

MOCK TEST PAPER 2
INTERMEDIATE (NEW) COURSE
PAPER – 4: TAXATION
SECTION – A: INCOME TAX LAW
SOLUTIONS

1. **Computation of total income of Mr. Kabir for the A.Y. 2018-19**

Particulars		Rs.	Rs.
Profits and gains of business or profession			
(a) Own business [Note 2]			6,60,000
(b) Income from partnership firm [Note 1]			
Interest on capital		2,00,000	
[As per section 28(v), chargeable in the hands of the partner only to the extent allowable as deduction in the firm's hand i.e. @12%]			
Salary of working partner (Since the same has been fully allowed as deduction in the hands of the firm)		<u>90,000</u>	2,90,000
Income from other sources			
(a) LIC Jeevan Dhara pension		24,000	
(b) Interest from bank FD (gross)		<u>50,000</u>	<u>74,000</u>
Gross Total Income			10,24,000
Less: Deductions under Chapter VIA			
Section 80C			
Life insurance premium for policy in the name of wife qualifies for deduction. However, the same has to be restricted to 10% of sum assured i.e. 10% of Rs. 2,00,000.	20,000		
Contribution to PPF	<u>70,000</u>	90,000	
Section 80D			
Mediclaime premium for father, a senior citizen	32,000		
(qualifies for deduction, even though the father is not dependent on the assessee, subject to a maximum of Rs. 30,000)		<u>30,000</u>	<u>1,20,000</u>
Total Income			<u>9,04,000</u>

Notes:

- (1) The income by way of interest on capital and salary of Mr. Kabir from the firm, Nayasa & Co., in which he is a working partner, to the extent allowed as deduction in the hands of the firm under section 40(b), has to be included in the business income of the partner as per section 28(v). Accordingly, Rs. 2,90,000 [i.e., Rs. 90,000 (salary) + Rs. 2,00,000 (interest@12%)] should be included in his business income.

(2) Computation of income from own business

Particulars	Rs.	Rs.
Net profit as per profit and loss account		6,48,000
<i>Less:</i> Items credited to profit and loss account not taxable under this head/ exempt		
Interest on bank FD (Net of TDS)	45,000	
LIC policy matured [Exempt under section 10(10D)] [Note 3]	1,50,000	
Agricultural income [Exempt under section 10(1)]	1,60,000	
Pension from LIC Jeevan Dhara	<u>24,000</u>	<u>3,79,000</u>
		2,69,000
<i>Add:</i> Items debited to profit and loss account to be disallowed/considered separately		
Advance tax	1,05,000	
Depreciation:		
- Car	3,00,000	
- Machinery	1,25,000	
Car expenses disallowed for personal use (Rs. 50,000 x 2/5)	20,000	
Salary to manager disallowed under section 40A(3) since it is paid in cash and the same exceeds Rs. 10,000	<u>18,000</u>	<u>5,68,000</u>
		8,37,000
<i>Less:</i> Depreciation (See Working Note below)		<u>1,77,000</u>
Income from business		<u>6,60,000</u>

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

Particulars	Rs.	Rs.
On Car:		
Depreciation @15% on Rs. 3,00,000	45,000	
<i>Less:</i> 2/5 th for personal use	<u>18,000</u>	
Depreciation on Car allowable as deduction		27,000
On Machinery:		
Opening WDV	6,50,000	
Additions during the year (used for more than 180 days)		
- New Machinery purchased on 10.6.17	2,00,000	
- Second hand machinery purchased on 20.9.17	1,25,000	
Additions during the year (used for less than 180 days)	3,00,000	
<u>Normal Depreciation</u>		
Depreciation @15% on Rs. 6,50,000	97,500	
[As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds Rs. 10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on second hand		

machinery purchased on 20.9.2017 and on new machinery purchased on 10.6.2017 is not allowable since the payment is made otherwise than by A/c payee cheque/A/c payee draft/ ECS to a person in a day]		
Depreciation @ 7.5% on Rs. 3,00,000	<u>22,500</u>	
Total normal depreciation on machinery (A)	1,20,000	
Where an asset acquired during the year is put to use for less than 180 days, 50% of the rate of depreciation is allowable. This restriction does not apply to assets acquired in an earlier year.		
Additional depreciation (B)		
New machinery		
Used for less than 180 days = 10% of Rs. 3,00,000	<u>30,000</u>	
Total permissible depreciation on machinery (A) + (B)		<u>1,50,000</u>
Depreciation allowable under section 32		1,77,000

