 - d) No, he is not required to file return of income

Solution:- d)

3. XYZ LLP falls under which category of person?
- a) Firm
 - b) Company
 - c) Association of persons
 - d) Artificial judicial person

Solution:- a)

4. Mr. Ritvik has purchased his first house in Gwalior for self-occupation on 5.4.2019 for ₹ 45 lakhs (stamp duty value being the same) with bank loan sanctioned on 30.3.2019 and disbursed on 3.4.2019. He paid interest of ₹ 3.8 lakhs during the P.Y.2019-20. What is the tax treatment of interest paid by him?
- Interest of ₹2 lakhs allowable u/s 24
 - Interest of ₹2 lakhs allowable u/s 24 and ₹1.8 lakhs allowable u/s 80EEA
 - Interest of ₹2 lakhs allowable u/s 24 and ₹1.5 lakhs allowable u/s 80EEA
 - Interest of ₹1.5 lakhs allowable u/s 24 and ₹1.5 lakhs allowable u/s 80EEA

Solution:- b)

5. Prem & Sons had taken GST registration on 1st January but failed to furnish GST returns for the next 6 months. Owing to this, the proper officer cancelled its registration on 25th July and served the order for cancellation of registration on 31st July. Now, Prem & Sons wants to revoke the cancellation of registration. Prem & Sons can file an application for revocation of cancellation of registration on or before.
- 30th August
 - 29th August
 - 29th September
 - 29th October

Solution:- a)

6. TT Pvt. Ltd., registered in Rajasthan, furnished following information for the month of June:
- Inter-State sale of goods for ₹ 1,25,000 to JJ Enterprises registered in Haryana
 - Inter-State purchases of goods from XYZ company, registered in Punjab, for ₹ 40,000
 - Intra-State purchases of goods from RR Traders, registered in Rajasthan, for ₹ 65,000

The applicable rate of GST is 18%. All the above amounts are exclusive of taxes . GST liability payable in cash is-

- CGST ₹ 1,800 & SGST ₹ 1,800
- SGST ₹ 3,600
- IGST ₹ 3,600
- CGST ₹ 3,600

Solution:- c)

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Part II
Section A

Question 1 is Compulsory.
Answer any two Questions from remaining three questions.

Question 1.

R is a resident individual. His profit and loss for the year ending 31.3.2020 is given below:

	₹		₹
General charges	40,400	Gross profit	11,40,000
Insurance	15,800	Commission	42,000
Staff Salary	2,80,000	Rent received from house property let	3,00,000
Donation to political party	40,000	Interest on debenture received (net)	36,000
Depreciation	1,40,950	TDS deduct at 10%	
Advance tax for financial year 2019-20	1,20,000	Agriculture income	1,80,000
Municipal tax of property let	48,000	Dividend from Indian company	20,000
Insurance premium of property let	12,000		
Net profit	10,20,850		
	17,18,000		17,18,000

1. Depreciation as per income tax rule ₹1,90,000.
2. He has deposited ₹15,000 in the Bank for fixed deposit scheme for 5 years.
3. He had bought 500 shares of XY Ltd. on 5-10-2018 at ₹90 per share, 200 shares of B Ltd. on 4-9-2019 at ₹140 per share and 300 shares of C Ltd. 5-9-2019 at ₹125 per share. All the shares were sold by him for ₹135 per share on 4-1-2020. All shares were sold through NSE through a registered broker and securities transaction tax was paid. FMV of shares as on 31.1.2019 was ₹140 per share.
4. His life insurance policy matured on 16-9-2019. The sum assured was ₹5,00,000 and the amount received on maturity ₹5,95,000.
5. Donation included in profit and loss account was made to registered political party.
6. Income-tax department refunds ₹39,600 (including interest of ₹3,900) which was directly credited to his personal account.
7. He incurred expenditure of ₹58,000 on treatment of his dependent father aged 63 years who was suffering from specified disease mentioned in rule 11DD. The payment of medical expenses was made by cheque and an amount of ₹7,500 was reimbursed to him by insurance company.
8. Bad debt of business which was discontinued in earlier year recovered during the year ₹24,000.

Compute the total income and tax payable thereon by R for the assessment year 2020-21.