- (3) The maturity proceeds received under a life insurance policy are wholly exempt from tax under section 10(10D), assuming that the conditions given thereunder are satisfied (i.e., the annual premium does not exceed the specified percentage of actual capital sum assured).

2. (a) **Computation of tax payable by Mrs. Rani for the A.Y.2018-19**

	Particulars	Rs.	Rs.
(i)	Salaries	-	-
	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India		
(ii)	Income from House property	60,000	
	Rent received from house property at Mumbai (assumed to be annual value in the absence of other information i.e., municipal value, fair rent and standard rent)		
	Less: Deduction under section 24 @30%	<u>18,000</u>	42,000
(iii)	Capital gains		
	Long-term capital gain on sale of land at Chennai	1,50,000	
	Short-term capital gain on sale of equity shares of B Ltd. in respect of which STT was paid	<u>30,000</u>	1,80,000
(iv)	Income from other sources		
	Winnings from lotteries	<u>20,000</u>	<u>20,000</u>
	Gross Total Income		2,42,000
	Less: Deductions under Chapter VIA		
	Premium paid to Canadian Life insurance Corporation for self	40,000	
	Investment in PPF	<u>20,000</u>	
		60,000	
	Total Deduction under Chapter VIA is restricted to income other than Capital gains taxable under section 111A & 112 and casual income	42,000	<u>42,000</u>
	Total Income		2,00,000

Tax on long-term capital gains @20%	30,000	
Tax on short-term capital gains @15%	4,500	
Tax on casual income @30%	<u>6,000</u>	
		40,500
Education cess @2% % SHEC @1%		<u>1,215</u>
Tax liability		<u>41,715</u>
Total tax payable (rounded off)		<u>41,720</u>

Notes:

1. Long term capital gain is chargeable to tax @20% as per section 112.
 2. Short term capitals on transfer of equity shares in respect of which STT was paid its subject to tax @15% as per section 111A.
 3. In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then long-term capital gains/ short-term capital gains will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15% respectively. However, this benefit is not available to non-residents.
 4. Casual income is chargeable to tax @30% under section 115BB.
 5. Rebate under section 87A is available to resident individual only.
- (b) (i) **TDS on professional fees and technical fees:** As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services and fees for professional services, individually, exceeds Rs. 30,000 during the financial year. In the given case, since, the individual payments fees for technical services i.e., Rs. 22,000 and fees for professional services i.e., Rs. 12,000 is less than Rs. 30,000 each, there is no liability to deduct tax at source.
- (ii) **TDS on contact payment:** Section 194C provides for deduction of TDS at the time of payment or credit to the account of a contractor, if the payment/credit exceeds Rs. 30,000 in single payment or Rs. 1,00,000 in aggregate during a financial year.
- In the present case, the credit to the contractor on 31-03-2018 exceeds Rs. 30,000. Hence, TDS has to be deducted for the payment to be made to the contractor @1%, if the credit is to an individual or HUF and @2% in case of any other person.
- No tax is deductible on payment of Rs. 28,000 on 01.12.2017, since the same does not exceed Rs. 30,000.
3. The residential status of Mr. Ram and Mr. Shyam has to be determined on the basis of the number of days of their stay in India. Since Mr. Ram is settled in USA since 1990, he would be a non-resident for A.Y. 2018-19. His visit to India for 40 days every year would not change his residential status. However, Mr. Shyam would be resident and ordinarily resident for A.Y. 2018-19, since he is settled in India permanently since 1995.