(14 Marks)

Solution:-

Computation of total income of R for the assessment year 2020-21

	₹	₹	₹
Income from house property			
Rent received		3,00,000	
Less: Municipal tax paid		48,000	
Net annual value		2,52,000	

Less: Standard deduction at 30%		75,600	1,76,400
Income from business			
Net profit as per profit and loss account		10,20,850	
Add: Expenses disallowed / for separate consideration			
Donation to political party		40,000	
Municipal taxes		48,000	
Insurance premium		12,000	
Depreciation		1,40,950	
Advance Tax		1,20,000	
		13,81,800	
Less: Depreciation	1,90,000		
Rent	3,00,000		
Interest on debentures	36,000		
Agricultural income	1,80,000		
Dividend	20,000	7,26,000	
		6,55,800	
Add: Bad debt recovered		24,000	6,79,800
Capital gains			
Short-term capital loss on shares of B Ltd. (₹27,000 - 28,000)		(-) 1,000	
Short-term capital gain on sale of shares of C Ltd. (40,500 - 37,500)		3,000	
		2,000	
Long-term capital gain on shares of XY Ltd.			2,000
Sale price (₹500 × 135)	67,500		
Less: Cost of acquisition (see note below)	67,500	Exempt	
Income from other sources			
Interest on debenture (gross) (36,000 + 4,000)		40,000	
Agricultural income		Exempt	
Dividend		Exempt	
Maturity of life policy		Exempt	
Interest on income tax refund		3,900	43,900
Gross total income			9,02,100
Less: Deduction under section Chapter VIA			
U/s 80C fixed deposit in bank		15,000	
U/s 80DDB 58,000 - 7,500		50,500	
U/s 80GGC		40,000	1,05,500
Total income			7,96,600

Since R has agricultural income also tax will be computed as under:

Step I: Tax on ₹7,96,600 + 1,80,000 = 9,76,600

	₹	₹
Tax on 9,74,600 at normal rate		1,07,420
Tax on 2,000 at special rate of 15%		300
		1,07,720
Step II: Tax on agricultural income ₹1,80,000 + 2,50,000 = 4,30,000		9,000
Tax on non-agricultural income		98,720
Add: Health and education cess at 4%		3,949

		1,02,669
Less: TDS	4,000	
Advance Tax	1,20,000	1,24,000
Refund due (rounded off)		21,330

Note: Cost of acquisition of shares of XY Ltd.

It shall be higher of-

- a) Cost of shares and ₹45,000
- b) Lower of-
 - (i) FMV as on 31.1.2019 ₹70,000
 - (ii) Sale price ₹67,500, cost of acquisition shall be ₹67,500.

Question 2.

(A) Ms. Pihu has three houses, all of which are self-occupied. The particulars of these houses are given below:

Particulars	(Value in ₹)		
	House - I	House - II	House - III
Municipal Valuation per annum	1,30,000	1,20,000	1,20,000
Fair rent per annum	1,10,000	1,85,000	1,45,000
Standard rent per annum	1,00,000	1,90,000	1,30,000
Date of completion	30-01-2005	31-07-2008	31-5-2011
Municipal taxes payable during the year (paid for house II & III only)	12%	9%	10%
Interest on money borrowed for repair of property during current year	-	75,000	-

You are required to compute Pihu's income from house property for the Assessment Year 2020-21 and suggest which houses should be opted by Pihu to be assessed as self-occupied so that her tax liability is minimum

(8 Marks)

Solution:-

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

OPTION 1 [House I & II - Self-occupied and House III- Deemed to be let out]

If House I and II are opted to be self-occupied, Pihu's income from house property for A.Y.2020-21 would be -

Particulars	Amount in ₹
House I (self occupied) [annual value is Nil]	Nil
House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for repair	

of self-occupied property , the interest deduction would be restricted to ₹ 30,000, irrespective of the date of borrowal].	(30,000)
House III (Deemed to be let-out) [See Working Note below]	82,600
Income from house property	52,600

OPTION 2 [House I & III – Self-occupied and House II- Deemed to be let out]

If House I and III are opted to be self-occupied, Pihu's income from house property for A.Y.2020-21 would be-

Particulars	Amount in ₹
House I (Self-occupied) [Annual value is Nil]	Nil
House II (Deemed to be let-out) [See Working Note below]	46,940
House III (Self-occupied) [Annual value is Nil]	Nil
Income from house property	46,940

OPTION 3 [House I – Deemed to be let out and House II & III – Self-occupied]

If House II and III are opted to be self-occupied, Pihu's income from house property for A.Y.2020-21 would be

Particulars	Amount in ₹
House I (Deemed to be let-out) [See Working Note below]	70,000
House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for repair of self-occupied property , the interest deduction would be restricted to ₹ 30,000, irrespective of the date of borrowal].	(30,000)
House III (Self-occupied) [Annual value is Nil]	Nil
Income from house property	

Since Option 3 is more beneficial, Pihu should opt to treat House – II & III as Self-occupied and House I as Deemed to be let out, in which case, her income from house property would be ₹ 40,000 for the A.Y. 2020-21.