Based on their residential status, the total income of Mr. Ram and Mr. Shyam would be determined as follows:

Computation of total income of Mr. Ram & Mr. Shyam for the A.Y. 2018-19

S. No.	Particulars	Mr. Ram (Non-Resident) (Rs.)	Mr. Shyam (Resident) (Rs.)
(i)	Income from profession in USA (set up in India) received there (Note 1)	-	-
(ii)	Profit from business in Mumbai, but managed directly from USA (Note 1)	45,000	-
(iii)	Rent (computed) from property in USA deposited in a Bank at USA, later on remitted to India through approved banking channels (Note 1)	-	-
(iv)	Dividend from USA Company received in USA (Note 1)	-	10,000
(v)	Cash gift received from a friend on Mr. Shyam's 50 th birthday Note: As per section 56(2)(x), cash gifts received from a non-relative would be taxable, if the amount exceeds Rs. 50,000 in aggregate during the previous year.	-	51,000
(vi)	Past foreign untaxed income brought to India [Not taxable, since it does not represent income of the P.Y.2017-18].	-	-
(vii)	Fees for technical services rendered in India, but received in USA (Note 1)	22,500	-
(viii)	Interest on debentures in an Indian company (Mr. Ram received the same in USA) (Note 2)	18,500	14,000
(ix)	Short-term capital gain on sale of shares of an Indian company (Note 2)	15,000	25,500
Total income		1,01,000	1,00,500

Notes:

- (1) As per section 5(1), global income is taxable, in case of a resident. However, as per section 5(2), only the following incomes are chargeable to tax, in case of a non-resident:
- (i) Income received or deemed to be received in India; and
 - (ii) Income accruing or arising or deemed to accrue or arise in India.
- Therefore, income from profession in USA, rent from property in USA and dividend from USA company received in USA by Mr. Ram, a non-resident, would not be taxable in India, since both the accrual and receipt are outside India.
- However, profit from business in Mumbai would be taxable in India in the hands of Mr. Ram, even though it is managed directly from USA.
- Further, by virtue of section 9(1)(vii), fees for technical services rendered in India would also be taxable in the hands of Mr. Ram, since it is deemed to accrue or arise in India.
- (2) The income referred to in S. No. (viii) and (ix) are taxable in the hands of both Mr. Ram and Mr. Shyam due to their accrual/deemed accrual in India, even though the entire interest on debentures in Indian company is received by Mr. Ram outside India.

4. **Computation of Income under the head “salary” in the hands of Mr. Manish for A.Y. 2018 19**

Particulars	Rs.
Basic salary [(Rs. 50,000 × 7) + (Rs. 60,000 × 5)]	6,50,000
Dearness Allowance (40% of basic salary)	2,60,000
Bonus (Rs. 50,000 + 40% of Rs. 50,000) (See Note 1)	70,000
Employers contribution to recognised provident fund in excess of 12% of salary = 4% of Rs. 6,50,000	26,000
Professional tax paid by employer (See Note 5)	2,000
Perquisite of Motor Car (Rs. 2,400 for 5 months) (See Note 3)	<u>12,000</u>
Gross Salary	10,20,000
Less: Deduction under section 16	
Professional tax (See Note 5)	<u>3,000</u>
Taxable salary	10,17,000

Notes:

1. Since bonus was paid in the month of October, the basic salary of Rs. 50,000 for the month of October is considered for its calculation.
2. As per Rule 3(7)(vii), facility of use of laptop and computer is an exempt perquisite, whether used for official or personal purpose or both.
3. As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 litres) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be Rs. 2,400 per month. The car was provided to the employee from 01.11.2017, therefore the perquisite value has been calculated for 5 months.
4. Mr. Manish can avail exemption under section 10(5) on the entire amount of Rs. 50,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.

It is assumed that the Leave Travel Concession was availed for journey within India.

5. As per section 17(2)(iv), a “perquisite” includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of Rs. 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Manish. As per section 16(iii), a deduction from the salary is allowable on account of tax on employment i.e. professional tax paid during the year.