Working Note:

Computation of income from House I, II and House III assuming that all are deemed to be let out

Particulars	Amount in Rupees		
	House I	House II	House III
Gross Annual Value (GAV)			
Expected rent is the GAV of house property Expected rent= Higher of Municipal Value and Fair Rent but restricted to Standard Rent	1,00,000	1,85,000	1,30,000
Less: Municipal taxes (paid by the owner during the previous year)	Nil	10,800	12,000
Net Annual Value (NAV)	1,00,000	1,74,200	1,18,000
Less: Deductions under section 24			
a) 30% of NAV	30,000	52,260	35,400
b) Interest on borrowed capital (allowed in full in case of deemed let out property)	-	75,000	-
Income from deemed to be let-out house property	70,000	46,940	82,600

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(B) Mr. Mustafa submits the following information for the previous year 2019-20:

		(Amount in Rs.)
(i)	Income from salary	6,50,000
(ii)	Income from House - I	55,000
(iii)	Loss from House - II (self-occupied property)	1,25,000
(iv)	Loss from House - III	1,90,000
(v)	Loss from leather business	68,000
(vi)	Profit from cloth business	1,70,000
(vii)	Short term capital loss in equity oriented funds on which STT was paid	35,000
(viii)	Income from crossword puzzles	12,000
(ix)	Dividend from foreign company	8,500
(x)	Loss on owing and maintenance of race horses	7,500
(xi)	Income from owing and maintenance of race horses	9,000

Compute the gross total income and losses to be carried forward of Mr. Mustafa for assessment year 2020-21. Mr. Mustafa has filed his return of income on 25.07.2020.

(6 Marks)

Solution:-

Gross Total Income of Mr. Mustafa for A.Y. 2020-21

Particulars		Rs.	Rs.
Salaries			
Income from salary		6,50,000	
Less: Loss from house property of Rs.2,60,000, restricted to		<u>2,00,000</u>	4,50,000
Income from House property			
Income from house - I		55,000	
Less: Loss from House II (self-occupied)	1,25,000		
	<u>1,90,000</u>	<u>3,15,000</u>	
		(2,60,000)	
Set-off of loss from house property against salary income, restricted to		<u>2,00,000</u>	
Loss to be carried forward to A.Y. 2021-22		<u>(60,000)</u>	
Profit and Gains of business or profession			
Profit from cloth business		1,70,000	
Less: Loss from leather business		<u>68,000</u>	1,20,000
Capital Gains			
Short term capital loss in equity-oriented funds on which STT		-	

is paid Rs.35,000 to be carried forward to A.Y. 2021-22 since such loss can be set-off only against capital gains and not against income under any other head			
Income from Other Sources			
Income from owning and maintenance of race bulls		9,000	
Loss of Rs.7,500 from the activity of owning and maintenance of race horses cannot be set-off against any source other than income from the activity of owning and maintaining race horses. Hence, such loss has to be carried forward to A.Y. 2021-22.		Nil	
Income from crossword puzzles		12,000	
Dividend from foreign company		8,500	29,500
Gross Total Income			5,81,500

Losses to be carried forward to A.Y.2021-22:

Particulars	Rs.
Loss from house property [to be carried forward for set-off against income from house property]	60,000
Short-term capital loss in equity oriented funds on which STT was paid [to be carried forward for set-off against capital gains, long-term or short-term]	35,000
Loss from owning and maintaining race horses [to be carried forward for set-off against income from the activity of owning and maintaining race horses]	7,500

Note: Loss from house property can also be set-off to the extent of Rs. 1,02,000 from profits and gains from business or profession and balance i.e., Rs. 98,000 against Income under the head "Salaries".

Question 3.

(A) You are required to determine the residential status of Mr. Dinesh, a citizen of India, for the previous year 2019-20.