Therefore, in the present case, the professional tax paid by the employer on behalf of the employee Rs. 2,000 is first included in the salary and deduction of the entire professional tax of Rs. 3,000 is provided from salary.

5. (a) **Tax treatment in the hands of the seller, Mr. Anjali**

Section 50C provides that where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the value adopted or assessed or assessable by an authority of a State Government for the purpose of payment of stamp duty in respect of such transfer, the value so adopted or assessed or assessable shall be deemed to be the full value of the consideration received or accruing as a result of such transfer for computing capital gain.

In the instant case, Anjali sold the residential flat at Indore to her friend Kajal for Rs. 10 lacs, whereas the stamp duty value was Rs. 15 lacs. Therefore, stamp duty value shall be deemed to be the full value of consideration for sale of the property. Therefore, short-term capital gain arising to Anjali for assessment year 2018-19 will be Rs. 11.50 lacs (i.e. Rs. 15 lacs – Rs. 3.50 lacs). [Since the resident house is hold for less than 24 months]

Tax treatment in the hands of the buyer, Ms. Kajal

The taxability provisions under section 56(2)(x), includes within its scope, any immovable property, being land or building or both, received for inadequate consideration by an individual.

As per section 56(2)(x), where any immovable property is received for a consideration which is less than the stamp duty by an amount exceeding Rs. 50,000, the difference between the stamp duty value and the consideration shall be chargeable to tax in the hands of the recipient as the income from other sources. The provisions of section 56(2)(x) would be attracted in this case, since the difference exceeds Rs. 50,000. Therefore, Rs. 5 lacs, being the difference between the stamp duty value of the property (i.e., Rs. 15 lacs) and the actual consideration (i.e., Rs. 10 lacs) would be taxable in the hands of Ms. Kajal, under the head ‘Income from Other Sources’.

As per section 49(4), the cost of acquisition of such property for computing capital gains would be the value which has been taken into account for section 56(2)(x). Accordingly Rs. 15 lacs would be taken as the cost of acquisition of the flat. Therefore, on sale of the flat by Ms. Kajal, Rs. 5 lacs (i.e. Rs. 20 lacs – Rs. 15 lacs) would be chargeable to tax as short-term capital gains in her hands for A.Y. 2018-19. Since this is a case covered by section 49(4) and not section 49(1), the period of holding of the previous owner, namely, Anjali, will NOT be considered for determining whether the capital gain is short term or long term.

(b)

S.No.	Taxable/ Not Taxable	Amount liable to tax	Reason
(i)	Partly taxable	36,000	Under section 10(14), any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt provided he is not in receipt of daily allowance. This exemption is 70% of such allowance (i.e., Rs. 7,000 p.m., being 70% of Rs. 10,000) or Rs 10,000 per month, whichever is less. Hence, Rs. 84,000 (i.e., Rs. 7,000 x 12) is allowable as deduction under section 10(14). Balance Rs. 36,000 (Rs. 1,20,000 – Rs. 84,000) shall be taxable.
(ii)	Partly taxable	2,50,000	As per section 115BBDA, dividend in excess of Rs. 10,00,000 would be chargeable to tax @10% in the hands of, inter alia, an individual, resident in India. Section 10(34) exempts dividend distributed by domestic companies in the hands of recipient, since the same has been subject to dividend distribution tax under section 115-O in the hands of the company. However, the amount of dividend which is chargeable to tax under section 115BBDA would not be exempt under section 10(34). Accordingly, dividend received upto Rs. 10 lakhs would be exempt under section 10(34) in the hands of Ms. Ishita. However, dividend in excess of Rs. 10 lakhs i.e., Rs. 2.50 lakhs would be chargeable to tax @10%.

6. (a) **Computation of total income of Mrs. Teena for the A.Y. 2018-19**

Particulars	Rs.	Rs.
Salaries		
Income from salaries	1,55,000	
Less: Loss from house property	<u>1,19,000</u>	36,000
Profits and gains of business or profession		
Income from speculation business	28,000	
Less: Loss from toys business	<u>28,000</u>	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,75,500	
Less: Loss from toys business	<u>2,17,000</u>	58,500
Income from other sources		
Income from betting		<u>49,000</u>
Gross total income		1,43,500
Less: Deduction under section 80C (deposit in PPF)		<u>36,000</u>
Total income		<u>1,07,500</u>

Losses to be carried forward to A.Y. 2019-20:

Particulars	Rs.
(1) Loss from toys business (Rs. 2,45,000 – Rs. 28,000 - Rs. 2,17,000)	Nil
(2) Loss from specified business covered by section 35AD	46,000

Notes:

- (i) Long-term capital gains from sale of listed shares in a recognized stock exchange is exempt under section 10(38) if STT is also paid at the time of acquisition of shares. Loss from an exempt source cannot be set off against profits from a taxable source. Therefore, long-term capital loss on sale of listed shares cannot be set-off against long-term capital gains from sale of urban land.
- (ii) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business as per section 73A. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year, provided the return is filed on or before the due date under section 139(1).
- (iii) Loss from toys business cannot be set off against salary income. However, the balance business loss of Rs. 2,17,000 [Rs. 2,45,000 – Rs. 28,000 set-off against income from speculation business as per section 70(1)] can be set-off against long-term capital gains of Rs. 2,75,500 from sale of urban land as per section 71(2). Consequently, the taxable long-term capital gains would be Rs. 58,500.
- (iv) Loss from card games can neither be set off against any other income, nor can it be carried forward.
- (v) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of the amount deposited in PPF has to be restricted to Rs. 36,000 [i.e., Gross Total Income of Rs. 1,43,500 – Rs. 58,500 (LTCG) – Rs. 49,000 (Casual income)].
- (vi) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

- (b) Mandatory filing of return is required if total income before giving effect to exemption u/s 10(38) in respect of long term capital gains or Chapter VI-A deductions exceeds basic exemption limit. If any person earns income by way of long term capital gains in the previous year, which is exempt under section 10(38) and income of such person without giving effect to section 10(38) exceeds the basic exemption limit, then also such person shall be liable to mandatory file return of income for the previous year on or before the due date specified under section 139(1).

During the P.Y. 2017-18, Mr. Naidu earned long term capital gains from sale of equity shares of Rs. 1,00,000 [(Rs. 200 – Rs. 100) x 1,000 shares] which is exempt u/s 10(38) and Rs. 1,75,000, being interest on fixed deposit with bank. Since his total income without giving the effect to exemption of section 10(38) i.e., Rs. 2,75,000 exceeds the basic exemption limit of Rs. 2,50,000 (applicable in this case), he is mandatorily required to file return of income for the P.Y. 2017-18.

7. (a) (i) Self-assessment means where any tax is payable on the basis of any return required to be furnished under, *inter alia*, section 139, after taking into account -

- a) the amount of tax, already paid, under any provision of the Income-tax Act, 1961
- b) the tax deducted or collected at source

the assessee shall be liable to pay such tax together with interest and fees payable under any provision of this Act for any delay in furnishing the return or any default or delay in payment of advance tax before furnishing the return.

Where the amount paid by the assessee under section 140A(1) falls short of the aggregate of the tax, interest and fees as aforesaid, the amount so paid shall first be adjusted towards the fees payable and thereafter towards interest and the balance shall be adjusted towards the tax payable.

- (ii) The following persons are authorized as per section 140, to verify the return of income filed under section 139:

S.No.	Person	Authorized to verify return
(I)	Local Authority	The principal officer
(II)	Association of persons	Any member of the association or the principal officer of such association
(III)	Firm where there is no managing partner	Any partner of the firm, not being a minor

- (iii) A tax return preparer can be an individual, other than
- a) any officer of a scheduled bank with which the assessee maintains a current account or has other regular dealings
 - b) any legal practitioner who is entitled to practice in any civil court in India
 - c) a chartered accountant
 - d) an employee of the specified class or classes of persons

Specified class or classes of persons means any person, other than a company or a person, whose accounts are required to be audited under section 44AB or under any other existing law, who is required to furnish a return of income under the Act.