Mr. Dinesh is a member of crew of a Singapore bound Indian ship, carrying passengers in the international waters, which left Kochi port in Kerala, on 16th August, 2019.

Following details are made available to you for the previous year 2019-20:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Dinesh	16 th August, 2019
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Dinesh	21 st January, 2020

In June, 2019, he had gone out of India to Dubai on a private tour for a continuous period of 27 days.

During the last four years preceding the previous year 2019-20, he was present in India for 425 days. During the last seven previous years preceding the previous year 2019-20, he was present in India for 830 days.

(7 Marks)

Solution:-

Determination of residential status of Mr. Dinesh for the P.Y. 2019-20

As per *Explanation 1* to section 6(1), where an Indian citizen leaves India as a member of crew of an Indian ship, he will be resident in India only if he stayed in India for 182 days during the relevant previous year.

As per *Explanation 2* to section 6(1)1, in case of an individual, being a citizen of India and a member of the crew of a foreign bound ship leaving India, the period or periods of stay in India shall, in respect of an eligible voyage, not include the period commencing from the date entered into the Continuous Discharge Certificate in respect of joining of ship by the said individual for the eligible voyage and ending on the date entered into the Continuous Discharge Certificate in respect of signing off by that individual from the ship in respect of such voyage.

Eligible voyage includes a voyage undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from any port in India and having its destination at a port outside India.

In this case, voyage is undertaken by a foreign bound Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Kochi port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage.

Therefore, the period from 16th August, 2019 and ending on 21st January, 2020 has to be excluded for computing the period of stay of Mr. Dinesh in India. Accordingly, the period of 159 days [16+30+31+30+31+21] has to be excluded for computing the period of his stay in India during the P.Y.2019-20.

Further, since Mr. Dinesh had also gone out of India to Dubai on a private tour for a continuous period of 27 days in June, 2019, such period has also to be excluded for computing his period of stay in India during the P.Y.2019-20.

Consequently, the period of stay in India during the P.Y. 2019-20 would be 180 days [i.e., 366 days – 159 days – 27 days], which is less than 182 days.

Thus, Mr. Dinesh would be a **non-resident** for A.Y. 2020-21.

Since the residential status of Mr. Dinesh is “non-resident” for A.Y. 2020-21 consequent to his number of days of stay in India in P.Y. 2019-20, being less than 182 days, his period of stay in India in the earlier previous years become irrelevant.

(B) Examine and compute the liability for deduction of tax at source, if any, in the cases stated hereunder, for the financial year ended 31st March, 2020

- (a) State Bank of India pays Rs.50,000 per month as rent to the Central Government for a building in which one of its branches is situated.
- (b) Karan, a part time director of ABC Pvt. Ltd. was paid an amount of Rs. 1,75,000 as fees which was actually in the nature of commission on sales for the period 1.6.2019 to 30.9.2019.
- (c) Fee paid on 1.11.2019 to Dr. Kashyap by Varun (HUF) Rs. 5,00,000 for surgery performed on a member of his family.
- (d) Payment of Rs. 1,50,000 made to John Cena, an American wrestler, by an Indian newspaper agency on 1.8.2019 for contribution of articles in relation to the spot of wrestling.

(7 Marks)

Solution:-

(a) Section 194-I, which governs the deduction of tax at source on payment of rent, exceeding Rs.2,40,000 p.a., is applicable to all persons except individuals and HUFs, whose turnover/gross receipts do not exceed the monetary limits specified under 44AB(a)/(b). Section 196, however, provides exemption in respect of payments made to Government from application of the provisions of tax deduction at source.

Therefore, no tax is required to be deducted at source by State Bank of India from rental payments to the Government.

(b) Section 194J provides for deduction of tax at source @10% on any remuneration or fees or commission, by whatever name called, paid to a director, which is not in the nature of salary in respect of which tax is deductible at source under section 192.

Hence, tax is to be deducted at source under section 194J @10% by ABC Pvt. Ltd. on the commission of Rs.1,75,000 paid to Karan, a part-time director. The tax deductible under section 194J would be Rs.17,500, being 10% of Rs.1,75,000.

(c) As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if the total sales, gross receipts or turnover from the business or profession exceed Rs. 1 crore or Rs. 50 lakhs, as the case may be, in the financial year preceding the current financial year and such payment made for professional services is not exclusively for the personal purpose of any member of Hindu Undivided Family.

Section 194M, provides for deduction of tax at source by a HUF (which is not required to deduct tax at source under section 194J) in respect of fees for professional service if such sum or aggregate of such sum exceeds Rs. 50 lakhs during the financial year.

In the given case, the fees for professional service to Dr. Kashyap is paid on 1.11.2019 for personal purpose, therefore, section 194M would have been applicable if the payment or aggregate of payments exceeded Rs. 50 lakhs in the P.Y.2019-20. However, since the payment does not exceed Rs. 50 lakh in this case, there is no liability to deduct tax at source under section 194M.

(d) Section 194E provides that the person responsible for paying of any amount to a non-resident sportsman who is not a citizen of India for contribution of articles relating to any game or sport in India in a newspaper has to deduct tax at source @20%. Further, since, John Cena, an American wrestler, is a non-resident, Health and education cess @4% on TDS should also be added.

Therefore, tax to be deducted = Rs. 1,50,0000 x 20.80% = Rs. 31,200.

Question 4.

(A) The following details are provided by Mr. Divakar, an individual, for the assessment year 2020-21.

	Amount (₹)
Total estimated tax payable	4,40,000
TDS (deductible but not deducted)	55,000

Determine the advance tax payable with their due dates for the assessment year 2020-21.

(5 Marks)

Solution:-

Computation of Advance Tax Payable for the A.Y 2020-21

Particulars	₹
Tax Payable 4,40,000	4,40,000
TDS (deductible but not deducted), cannot be reduced for computing advance tax liability	Nil
Net Tax Payable	4,40,000

Due dates for payment of advance tax

Due date of installment	Amount payable
On or before 15 th June, 2019	₹ 66,000 [15% of ₹ 4,40,000]
On or before 15 th September, 2019	₹ 1,32,000 [₹ 1,98,000 (45% of ₹ 4,40,000) less ₹ 66,000, (amount paid in earlier installment)]
On or before 15 th December, 2019	₹ 132,000 [₹ 3,30,000 (75% of ₹ 4,40,000) Less ₹ 1,98,000 (amount paid in earlier installment or installments)]
On or before 15 th March, 2020	₹ 1,10,000, [₹ 4,40,000 (whole amount of advance tax liability less ₹ 3,30,000 (amount paid in earlier installment or installments)]

(B) Explain with brief reasons, whether the following income can be regarded as agricultural income, as per the provisions of the Income-tax Act, 1961:

- (i) Rent received for letting out agricultural land for a movie shooting.
- (ii) Income from sale of seedlings in a nursery adjacent to the agricultural lands owned by an assessee.

(4 Marks)

Solution: -

(1) Rent received for letting out agricultural land for a movie shooting:

As per section 2(1A), "agricultural income" means, *inter alia*,

- any rent or revenue derived from land
- Which is situated in India and is used for agricultural purposes.

In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose and hence, it does **not** constitute agricultural income.

(2) Income from sale of seedlings in a nursery:

As per *Explanation 3* to section 2(1A), income derived from saplings or seedlings grown in a nursery is deemed to be agricultural income, whether or not the basic operations were carried out on land.

Therefore, the amount received from sale of seedlings in a nursery adjacent to the agricultural lands owned by the assessee constitutes agricultural income

(C) Mr. Vijay gifted a sum of Rs. 4 lakhs to his brother's wife on 19-6-2019. On 21-7-2019, his brother gifted a sum of Rs. 3 lakhs to Mr. Vijay's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Vijay and wife of Mr. Vijay's brother on 01-8-2019 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vijay and his brother.

(4 Marks)

Solution:-

In the given case, Mr. Vijay gifted a sum of Rs.4 lakhs to his brother's wife on 19.06.2019 and simultaneously, his brother gifted a sum of Rs.3 lakhs to Mr. Vijay's wife on 21.07.2019. The gifted amounts were invested as fixed deposits in banks by Mrs. Vijay and his brother's wife. These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. It was so held by the Apex Court in CIT vs. Keshavji Morarji (1967) 66 ITR 142.

Accordingly, the interest income arising to Mrs. Vijay in the form of interest on fixed deposits would be included in the total income of Mr. Vijay and interest income arising in the hands of his brother's wife would be taxable in the hands of Mr. Vijay's brother as per section 64(1), to the extent of amount of cross transfers i.e., Rs.3 lakhs.