(b) Assessment Year

The term has been defined under section 2(9). This means a period of 12 months commencing on 1st April every year. The year in which income is earned is the previous year and such income is taxable in the immediately following year which is the assessment year.

Previous Year

The term has been defined under section 3. It means the financial year immediately preceding the assessment year.

Business or profession newly set up during the financial year - In such a case, the previous year shall be the period beginning on the date of setting up of the business or profession and ending with 31st March of the said financial year.

If a source of income comes into existence in the said financial year, then the previous year will commence from the date on which the source of income newly comes into existence and will end with 31st March of the financial year.

SECTION B - INDIRECT TAXES (40 MARKS)**SUGGESTED ANSWERS****Notes**

- (i) Section/sub-section/rule/notification numbers mentioned in the answers are solely for the ease of reference. The students are not expected to cite the same in their answers under examination conditions.
- (ii) GST law is in its nascent stage and has been subject to frequent changes. Although various clarifications have been issued in the last few months by way of FAQs or otherwise, many issues continue to arise on account of varying interpretations on several of its provisions. Therefore, alternate answers may be possible for the questions depending upon the view taken.

For the sake of brevity, Central Goods and Services Tax, Integrated Goods and Services Tax, Central Goods and Services Tax Act, 2017, Integrated Goods and Services Tax Act, 2017 and Central Goods and Services Tax Rules, 2017 have been referred to as CGST, IGST, CGST Act, IGST Act and CGST Rules respectively.

8. (a) Computation of GST liability

S. No.	Particulars	Narad Traders (₹)	Nandi Motors Ltd. (₹)
(i)	Price of goods	10,000	30,000
(ii)	Add: Packing charges (Note-1)	500	
(iii)	Add: Commission (Note-1)	500	
(iv)	Add: Weighment charges (Note-1)	-	2,000
(v)	Less: Discount for prompt payment (Note-2)	-	<u>1,000</u>
	Value of taxable supply	11,000	31,000
	IGST payable @ 18% (Note-3)	1,980	
	CGST payable @ 9% (Note-4)		2,790
	SGST payable @ 9% (Note-4)		2,790

Notes:

- Incidental expenses, including commission and packing, charged by supplier to recipient of supply is includible in the value of supply. Weighment charges are also incidental expenses, hence includible in the value of supply [Section 15 of the CGST Act, 2017].
 - Since discount is known at the time of supply, it is deductible from the value in terms of section 15 of the CGST Act, 2017.
 - Since supply made to Narad Traders is an inter-State supply, IGST is payable in terms of section 5 of the IGST Act, 2017.
 - Since supply made to Nandi Motors Ltd. is an intra-State supply, CGST & SGST is payable on the same.
- (b) Section 18 of the CGST Act, 2017 read with the CGST Rules, 2017 provides that if capital goods or plant and machinery on which input tax credit has been taken are supplied outward by the registered person, he must pay an amount that is the higher of the following:
- input tax credit taken on such goods reduced by 5% per quarter of a year or part thereof from

the date of issue of invoice for such goods (i.e., input tax credit pertaining to remaining useful life of the capital goods), or

(ii) tax on transaction value.