This is because both Mr. Vijay and his brother are the indirect transferors of the income to their respective spouses with an intention to reduce their burden of taxation.

However, the interest income earned by his spouse on fixed deposit of Rs.3 lakhs alone would be included in the hands of Mr. Vijay's brother and not the interest income on the entire fixed deposit of Rs.4 lakhs, since the cross transfer is only to the extent of Rs.3 lakhs.

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Section B

Question 5 is compulsory.

Answer any two from remaining three questions.

Question 5.

Mr. Charlie, a registered supplier of goods at Bhatinda who pays GST under regular scheme, has made the following transactions (exclusive of tax) during April 20XX:

Source	Purchases (Rs.)	Sales (Rs.)	Tax Rate
Rajasthan	5,00,00	10,00,000	18%
Punjab	2,50,000	8,00,000	9% each for SGST & CGST
Total	7,50,000	18,00,000	ssss

He has complied with all the conditions for availing the input tax credit (ITC) and has the following ITC credit on 01-04-20XX:

Source	CGST (Rs.)	SGST (Rs.)	IGST (Rs.)
Taxes	50,000	30,000	1,00,000

Compute the minimum net CGST, SGST and IGST payable by Mr. Charlie during April 20XX in cash?

(8 Marks)

Solution:-

Computation of net CGST, SGST and IGST payable in cash by Mr. Charlie during April, 20XX

Particulars	Amount (Rs.)	CGST @ 9% (Rs.)	SGST @ 9% (Rs.)	IGST @ 18% (Rs.)
Sales made outside Bhatinda (Rajasthan) – [Being inter-State sale, the same is liable to IGST.]	10,00,000			1,80,000
Sales made in Punjab	8,00,000	<u>72,000</u>	<u>72,000</u>	
Total GST payable		72,000	72,000	1,80,000
ITC available during April 20XX for set off [Refer Working Note Below]		72,500	52,500	1,90,000
Less: Set off of IGST ITC against IGST and SGST tax liability respectively			(10,000) IGST	(1,80,000) IGST
Less: Set off of CGST ITC against CGST tax liability		(72,000) CGST		
Less: Set off of SGST ITC against SGST tax liability			(52,500) SGST	
Net tax liability payable in cash		Nil	9,550	Nil
Net ITC available		500	Nil	Nil

Working Note

ITC available during April, 20XX is computed as under:-

Particulars	Amount (Rs.)	CGST @ 9% (Rs.)	SGST @ 9% (Rs.)	IGST @ 18% (Rs.)
Opening balance of ITC		50,000	30,000	1,00,000
Purchases from Rajasthan [Being inter-State purchase, IGST would have been paid on it.]	50,000			90,000
Purchases from Punjab	2,50,000	<u>22,500</u>	<u>22,500</u>	
Total input tax credit		72,500	52,500	1,90,000

Note: Since sufficient balance of ITC of CGST is available for paying CGST liability and cross-utilization of ITC of CGST and SGST is not allowed, ITC of IGST has been used to pay SGST (after paying IGST liability) to minimize cash outflow.

Question 6.

(A) Babla & Bros. is exclusively engaged in making exempt supply of goods and is thus, not registered under GST. On 1st October, the exemption available on its goods gets withdrawn. On that day, the turnover of Babla & Bros. was ₹ 50 lakh. Examine the eligibility of Babla & Bros. for availing ITC, if any.

(3 Marks)

Solution:-

Since the exemption available on goods being supplied by Babla & Bros. is withdrawn, it becomes liable to registration as its turnover has crossed the threshold limit (for registration) on the day when the exemption is withdrawn.

Assuming that Babla & Bros. applies for registration within 30 days of 1st October and it obtains such registration, it will be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date from which it becomes liable to pay tax, i.e. 30th September [Section 18(1)(a) of the CGST Act, 2017]. Input tax paid on capital goods will not be available as input tax credit in this case.

(B) Mamta Sales trades in exempt goods and provides taxable services. It is registered under GST. On 1st October, the exemption available on its goods gets withdrawn.

Analyze the scenario and determine the eligibility of Mamta Sales for availing ITC, if any, on inputs and/or capital goods used in the supply of exempt goods.