Accordingly, the amount payable on supply of needle detecting machine shall be computed as follows:

Particulars	₹	₹
Input tax credit taken on the machine (₹ 10,00,000 × 18%)		1,80,000
Less: Input tax credit to be reversed @ 5% per quarter for the period of use of machine	27,000	
(i) For the year 2017-18 = (₹ 1,80,000 × 5%) × 3 quarters	<u>27,000</u>	
(ii) For the year 2018-19 = (₹ 1,80,000 × 5%) × 3 quarters		54,000
Amount required to be paid (A)		1,26,000
Duty leviable on transaction value (₹ 6,00,000 × 18%) (B)		1,08,000
Amount payable towards disposal of machine is higher of (A) and (B)		1,26,000

9. (a) **Computation of value of special machine**

Particulars	₹
Price of machinery	5,00,000
Add: Packing charges [Note 1]	10,000
Extra design charges [Note 2]	17,000
Freight [Note 3]	<u>13,000</u>
Total	5,40,000
Less: 2% cash discount on price of machinery [₹ 5,00,000 × 2%] [Note 4]	<u>10,000</u>
Value of taxable supply	5,30,000

Notes:

- (1) All incidental expenses including packing charged by the supplier to the recipient of a supply are includible in the value of supply in terms of section 15(2)(c) of CGST Act, 2017.
- (2) Any amount charged for anything done by the supplier in respect of the supply of goods at the time of, or before delivery of goods is includible in the value of supply in terms of section 15(2)(c) of CGST Act, 2017. Thus, extra designing charges are to be included in the value of supply.
- (3) Cash discount was given at the time of supply and also recorded in invoice, so the same is not to be included while computing value of supply in terms of section 15(3)(a) of CGST Act, 2017.
- (4) The given supply is a composite supply involving supply of goods (special machine) and services (freight) where the principal supply is the supply of goods.

As per section 8(a) of the CGST Act, 2017, a composite supply is treated as a supply of the principal supply involved therein and charged to tax accordingly. Thus, tax rate applicable to the goods (special machine) has been considered

- (b) The following four conditions are to be satisfied by the registered taxable person for obtaining input tax credit :-

- (i) he is in possession of tax invoice or debit note or such other tax paying documents as may be prescribed;
 - (ii) he has received the goods or services or both;
 - (iii) the supplier has actually paid the tax charged in respect of the supply to the Government; and
 - (iv) he has furnished the return under section 39.
- 10. (a)** Under composite supply, two or more taxable supplies of goods or services or both, or any combination thereof, are naturally bundled and supplied in conjunction with each other, in the ordinary course of business, one of which is a principal supply [Section 2(30) of the CGST Act]. In view of the same,
- (i) since, supply of breakfast and dinner with the accommodation in the hotel are naturally bundled, said supplies qualify as 'composite supply'.
 - (ii) since supply of toothbrush alongwith the toothpaste are not naturally bundled, said supplies do not qualify as 'composite supply'.
- (b)** (i) Renting of community hall by Ekta charitable trust is exempt from GST, as rent is less than ₹10,000 per day. The Exemption *Notification No. 12/2017 CT (R) dated 28.06.2017/ Notification No. 9/2017 IT (R) dated 28.06.2017* has exempted the said service wholly from GST.
- The said notification provides exemption to services by a person *inter alia* by way of renting of precincts of a religious place meant for general public, owned or managed by an entity registered as a trust or an institution under section 10(23C)(v) of the Income-tax Act . However, this exemption does not apply where renting charges of premises, community halls, kalyanmandapam or open area are ₹ 10,000 or more per day.
- (ii) GST is not payable in case of speed post services by Department of Post to Union territory of Daman & Diu. The Exemption *Notification No. 12/2017 CT (R) dated 28.06.2017/ Notification No. 9/2017 IT (R) dated 28.06.2017* has exempted the said service wholly from GST.
- Exemption Notification *inter alia* provides exemption to services by the Department of Posts by way of speed post, express parcel post, life insurance, and agency services provided to the Central Government, State Government, Union territory. Therefore GST is payable, if such service is provided to a person other than Central Government/State Government/Union Territory.
- (iii) GST is not payable in case of hiring of trucks to Titu Transporters. The Exemption *Notification No. 12/2017 CT (R) dated 28.06.2017/ Notification No. 9/2017 IT (R) dated 28.06.2017* provides exemption to services by way of giving on hire *inter alia* to a goods transport agency, a means of transportation of goods.
- 11. (a)** Yes. In terms of sub-section (8) of section 25, where a person who is liable to be registered under GST law fails to obtain registration, the proper officer may, without prejudice to any action which may be taken under CGST Act, or under any other law for the time being in force, proceed to register such person in the manner as is prescribed in the CGST Rules, 2017.
- (b)** In terms of section 27(1) read with proviso thereto, the certificate of registration issued to a "casual taxable person" or a "non-resident taxable person" shall be valid for a period specified in the application for registration or 90 days from the effective date of registration, whichever is earlier. However, the proper officer, at the request of the said taxable person, may extend the validity of the aforesaid period of 90 days by a further period not exceeding 90 days.
- (c)** (1) Every person who is liable to pay tax in accordance with the provisions of this Act or the rules made thereunder, but fails to pay the tax or any part thereof to the Government within the