(3 Marks)

Solution:-

If the exempt supply made by a registered person becomes a taxable supply, provisions of section 18(1)(d) of the CGST Act, 2017 become applicable. In the given case, since Mamta Sales is a registered person, section 18(1)(d) will be applicable.

As per section 18(1)(d), Mamta Sales will be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock relating to such exempt supply and on capital goods exclusively used for such exempt supply on the day immediately preceding the date

from which such supply becomes taxable, i.e. 30th September. Input tax credit on capital goods will be reduced by 5% per quarter or part thereof from the date of invoice.

(C) Holiday Guest House, situated at Shimla, provides boarding & lodging services to tourists at economical cost. The charges of a single deluxe room per day are ₹ 999. Mr. X has booked one deluxe room for two days during Christmas holidays. You are required to determine whether GST is payable by Holiday Guest House on the above booking. If yes, determine the amount of GST so payable.

Will your answer change, if the charges of a single deluxe room per day charged by Holiday Guest House are ₹ 1,000?

(4 Marks)

Solution:-

Services by a hotel, inn, guest house, club or campsite, by whatever name called, for residential or lodging purposes, having value of supply of a unit of accommodation below or equal to ₹ 1,000 per day or equivalent have been exempted from GST vide an exemption notification. Thus, in view of the above-mentioned provisions, GST is not payable by Holiday Guest House on the booking done by Mr. X as the charges for a unit of accommodation per day is less than ₹ 1,000.

The answer will remain the same even if the charges of a single deluxe room per day is ₹ 1,000 as the exemption is also available in the case where value of supply of a unit of accommodation per day is ₹ 1,000/ i.e., such services are taxable only where value of supply of a unit of accommodation per day exceeds ₹ 1,000/-. Thus, no GST is payable by Holiday Guest House on the booking done by Mr. X even if the charges of a single deluxe room per day is ₹ 1,000.

Question 7.

(A) Mr. Gauri Shiva, a registered person in Punjab, supplies goods taxable @ 12% [CGST @ 6%, SGST @ 6% & IGST @ 12%] in the States of Punjab and Haryana. He has furnished the following details in relation to independent supplies made by him in the quarter ending June, 20XX:-

Supply	Recipient	Nature of Supply	Value (₹)
1	Mr. A, a registered person	Inter-State	2,20,000
2	Mr. B, a registered person	Inter-state	2,55,000
3	Mr. C, an unregistered person	Intra-state	1,80,000
4	Mr. D, an unregistered person	Intra-state	2,60,000
5	Mr. M, an unregistered person	Inter-state	3,00,000
6	Mr. N, an unregistered person	Inter-state	50,000
7	Mr. O, an unregistered person	Inter-state	2,50,000
8	Mr. P, an unregistered person	Inter-state	2,80,000
9	Mr. Q, a registered person	Intra-state	1,50,000
10	Mr. R, a registered person	Intra-state	4,10,000

The aggregate annual turnover of Mr. Gauri Shiva in the preceding financial year was ₹ 1.20 crore. With reference to rule 59 of the CGST Rules, 2017, discuss the manner in which the details of above supplies are required to be furnished in GSTR-1.

(6 Marks)

Solution:-

Rule 59 of the CGST Rules, 2017, *inter alia*, stipulates that the details of outward supplies of goods and/or services furnished in form GSTR-1 shall include the-

- a) invoice wise details of all –
 - (i) inter-State and intra-State supplies made to the registered persons; and
 - (ii) inter-State supplies with invoice value more than two and a half lakh rupees made to the unregistered persons;
- b) consolidated details of all –
 - (i) intra-State supplies made to unregistered persons for each rate of tax; and
 - (ii) State wise inter-State supplies with invoice value upto two and a half lakh rupees made to unregistered persons for each rate of tax;

Thus, in view of the above-mentioned provisions, Mr. Gauri Shiva should furnish the details of outward supplies of goods made by him during the quarter ending June 20XX in the following manner:-

Supply	Recipient	Nature of Supply	Value (Rs.)	Manner of furnishing details
1	Mr. A, a registered person	Inter-State	2,20,000	Invoice-wise Details
2	Mr. B, a registered person	Inter-state	2,55,000	Invoice-wise details
3	Mr. C, an unregistered person	Intra-state	1,80,000	Consolidated details of suppliers 3 and 4
4	Mr. D, an unregistered person	Intra-state	2,60,000	
5	Mr. M, an unregistered person	Inter-state	3,00,000	Invoice-wise details
6	Mr. N, an unregistered person	Inter-state	50,000	Consolidated details of suppliers 6 and 7
7	Mr. O, an unregistered person	Inter-state	2,50,000	
8	Mr. P, an unregistered person	Inter-state	2,80,000	Invoice-wise Details
9	Mr. Q, a registered person	Intra-state	1,50,000	Invoice-wise Details
10	Mr. R, a registered person	Intra-state	4,10,000	Invoice-wise details

(B) Mutiservices Private Ltd., registered in Punjab, is engaged in supplying a variety of services. Its turnover was ₹ 35 lakh in the preceding financial year. It has provided the following information for the month of April:

Particulars	Amount (₹)
Fee for the coaching provided to students for competitive exams. The coaching centre is run by Mutiservices Private Ltd. In Punjab (Intra-State transaction)	6,24,000
Receipts for services provided in relation to conduct of examination in Pureit University, Delhi (providing education recognized by Indian law), being an inter-State transaction	19,200

Amount received for transportation of students and faculty from their residence to Lotus Public School - a higher secondary school – and back (Intra-State transaction)	24,000
Amount received for providing the security and housekeeping services in Dhaani Public School – a pre-school (Intra-State transaction)	36,000

(4 Marks)

Solution:-

Computation of net GST liability of Multi services Private Ltd. for the month of April:

Particulars	Value of supply (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Fee for the coaching provided to students for competitive exams [note-1]	6,24,000	56,160	56,160	
Services towards conduct of examination in Pureit University, Delhi [Note-2]	19,200			-
Services of transportation of students and faculty from their residence to Lotus Public School and back [Note-3]	24,000			-
Security and housekeeping services in Dhaani Public School [Note-4]	36,000	-	-	
Total GST liability		56,160	56,160	

Notes:-

1. Coaching centre run by Mutiservices Private Ltd. is not an educational institution since competitive exam coaching does not lead to grant of a qualification recognized by law. Therefore, fee received for coaching provided at such coaching centre is taxable.
2. Since Pureit University provides qualification recognized by law, it is an educational institution and services provided to an educational institution, in relation to conduct of examination by such institution are exempt from GST.
3. Since Lotus Public School provides education up to higher secondary school, it is an educational institution and services of transportation of students, faculty and staff provided to an educational institution are exempt.
4. Since Dhaani Public School provides pre-school education, it is an educational institution. Security and housekeeping services provided within the premises of an educational institution are exempt.

Question 8.

(A) Explain the services provided by way of tolerating non-performance of a contract and its chargeability under the provisions of the CGST Act, 2017.

(5 Marks)

Solution:-

Non-performance of a contract is the failure to fulfill the obligations under a contract. It is generally one of the conditions stipulated in any contract for supply of goods/services.

The agreement entered into between the parties stipulates that both the service provider and service recipient abide by the terms and conditions of the contract. In case any of the parties breach the contract for any reason including non-performance of the contract, then such person is liable to pay damages in the form of fines or penalty to the other party.

Tolerating non-performance of a contract in lieu of damages or fines is a supply in terms of section 7 of the CGST Act, 2017 as it is made for a consideration by a person in the course or furtherance of business.

Further, tolerating non-performance of a contract is treated as a supply of service in terms of section 7 read with Schedule II of CGST Act, 2017.

However, in case of supplies to Government, non-performance of contract by the supplier of service for which consideration in the form of fines or liquidated damages is payable is exempt from GST.

(B) If a return has been filed, how can it be revised if some changes are required to be made?

(5 Marks)

Solution:-

Under GST laws, since the returns are built from details of individual transactions, there is no requirement for having a revised return. Any need to revise a return may arise due to the need to change a set of invoices or debit/ credit notes. Instead of revising the return already submitted, the system allows changing the details of those transactions (invoices or debit/credit notes) that are required to be amended. They can be amended in any of the future GSTR- 1 (upto a prescribed time limit) in the tables specifically provided for the purposes of amending previously declared details.

The omission or incorrect particulars discovered in the returns filed under section 39 can be rectified in the return to be filed for the month/quarter during which such omission or incorrect particulars are noticed. Any tax payable as a result of such error or omission will be required to be paid along with interest. The rectification of errors/omissions is carried out by entering appropriate particulars in "Amendment Tables" contained in GSTR-1.



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