prescribed period, shall for the period for which the tax or any part thereof remains unpaid, pay, on his own, interest at such rate, not exceeding 18% as may be notified by the Government on the recommendations of the Council. *Notification No. 13/2017 CT dated 28.06.2017* has notified the rate of interest as 18% per annum.

- (2) The period of interest will be from the date following the due date of payment to the actual date of payment of tax.
- (3) A taxable person who makes an undue or excess claim of input tax credit under section 42(10) or undue or excess reduction in output tax liability under section 43(10), shall pay interest on such undue or excess claim or on such undue or excess reduction, as the case may be, at such rate not exceeding 24% as may be notified by the Government on the recommendations of the Council. *Notification No. 13/2017 CT dated 28.06.2017* has notified the rate of interest as 24% per annum.

Or

- (c) Section 25(1) of the CGST Act stipulates the time-period within which registration needs to be obtained in various cases. It provides the following time-limits:

In case of	registration needs to be obtained
a person who is liable to be registered under section 22 or section 24	within 30 days from the date on which he becomes liable to registration
a casual taxable person or a non-resident taxable person	at least 5 days prior to the commencement of business

In view of the aforesaid provisions:

- (1) A casual taxable person must obtain registration at least 5 days prior to the commencement of its business.
 - (2) As per section 24 of the CGST Act, person making inter-State taxable supply is liable to get compulsorily registered. Therefore, such person must obtain registration within 30 days from the date on which he becomes liable to registration.
12. (a) The advice given by tax manager is valid in law. Payment of taxes by the normal tax payer is to be done on monthly basis by the 20th of the succeeding month. Cash payments will be first deposited in the Cash Ledger and the tax payer shall debit the ledger while making payment in the monthly returns and shall reflect the relevant debit entry number in his return. However, payment can also be debited from the Credit Ledger. Payment of taxes for the month of March shall be paid by the 20th of April. Composition tax payers will need to pay tax on quarterly basis.
- (b) Yes, advance tax is to be paid by Mr. Neerav Kothari at the time of obtaining registration. Since Mr. Neerav Kothari occasionally undertakes supply of goods in the course or furtherance of business in a State where he has no fixed place of business, thus he qualifies as casual taxable person in terms of section 2(20) of CGST Act, 2017.

While a normal taxable person does not have to make any advance deposit of tax to obtain registration, a casual taxable person shall, at the time of submission of application for registration is required, in terms of section 27(2) read with proviso thereto, to make an advance deposit of tax in an amount equivalent to the estimated tax liability of such person for the period for which the registration is sought. If registration is to be extended beyond the initial period of 90 days, an advance additional amount of tax equivalent to the estimated tax liability is to be deposited for the period for which the extension beyond 90 days is being sought.

- (c) The Central taxes which have been subsumed in GST in India are as follows:-
- (i) Central Excise Duty & Additional Excise Duties
 - (ii) Service Tax
 - (iii) Excise Duty under Medicinal & Toilet Preparation Act
 - (iv) CVD & Special CVD
 - (v) Central Sales Tax
 - (vi) Central surcharges and Cesses in so far as they relate to supply of goods & services
- (Note: Any four points may be mentioned)**